

## Employee Loyalty, Organizational Performance & Performance Evaluation – A Critical Survey

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**Abstract:** This study was conducted to examine the importance of Employee Loyalty in Organizational Performance and hence the feasibility of its subsequent inclusion into Performance Evaluations. The 411 respondents in this study were randomly selected participants of an internet based survey (restricted to the group of working people aged 20-60). The significant majority share the opinion of having their loyalty acknowledged and rewarded. A survey was conducted by using a questionnaire through online survey form for gathering information about Employee Loyalty, relating it to Organizational Performance and taking the respondent's opinion of its inclusion into Performance Evaluations.

**Keywords:** Employee Loyalty, Organization Performance, Performance Evaluation

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Date of Submission: 23-05-2017

Date of acceptance: 17-08-2017

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### I. Introduction

#### Employee Loyalty

Employees are considered the core of an organization and the success or failure of the organization is attributed to the performance of the employees. It is of prime importance that the employees are loyal to the organization and don't actively search for other alternative opportunities. Loyalty, as a general term can be defined as a person's devotion or sentiment of attachment to a particular object, which may be another person or a group of persons, an ideal, a duty, or a cause (Encyclopedia Britannica, 1998). "It expresses itself in both thought and action and strives for the identification of the interests of the loyal person with those of the object" (Safra, 2007). In recent times, employees are provided with many employment opportunities which attracts them to shift jobs often. However, from the organization's point of view, there is a loss incurred as the organization has spent resources on the employees to make them more competent so that the organizational performance is enhanced thus leading to a better gross output.

The economic performance of organizations is becoming ever more dependent on the participation, commitment, and more generally, loyalty of their employees (Rodríguez, Boltansky, Chiapello, & Vázquez, 1999). Loyalty has become one of the vital concerns for organizations, especially in the context of the economic tensions related to the 'psychological contract' between employers and employees (Naus, van Iterson, & Roe, 2007; Sverke & Goslinga, 2003). Loyalty can be defined as "a strong tie that binds an employee to his/her company even when it may not be economically sound for him/her to stay there" (Logan, 1984). Employee Loyalty is "is a deliberate commitment to further the best interests of one's employer, even when doing so may demand sacrificing some aspect of one's self-interest beyond what would be required by one's legal and other moral duties" (Elegido, 2013). Definition of loyalty can correspond to the following expressions: "relation of trust, resistance to the adoption of opportunistic behaviour faced with an outside job offer" (Dutot, 2004); "significant length of service in the company, less inclination to search for outside job offers and a strong sense of belonging" (Peretti & Igalens, 2015); or "a feeling of belonging" combined with staying in the organization over the long term (Colle, 2006). An employee's loyalty to the occupation, his/her emotional investment, and the regularity of his/her commitment to the organization, are key factors that determine the longevity and the performance of organizations (Bakker & Schaufeli, 2008).

#### Organizational Performance

Organizations are defined as instruments of purpose (March & Sutton, 1997). An Organization consists of various components working in coordination towards achieving a common goal. Organizational performance can be defined as the actual output or results of an organization as measured against its intended outputs (Alfred, Thirolf, Harris, & Webb, 2012). Organizational performance involves the recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals

more effectively and efficiently (McNamara). According to (Richard, Devinney, Yip, & Johnson, 2009) organizational performance encompasses three specific areas of firm outcomes:

- (a) Financial performance (profits, return on assets, return on investment, etc.)
- (b) Product market performance (sales, market share, etc.) and
- (c) Shareholder return (total shareholder return, economic value added, etc.)

### **Performance Evaluation**

Performance evaluation is a method by which the job performance of an employee is documented and evaluated (Muchinsky & Marchese, 2004). Performance evaluation is a very methodical and periodic procedure which measures individual employee's job performance and efficiency in relation to pre-established criteria and objectives (Abu-Doleh & Weir, 2007, Manasa & Reddy, 2009). Performance evaluation is very essential in order to align the employee's activities in the path of achieving the set goals. Performance evaluation can be carried out using one of the following methods Management by objectives, Psychological appraisals, Assessment centres, 360-degree feedback. In the present research work we have linked the above mentioned concepts. How the loyalty of an employee affects the organizational performance and is it necessary to include employee loyalty as a key factor in evaluating the performance of employees.

## **II. Review Of Literature**

Kyle LaMalfa (2007) pointed out in his study that as an employer, you need to understand why your employees are emotionally connected to your business - and it's usually much more than salaries, training, or benefits. Research has shown that emotionally connected employees are the best employees as they are engaged and productive, and they feel authorised and appreciated.

Frederick Reichheld (2006) in his study reported that loyalty, for those who plan to stay with an employer at least two years, can be affected by several factors, like benefits and pay, working atmosphere, job contentment and customers. Employee loyalty is critical for organizations as continuous turnover can be very expensive. In his study he specified that one of the most effective ways to improve employee loyalty is to make employees feel like they are a significant part of the organization. His study found that only 55 percent of the employee's surveyed feel like their organization treats them well. He suggested that an employee feedback system can help raise employee loyalty by providing two-way communications between employees and management. If employees feel like the organization is listening to them, recognizing them for their contributions, they will more likely be loyal to the company. Ho fstede, (1980) Rewards, financial or otherwise, should be valued and must be perceived as based on performance. Perhaps there is no hitch in acknowledging this principle. But most organizations have far to go in implementing them. This study makes allusions to several management practices such as time-based compensation, inadequate performance appraisal etc. that hinder reward- performance contingency and equity in the Indian context.

