# ENTREPRENEURIAL LOYALTY: APPLICATIONS OF CORPORATE ORGANIZATIONAL COMMITMENT RESEARCH

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## ABSTRACT

Much research has been conducted regarding the affective impacts of organizational commitment of medium-large corporations yet little has been conducted in the realm of small business. This study explores potential overlaps of startups and other entrepreneurial endeavors with loyalty factors exhibited in larger companies. The intention of this exploratory analysis is to create a foundation for subsequent research of the causes and impact of entrepreneurial commitment.

## INTRODUCTION

A plethora of factors play an integrated role in driving employee loyalty to an organization (Tang, Cunningham, Frauman, Ivy, & Perry, 2012). The corresponding levels of affective employee commitment directly correlate to a company's financial performance and customer loyalty (Yee, Yeung, & Cheng, 2010). This is attributable not only to increased productivity and service quality but also to the ethical dilemma of discounted compensation of dedicated employees (Moriarty, 2014). The research reveals similarities across cultures and national borders (Gul, 2015). Additionally, greater organizational commitment is linked to stronger ethics-related decision-making that both helps and harms the firm (Cullinan, Bline, Farrar, & Lowe, 2008).

Employee disloyalty is triggered by a myriad of causes such as interpersonal relations, perceived corporate citizenship, justice, and both symmetrical and asymmetrical loyalties (Rego, Leal, Cunha, Faria, & Pinho, 2010). It is furthered by the need for employee-felt supervisory and organizational support (Dawley, Houghton, & Bucklew, 2010). Associated employee turnover costs have typically been viewed under the lens of recruitment and onboarding of replacements; however, a breech in company loyalty introduces notable risks to the organization such as knowledge sharing of best practices and lessons learned by expatriated employees (Olander, Hurmelinna-Laukkanen, & Heilmann, 2015).

It is logically deduced that these preventable expenditures are detrimental to larger and established organizations, but it raises several questions regarding the impact on smaller ventures inclusive of franchises, startups, or family businesses (Mishra, Mishra, & Grubb, 2015):

- Is the effect of loyalty amplified in a new venture company?
- Does the effect of loyalty in a new venture company introduce additional consequences?
- Does the effect of loyalty change as a business matures (Holmes & Schmitz, 1996)?
- Are there opportunities in a new venture to turn negatively-trending loyalties prior to departure (Maertz Jr. & Boyar, 2012)? If so, what are those opportunities?
- How can loyalty be effectually measured in smaller organizations given that the loss of a single person will have greater impact on the turnover rate than in a larger organization (Hart & Thompson, 2007)?
- Is there a difference in loyalty based on gender, age, or a combination of both?

## GENERATIONAL COMPARISONS

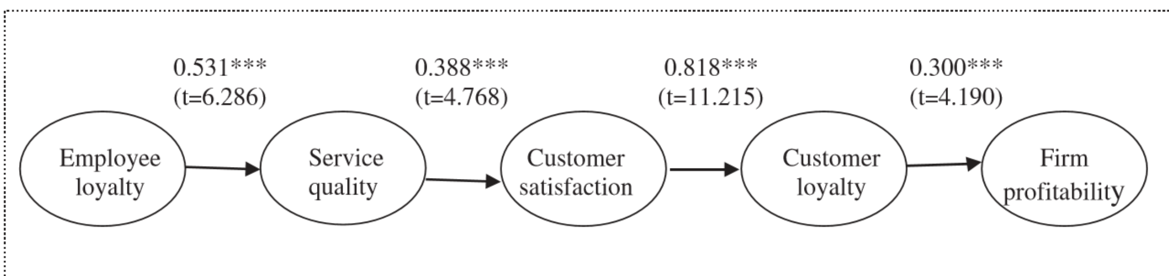
Tang, Cunningham, et. al researched the differing viewpoints of commitment, the love of money, leisure ethic, and tenure between Baby Boomers and Gen-Xers (Tang, Cunningham, Frauman, Ivy, & Perry, 2012). Career tenure was shown to positively correspond to continuance and occupational commitment across generations. The study participants were Parks and Recreation employees without above average earning potential, thus Baby Boomers with long tenure were less concerned with the love of money. Gen-Xers had a noticeably higher love of money; however, they felt less occupational commitment to their chosen profession. This could be explained by the likelihood that Baby Boomers had chosen to stay in their jobs for the intrinsic motivating factor of leisure ethic. Furthermore, due to increasing employment opportunities, the impact of the love of money has significantly reduced Gen-Xers' continuance occupational commitment, which results in employees changing career paths. One of the notable differences among Gen-Xers is the gender discrepancy between the leisure ethic and love of money correlation. Males were more likely to value the monetary output, and females were drawn to the leisure aspect.