Studies on loyalty based upon the analytical context proposed by Hirschman (1970), and have interpreted it either as an attitude that inspires expression (voice) and discourages departure (exit) from the organization, or as an alternative form of behaviour to both voice and exit (Guillon & Cezanne, 2014). In a study that enquires the financial consequences of employee turnover, Hinkin and Tracey (2000) proposed the five cost groups: separation costs, recruitment costs, selection costs, hiring costs, and loss of productivity costs. They developed a piece of computer software based on these five categories to simplify the labour turnover cost calculations. Their study revealed unpredictably high costs related to labour turnover and emphasized the duty of managers and human resources (HR) authorities in retaining staff with practices beyond financial benefits (Ineson, Benke, & Laszlo, 2013). The studies conducted by Graham (1996) and Hizer (1998) showed that organization's efforts in reviewing the relationship between employee satisfaction, customer satisfaction, efficiency, and financial performance revealed the following points to them: Grief-stricken employees have low efficiency and high absence records, Content employees are efficient, innovative, and loyal, A rise in job contentment would cheer up the employees, and lead to an increase in efficiency. Employee satisfaction leads to customer loyalty (Graham, 1996) (Davidhizar & Shearer, 1998).

Jawahar (2006) found that performance evaluation played a role in the relationship between employee satisfaction and employee loyalty in this study. Performance evaluation is an important element of loyalty because it is positively related to organizational commitment and negatively related to turnover intentions. Job satisfaction and organizational commitment fall into a broader definition of loyalty.

Satisfactory appraisal system is also necessary to have steady performance by employees. The appraisal fairness provides perceived fairness to the employees, elicits employee satisfaction and organizational performance (Hassan, Nawaz, Abbas, & Sajid, 2013).

### **III. Objectives Of The Study**

1. To study whether the respondents feel their exists a relationship between employee loyalty and organizational performance.
2. To identify whether the respondents feel that their loyalty should be included in their performance evaluation as a key factor.
3. To measure whether the respondents prefer a Raise in Salary based on Annual Overall Performance Rating/Evaluation or a Loyalty Bonus Scheme based on years of service.
4. To discover whether the respondents would chose to support an individual; Person A (A Performing and disloyal individual) or Person B (A non-performing and loyal individual).
5. To recommend certain pre-emptive measures to companies and arm them against high attrition rate and dismal employee turnover problem by weighing in the respondents preferences to being rewarded for their loyalty, whether the loyalty reward needs to be monetary in nature and on their comfortability with their organization testing their loyalty by various means.

### **RESEARCH QUESTIONS AND STATEMENT OF THE PROBLEM**

How can companies recruit loyal employees, test and hold on to the current ones, invest in the right ones and minimise losses on the ones who are about to leave?

Do employees consider themselves to be loyal? Do they feel that their loyalty affects their organizational performance? Do they feel that loyalty should be a key factor in performance evaluations? Do they want remuneration for their loyalty? Is there a relationship between an employee's loyalty and an employee's age? Is there a relationship between an employee's loyalty and an employee's gender? Is a high salary capable of retaining dissatisfied employees? Would employees prefer a Raise in Salary based on Annual Overall Performance or an Annual Loyalty Bonus based on Years of Service? Are employees comfortable with their current organization testing their loyalty? Do employees feel that loyalty should entitle an increased pay scale in comparison to achieving the monthly target?

### **PURPOSE OF THE STUDY**

This self-observation stemmed from the fact that a large fraction of the working class feels that their loyalty goes unrewarded or unnoticed. To add to this, they feel disconnected from the popular and widespread employee appraisal methods out there like MBO, 360-degree appraisal and cost accounting method. This is solely because it dealt with numbers and their performance as per the books while not taking into account the relationship that they share with the company.

An organization and its employee work towards each other's mutual benefit. This relationship is but an exchange of professional services between two professional entities. Organization's spends and invests resources (like time, energy and money) on employees as a means of acclimating them, develop their skills and abilities and improving the efficiency and effectiveness of their work and output, which in turn benefits the organization. However, a large fraction of the employee base tend to shift their jobs and leave their current organization thus making all the invested resources go to waste and also make the organization incur added costs in recruiting and training abecedarians. This growing trend and culture is turning out to be a large boon to employees and a large bane to the employers because investing in an employee who leaves thereafter acts as a double loss. Hence, to turn the situation back in their favour, organizations are in critical need of a loyalty testing method along with other novel devices to retain employees.

The survey primarily focussed on deducing a link (if any) between surveyed people considering themselves loyal, them thinking that it goes on to affect their organizational performance and them voting for or against the subsequent inclusion of their loyalty in their performance evaluation along with a remuneration for the same.

### **IV. Methodology**

#### **RESEARCH DESIGN**

To carry out this study, we used an internet based survey using Google Form, in which a questionnaire was made in order to record the responses of the people who were responding to the study. It consisted of a personal profile questionnaire, a loyalty questionnaire, a work history questionnaire, a current job questionnaire and an opinion questionnaire. For the same, loyalty was defined as employees who are:

- 1) Devoted to the success of their organization,
- 2) Believe that being an employee of this organization is in their best interest.
- 3) Plan on remaining with the organization in the long run
- 4) They do not actively seek for alternative employment opportunities.

## **DATA COLLECTION**

The personal profile questionnaire included name, age and gender. The requirement of entering one's name was kept optional so that people could maintain their anonymity given the sensitive nature of the topic. However, essential parameters such as age and gender that were required for further analysis were kept compulsory.

## **RESEARCH INSTRUMENT & STATISTICAL TOOLS USED**

The loyalty questionnaire included questions like do the respondents of the survey "feel they are loyal to their organization", do the respondents of the survey "feel that their loyalty affects organizational performance", do the respondents of the survey "think that their loyalty should be a Key Factor in their performance evaluation which would go on to affect their salary" were kept as a linear scale ranging from 1 to 5 in order to allow cross-column analysis and ANOVA.

The work history questionnaire included short-answer questions to record how long the respondents have been working for, how many companies they have worked in, what is the longest duration they have spent in any company, what is the longest duration they have spent in their current company. This section was designed to deduce a relationship between age and average number of years spent at a company along with tendency to shift jobs.

The current job questionnaire included questions like are the respondents of the survey "satisfied with their current organization", are the respondents of the survey "satisfied with the salary at their current organization" and whether the respondents of the survey "are planning on leaving the current organization" were kept as a linear scale ranging from 1 to 5 in order to allow cross-column analysis and ANOVA.

The opinion questionnaire included questions asking the respondents of the survey "their preferred mode of add-on to their salary", whether the respondents of the survey were "comfortable with their current organization testing their loyalty" and whether the respondents of the survey felt that an increase in pay scale was deserved by "a loyal employee or an employee who had achieved his target".

A total of 411 responses were recorded over a time period of 6 months which comprised a total of sixteen questions that were used for data collection. The recorded responses were then taken and proper pie charts, bar graphs and line graphs were made in order to analyse the results of the survey and derive conclusions from the same.

## **LIMITATIONS OF THE STUDY**

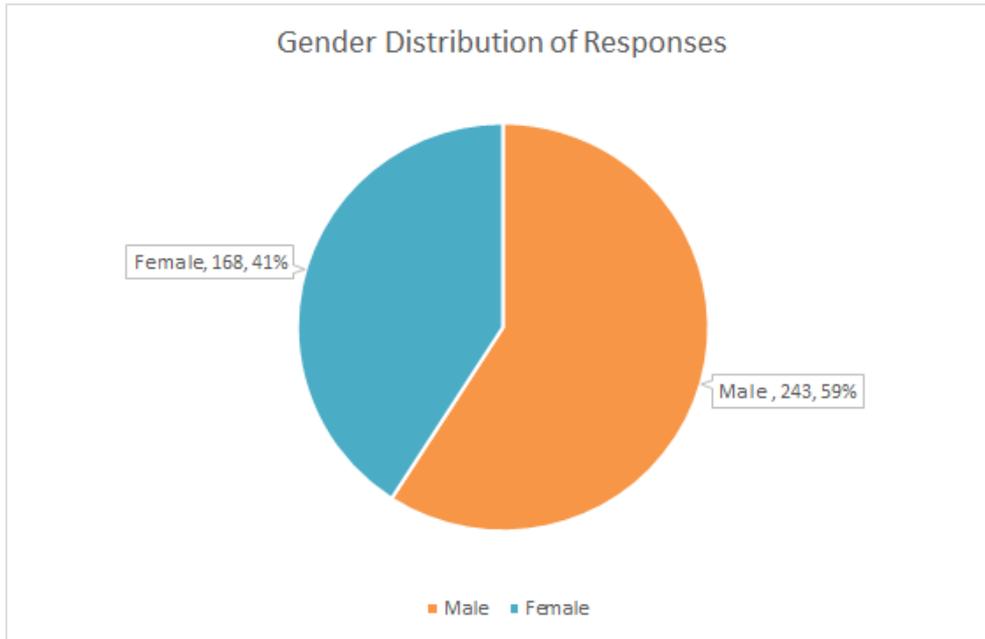
However, the plan to conduct a survey and record the results needs to be done while keeping in mind that this particular survey was answered by a large fraction of the people who answered the survey hailed from the Southern region of the Indian sub-continent. This survey was carried out over a time span of 6 months. It was solely aimed to be answered by the working class demography and not any other strata of society. A lot of the responses were from people who belonged to the education industry. Apart from that, the survey was restricted to people between the age group of 20-60 but the 61-70 age group responses had to be left out due to lack of substantial responses in order to draw inferences. In all probability, the survey would not have responses from the crème de la crème upper class nor the endeavouring lower class, each of which might have brought their own take to the table. The online Google Form based survey would have restricted the survey's outreach to people privy to the use of smart phones and adept at manoeuvring their way about the internet and other online sources. Most importantly and of paramount importance, is the fact that the psychologically introspective questions would account for transient changes in opinion within the surveyed subjects as they would subconsciously want to show themselves in better light as is known and can be expected from the human nature.

## **ORIGINALITY OF THE STUDY**

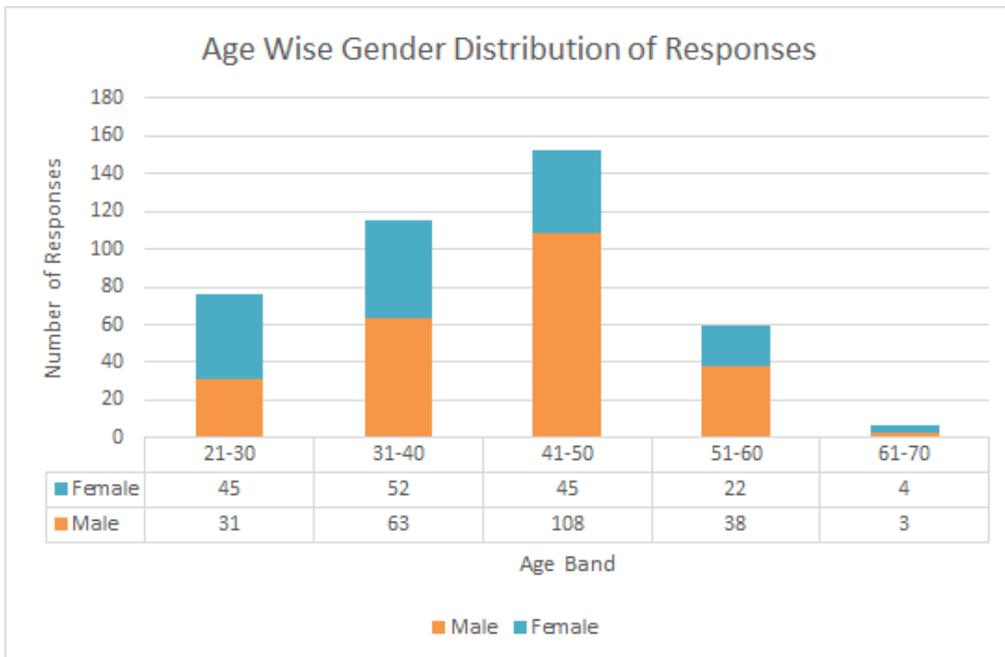
The study was completely original and was inspired from self-observation which initiated the study. This problem hasn't been dealt with before in any of the studies which have provided the scope for conducting a detailed survey based analysis on how loyalty is a key factor in organizational performance, what employees feel about loyalty and how organizations could test the loyalty of its employees.