## LOYALTY IMPACTS ON FIRM PROFITABILITY

Yee, Yeung and Cheng (2010) studied high-contact service companies in Hong Kong to determine if a link existed between employee loyalty, service quality, customer satisfaction, and customer loyalty respectively. The research used smaller organizations (2-5 employees) to control the impact of corporate brand influence on customers. Additionally, George and Bettenhausen (1990) previously established that loyalty tends to be more consistent among smaller organizations.

Their research validated their proposed model shown in Figure 1:

Figure 1: Hypothesized model and its path estimates




***$p$<.001

But does this model only hold true in Hong Kong? Or does it apply internationally? Zafar Gul (2015) performed a similar study in Pakistan that produced similar results. He statistically proved "that training and development, performance management, and rewards system have significant impact on employee commitment at 99% confidence level." Moreover, higher commitment was linked to organizational development.

## LOYALTY ETHICS

It has been established that committed employees will work for lower wages than non-committed employees performing similar functions (Pfeffer & Langton, 1993; Wasserman, 2006). Wasserman proved that founding members of companies may accept lower salaries than their subordinates' due to stronger affective commitment. This places managers in a position to be able to pay high-performing employees below fair market value. For example in consulting firms, the corporation can make more money off of a lower-paid employee by charging the same flat rate to a client for billable hours as would be charged for a higher-paid employee.

Moriarty (2014) examines several competing philosophies of defining ‘exploitation’, which include harm (Munzer, 1990), vulnerability (Sample, Lanham, Rowman, & Littlefield, 2003), and unfairness (Wertheimer, 2008). He argues that exploiting any of these principles essentially violates the Expectation Principle (Scanlon, 1998) and is, therefore, unethical. This behavior inadvertently puts the organization at risk by increasing perceived unfairness and thus the likelihood for disloyalty since financial incentives are a key component of employee commitment (Youndt & Snell, 2004). In the instance where an employee finally decides to leave the organization, the company will not only incur the cost of re-training and socialization of new resources, but also the increased monetary compensation to be paid for the same job function of a new employee.

Ethical decision-making can be broadly divided into two categories (Cullinan, Bline, Farrar, & Lowe, 2008):

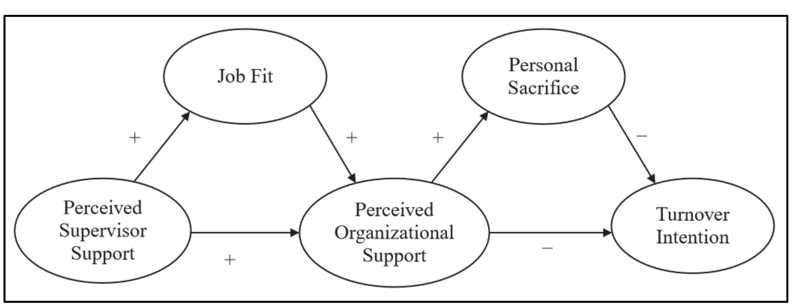
- Organizational-gain – decisions are made that benefit internal stakeholders while harming external shareholders
- Organizational-harm – decisions are made that harm internal and external stakeholders

In both instances, employees with higher organizational commitment were less likely to engage in questionably unethical behaviors regardless of the timeframe in which the benefit of the behavior would be received (short-term vs. long-term).