## **DATA ANALYSIS AND INTERPRETATION**

The results of the survey have been represented in the form of pie-charts, bar-graphs and line graphs. For better understanding, these visual representations have been transcoded along with the addition of cross field analysis of data so as to delve into the statistics of the responses with much depth and bring forth significant albeit latent conclusions.

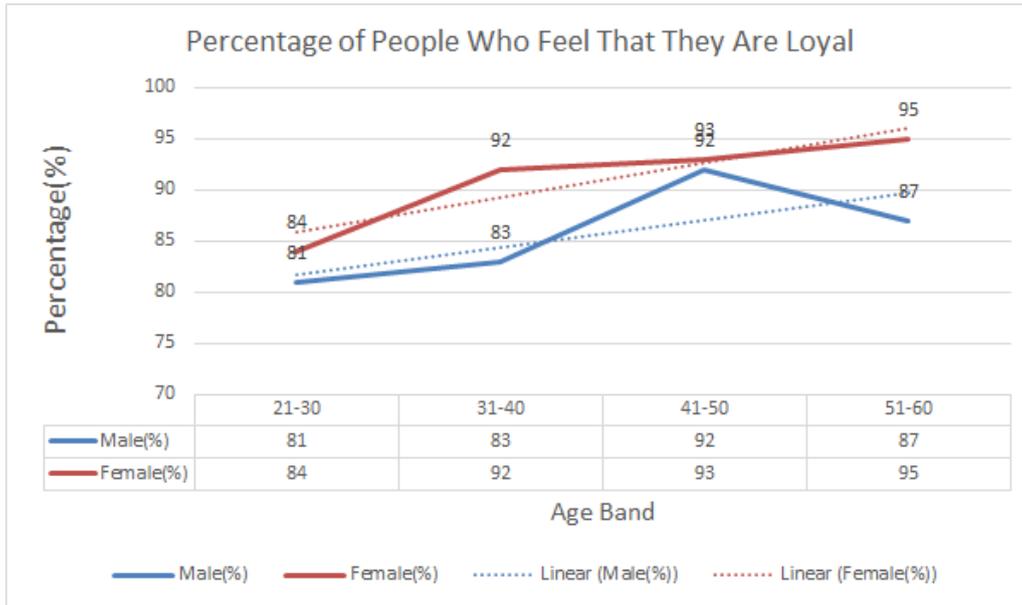


There was a higher response from the male gender than the female gender. In all further conclusions and research implications, we have compared values on the basis of the percentage so as to normalise this particular response. This descriptive statistics showcases that there is a mixture of responses and that it does not tend towards a biased observation. As this study is linked with the idea or thought of one's own self being loyal, it becomes difficult to pose questions to employees and hope for a valid and true response, but interestingly enough, we obtained quite credible data.



The above bar-graph represents the age wise distribution of the total responses obtained from the survey for each gender.

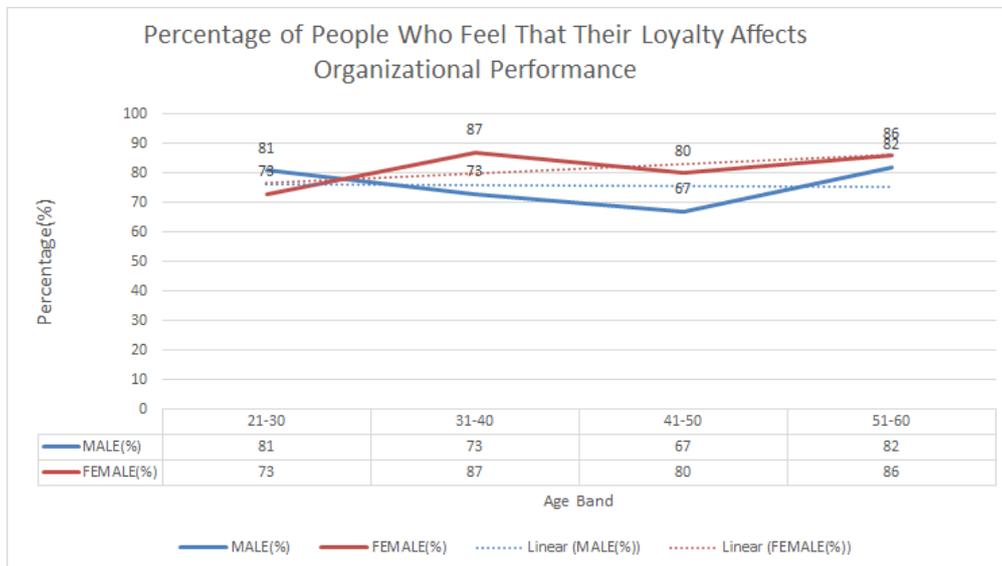
After evaluating the data bank, we came to a wise conclusion to not include the 61-70 age band responses because of their starkly dismal numbers as compared to the other age-bands, thus an attempt to make sure that poorly skewed implications aren't derived hereafter which we happened to come across in our question-wise and cross-question analyses.



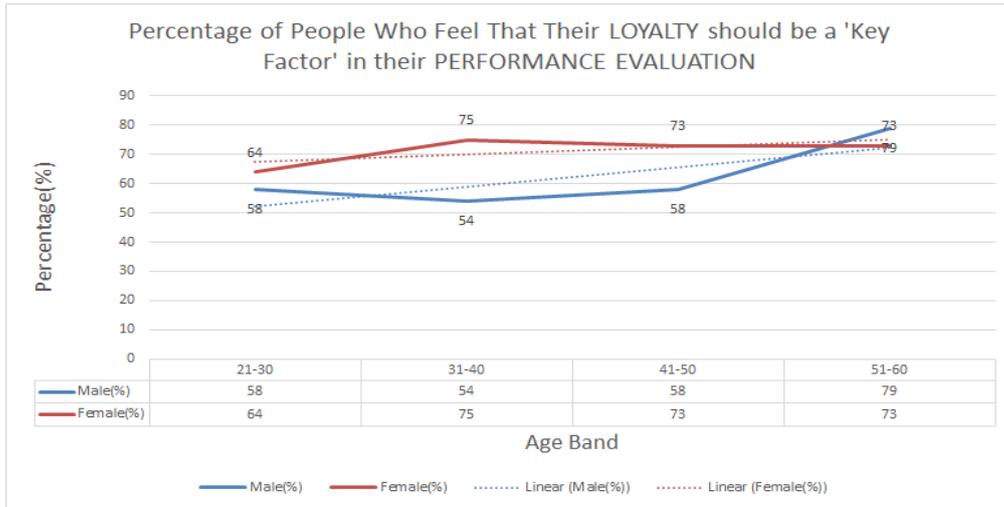
It might be commonplace, but it is important to mention findings irrespective of whether or not people feel that it exists by default. Thus, in continuance, the trend lines clearly indicate that with increasing age, both males and females consider themselves to be more loyal to their organisation.

However, a much important observation was that across all age bands, a higher percentage of the female respondents considered themselves more loyal to their organisation than the male respondents.

This would be an incalculable boon to organisations that suffer losses due to high attrition rates. They might want to consider giving weightage to candidates who are better settled (or rather grounded) in life, be it in the case of having a family or other stochastic factors and are hence more likely to associate themselves with the ideas of loyalty and direct the same towards their organization.

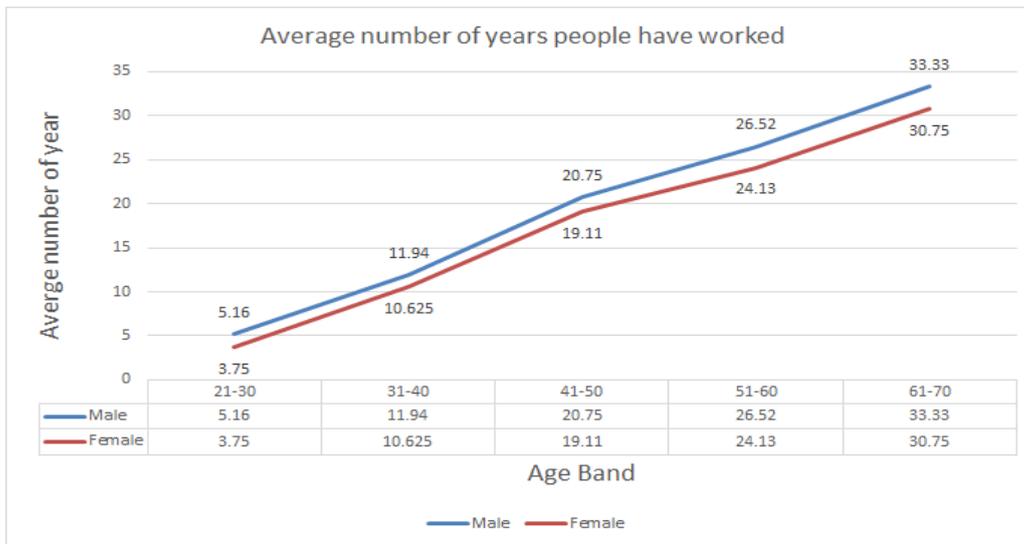


From the above trend lines it can be implied that over time the percentage of males who considered themselves loyal remains constant while that of females increases. The percentage of females who feel that their loyalty affects organizational performance is higher than that of males.



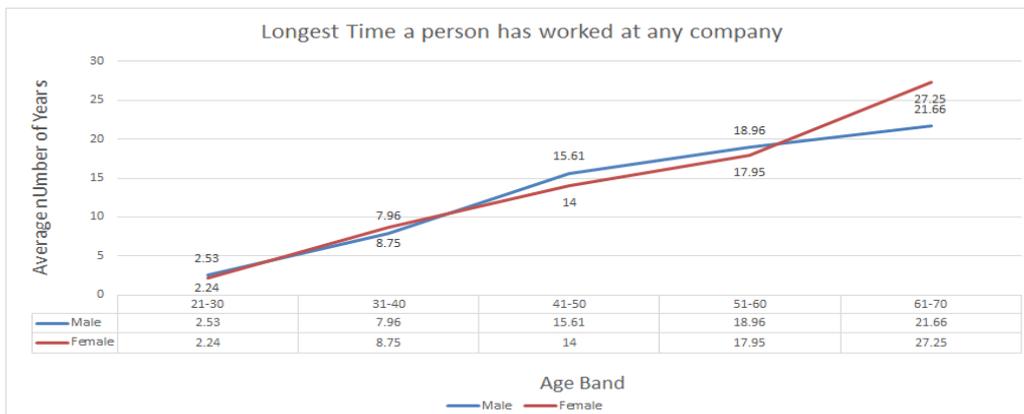
With increasing age-bands, both genders wanted some form of reward (monetary or otherwise) for their loyalty, hence they considered it to be an organisational asset which entitled them to their fair share of the prize.

What is interesting to note here is that although the response increased with age for both the genders, the female population had a much higher response as compared to the male population, which on the other hand had a steeper trend line suggesting a drastic change in opinion with age.



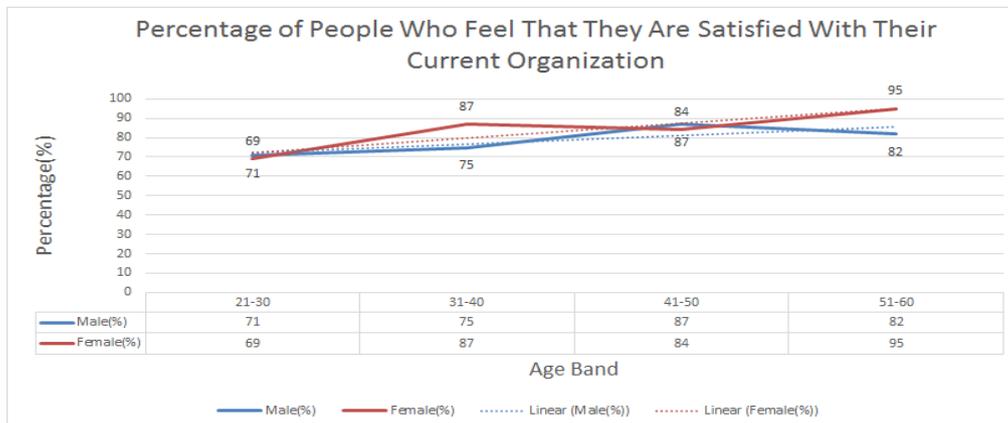
Assuming a normal distribution of responses between the age bands, we can safely conclude that on an average, a male respondent has worked more years than the female respondent for any given age-band thus suggesting either one of two things:

- a) a male respondent starts working at an earlier age compared to their female equivalent
- b) a female respondent start working a bit later compared to their male equivalent

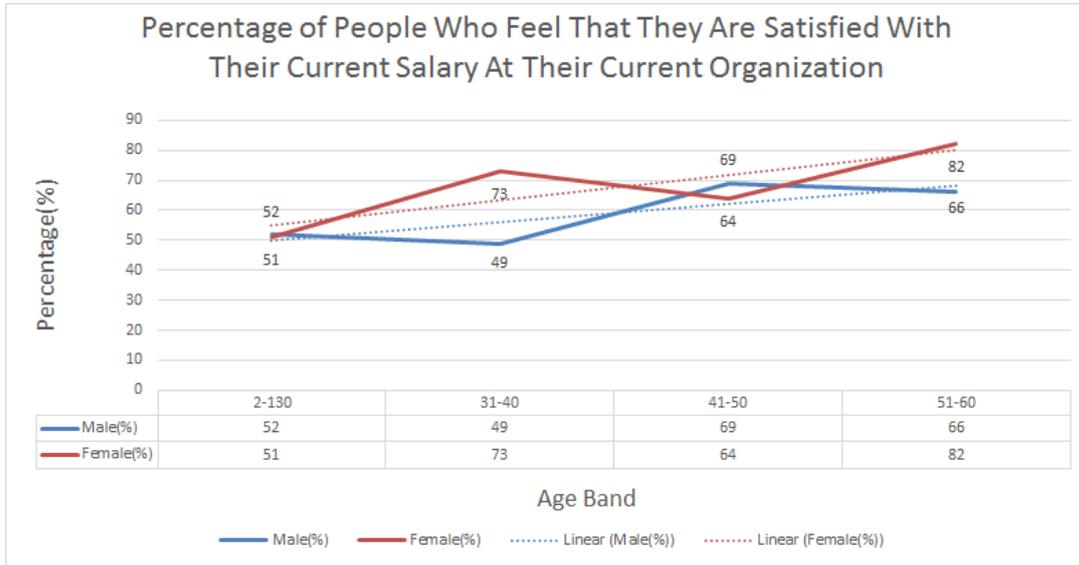




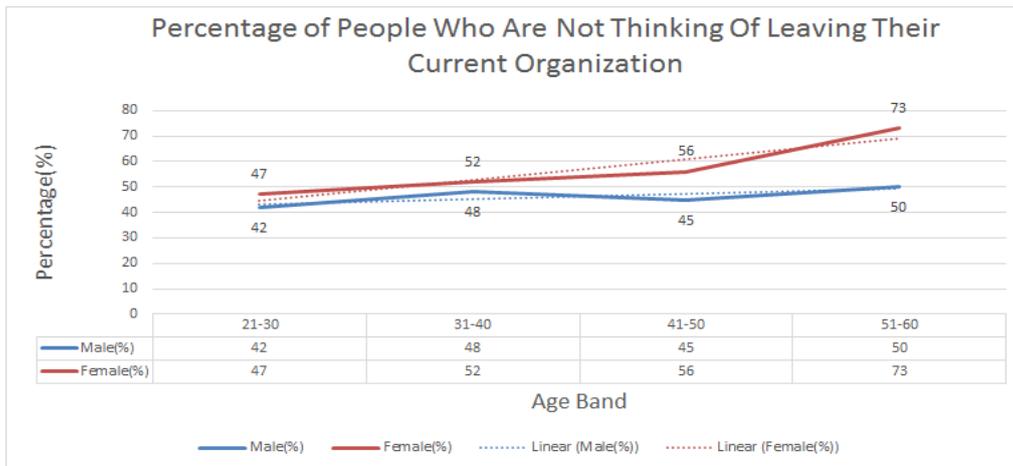
The trend lines indicate that an average male respondent has changed his organization more than the average female respondent, which means that (for reasons beyond the scope of evaluation of this particular survey and paper (such as ambition and monetary requirement, and social factors)) males are more likely to leave their organization than females. More importantly, a cross-analysis between the number of years that a respondent has been working for and the number of organizations that they have worked with so far reveals that with increasing age, people (both males and females) are more loyal to their organisation and less likely to leave the same. This is because the average 21-30 aged respondent has spent 4.33 years working in 1.8 companies. Extrapolating the same means that in the 51-60 aged respondent data bank, since they have worked for an average of 25.65 years, hence assuming all transient factors to remain constant and unbiased, they should have worked in  $\{(25.65/4.33)*(1.8)\}$  companies, that is 10.66 companies. However, these respondents have only worked in 3.06 companies, a mammoth 71.29% less than the extrapolated estimate. What this essentially goes on to show is that for reasons out of the scope of this paper, people aged 20-40 have a higher job-shifting trend as compared to those aged 40-60. Changing times, mind sets, societal factors and many other stochastic variables could be attributed for the same.