## TURNOVER IMPLICATIONS

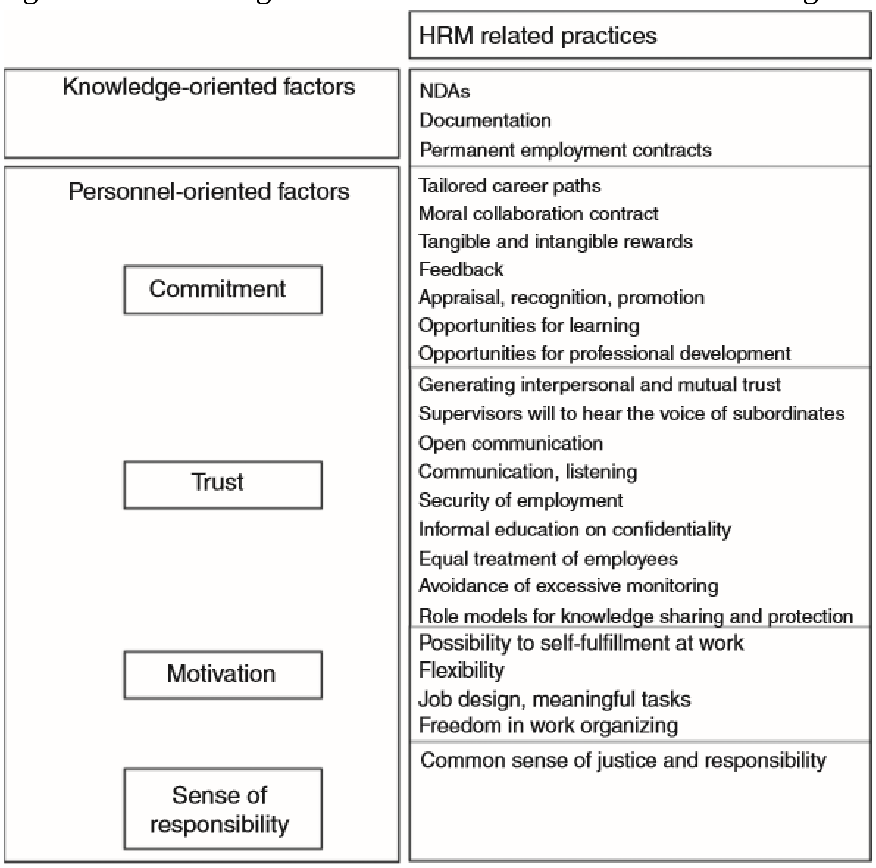
The effects of employee loss are forecasted to intensify in the next decade due to a worker shortage when the Baby Boomer generation begins retiring faster than the younger generations can fill their jobs (Carnevale, 2005); subsequently, it will be even more imperative for organizations to retain talent that will be more challenging to replace. Research has shown that two primary factors in reducing turnover are higher levels of perceived organizational support (POS) (Maertz Jr., Griffeth, Campbell, & Allen, 2007) and perceived supervisor support (PSS) (Eisenberger, Stinglhamber, Vandenberge, Sucharski, & Rhoades, 2002). Dawley, Houghton, and Bucklew (2010) proposed and validated a new model (shown in Figure 2) that incorporates job fit and personal sacrifice (“perceived loss of benefits that will be given up upon leaving a job”) into the existing structures of social exchange theory and reciprocity as mediating influencers in turnover intention. The surprising finding of the study showed a stronger relation between job fit and POS than the PSS and POS as previously believed (Rhoades & Eisenberger, 2002).

Figure 2: Hypothesized showing the mediating effect of job fit and personal sacrifice



In addition to the incurred organizational costs, turnover can create competitive disadvantage for knowledge-intensive organizations such as require heavy amounts of research and development and knowledge capital; moreover, Human Resource departments in these organizations play a critical role in retaining talent (Ahuja, Lampert, & Novelli, 2013; Hurmelinna-Laukkanen & Puumaliainen, 2007). Research conducted by Olander, et al. (2015) in two Finnish technology firms revealed that increased affective commitment dramatically reduced external knowledge disclosures. A feeling of responsibility gave employees internal motivation and built trust within the organization. The study also provided a consolidated viewpoint of HR behaviors to be considered when improving employee commitment as seen in Figure 3.

Figure 3: HR management-based mechanisms for diminishing knowledge leaving and leaking




## IMPLICATIONS FOR NEW VENTURES

The impacts of loyalty on new ventures remains largely unexplored. With the exception of the research presented regarding service quality (Yee, Yeung, & Cheng, 2010), the body of knowledge is primarily focused on larger organizations. I propose that additional research should explore the application of these empirical findings on small business startups. Levels of affective commitment are likely higher in these environments due the emotional investment of building the organization into a sustainable enterprise as reflected by the "founder's discount" (Wasserman, 2006). This increased loyalty positions the company to create customer value as shown by the transitive relationship between employee loyalty and customer loyalty (Yee, Yeung, & Cheng, 2010).

From an alternative viewpoint, the effects of employee disloyalty are likely to be felt with greater intensity. For example, turnover in smaller organizations is exponentially magnified with the loss of a single employee. By comparing two companies with 10 vs. 100 employees, one departure creates 10% and 1% respectively. The start-up company also lacks the increased commitment generated by employee tenure. As shown by Tang et. al (2012), male Gen Xers are more disposed to commitment from the love of money. A less financially established company introduces opportunities for disloyalty. This may pose new complications for the next generation of entrepreneurs; however, it posits new motivation factors especially surrounding gender differences that are worthy of exploration.

Additional research opportunities include the exploration of the means to build employee loyalty in these companies. While it is unlikely that the start-up can offer substantial financial incentives, they can leverage their environmental advantages such as increased autonomy, felt responsibility, learning opportunities, combined with effective management strategies like trust-building, collaboration, and interdependent team dynamics. By strengthening commitment by utilizing available resources, the entrepreneurial manager can maximize the likelihood of business success.

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