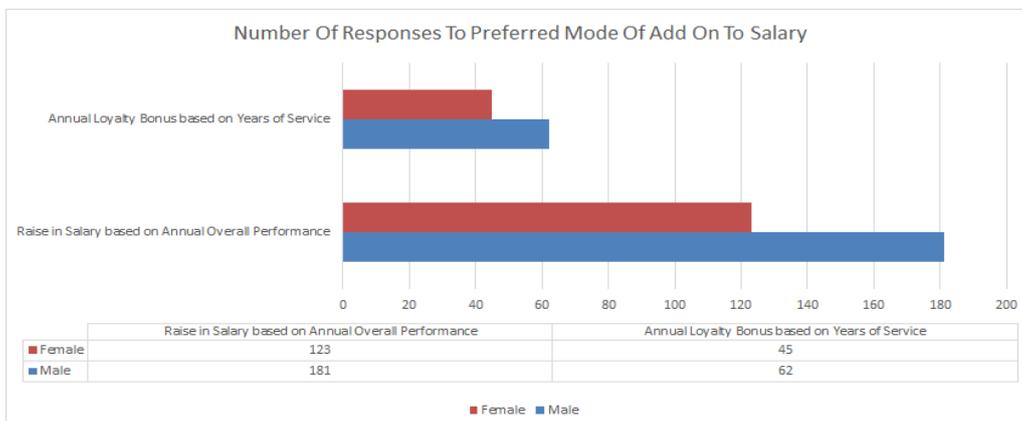
With increasing age, people (both males and female respondents) feel satisfied with their current organization. Female’s respondents with respect to males ones feel more satisfied at their current organization.



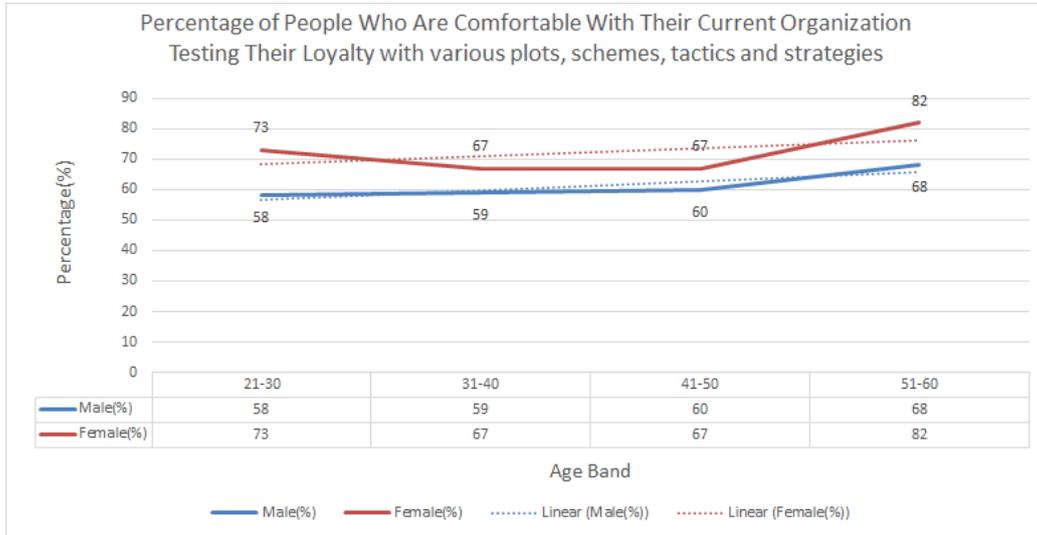
With increasing age, people (both male and female respondents) feel more satisfied with their current salary at their current organization. Female respondents with respect to the male ones feel more satisfied with their current salary at their current organization.



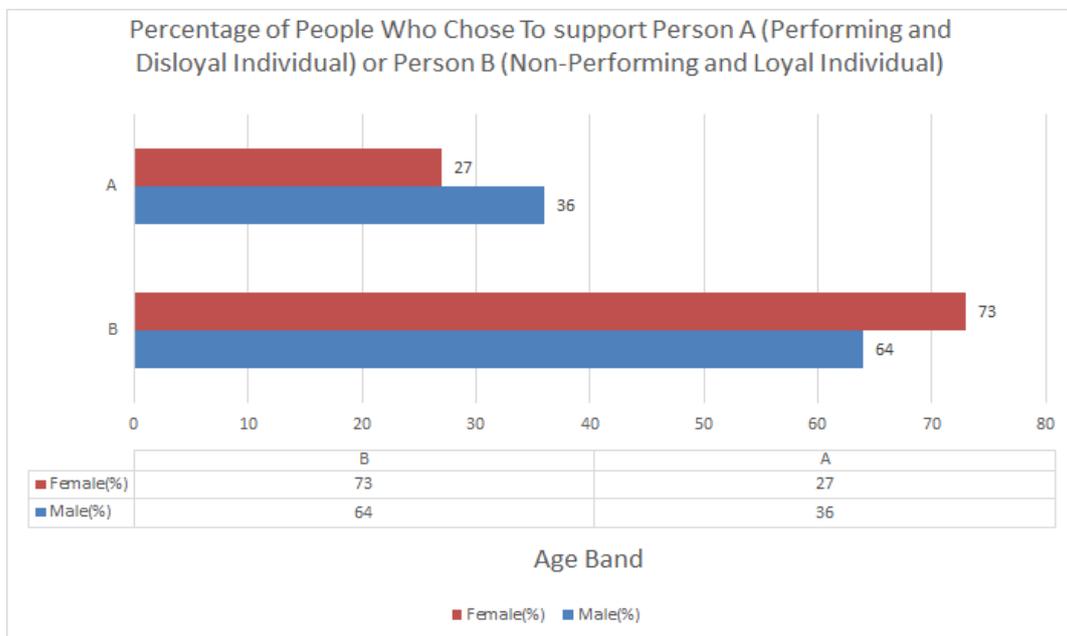
With increasing age, people (both males and females) are less likely to leave their current organization. Female respondents with respect to the male ones are more likely to stick to their current organization.



There is a greater preference to Raise in salary based on the annual overall performance as a mode of add on to salary because people would rather prefer to be remunerated for their performance on an immediate-return basis. What this translates into is the fact that the Indian corporate environment is not ready to shift to the American one. An annual loyalty bonus as a means of remuneration translates into much greater returns for a company both in terms of monetary profit and employee tenure. The same has been backed by many studies which is the paramount reason for it being the commonplace system in foreign lands as opposed to India. Nonetheless, companies will not see a reciprocative response in the event that they do decide to change their system.



With increasing age, people (both males and females) are more comfortable with their current organization testing their loyalty with various plots, schemes, tactics and strategies. Female respondents with respect to the male ones are more comfortable with their current organization testing their loyalty.



The respondents were asked to choose between a performing and disloyal individual (Person A) or a non-performing and loyal individual (Person B) for receiving a reward of increase in salary. Person A was said to achieve 120% of his target and was slated to be dissatisfied with his company and constantly scoping for a better company opportunity. Person B was said to achieve 80% of his target and was slated to be loyal to his organization, not actively looking for better opportunities and directing every effort towards his company's betterment.

A higher percentage of the respondents (both males and females) prefer Person 'B' over Person 'A'. A higher percentage of female respondents prefer Person B as compared to the male respondents. A higher percentage of male respondents prefer Person A as compared to the female respondents.

What this translates into is that although both the genders prefer the loyal individual as more deserving, male respondents are more likely to look at an actual raise based reward to be a consequence of a numbers and computations. The male respondents might associate themselves with Person A, as a person who deserves the raise because of the target he procured while still managing to look for better opportunities owing to his ambition.

### **MANAGERIAL IMPLICATIONS**

89% of the respondents consider themselves to be loyal to their organisation. A person with a higher age is more likely to be loyal to their organisation. Female respondents associate loyalty with their organisation to a greater extent than the male respondents. 76% of the respondents feel that their loyalty affects their organisational performance. Female respondents' associate to these more than male respondents'.

65% of the respondents feel that their loyalty should be a key factor in their organizational performance. The average male respondent has worked for more years than the average female respondent. Older aged respondents have spent more years in lesser companies as compared to the weighted extrapolated value of younger aged respondents. Female respondents are more satisfied at their current organisation as compared to the male respondents.

65% of the respondents are positively comfortable with their organisation testing their loyalty, while 82% of the respondents feel they won't be negatively affected with their organization testing their loyalty. 74% of the respondents prefer a Raise in Salary based on Annual Overall Performance over an Annual Loyalty Bonus based on Years of Service. 68% of the respondents would choose to reward a loyal and non-performing individual with a raise in salary over rewarding a disloyal and performing individual with a raise in salary.

The current study has shed light on the how loyalty acts a key factor in performance evaluation of an employee and also sees loyalty from an employee's perspective. Employees in general with increasing age consider themselves loyal to their organization. Compared to the employees in the lower age band those in the higher age band are more satisfied working for their current company. The lower term of office for the employees in the lower age band is mainly because they are ambitious and tend to leave for a better salary. This has direct implications on the overall organizational performance and hence it is imperative that organizations include in their performance evaluation loyalty as a key factor. This would help the organization retain the most loyal staff which would directly go on to affect the organization's overall performance.

### **V. Suggestions**

Organizations should consider age of an employee in the higher senses while making hiring decisions. People who are single or are not settled with their family in a particular city would be more likely to change their current job when they get better job prospects elsewhere. This could be rarely seen in the employees who are married and are settled in a city as the cost of relocation would surpass the extra salary they would be earning in their new organization.

Organisations also need to note that while female respondents were found to be more loyal to their organisations, male respondents were found to be have more work experience in terms of years spent working. While the female respondents were more satisfied with their current salary and less likely to leave their current employer, the male respondents were found to be more dissatisfied with their current salary and open to other, more rewarding opportunities.

From the employee's perspective loyalty is seen as a factor which may not necessarily bring them monetary benefits but would mask the drawbacks in them. An employee might not be target achieving but is loyal to his organization and works hard to bring achieve his targets. So this loyalty shown by the employee towards his/her organization should allow the employee to cover-up his drawbacks.

Organisations would do well to formally recognise an employee's loyalty, and most importantly, make them (the employees) aware of the fact their organisation acknowledges their loyalty and appreciates the same. Whether or not a company can afford to set up a reward or incentive scheme based on an employee's loyalty is something that solely depends upon the company's unique dynamics. This would foster a positive environment conducive towards increasing organisational performance. Loyalty as a factor is higher in people belonging to 40 to 60 age band compared to those in the 20 to 30 age band. This is due to changing lifestyle and circumstances. The basic needs of people have changed over time. Money has been a major requirement for satisfying the basic needs of our current generation which would directly reflect on the number of years they work for a particular company. The current generation people tend to change their job more often whenever they are offered better pay. This is not the case with the the people in 40 to 60 age band as they tend to remain satisfied with their current job and are less likely to leave when offered a better pay.

More important than the 65% of the respondents who are comfortable with having their loyalty tested, is the fact that 82% of the respondents won't take it in a negative way. That means organisations stand a potential chance of offending 18% only. Most of the companies out there could and should capitalise on this and actively record their employee's opinion on this during the moment of joining, thus allowing them to carry out fake head-hunter calls, interview calls, phone calls, emails, profile searches on job-seeking and job-review websites and other widely propagated devices that are very much common in the U.S. to keep a tab on their employees.

In the Indian scenario people expect a raise in salary based on their overall performance. They expect the extra work they do to be rewarded by a raise in their salary or through some incentives. But in an American scenario the employees are paid for their loyalty that is for the year of service for the organization and not for achieving their targets or achieving more than their target. But when it comes to companies with high attrition rate a loyalty based system is a better option because it helps the employer to prepare well in advance for any resignations from their employees. This would help the organization prepare for the requirement of any new recruits. Slowly the many companies in India have also started rewarding their employees based on the loyalty based scheme.

With 68% people siding with the loyal and underperforming individual, companies need to understand how gravely people consider loyalty to be a valuable asset that can even go on to be weighed against the monthly target itself. Owing largely to herd mentality, if people see other people receiving some form of benefit or lack of a negative because of some quality that they possess, and then they are more likely to inculcate the same within themselves in a bid to avail the same. Such an organic and healthy way of inculcating loyalty among the employees works out far better than Loyalty Bonus schemes which are regarded as a paid way of servitude.

## **VI. Conclusion**

A lot of stochastic and transient factors make up the very idea of loyalty. Its measurement, quantification and comparison are also difficult as it is an abstract noun. Yet, organisations would do well to realise that a significantly large portion of the working crowd consider themselves to be loyal to the organisation, which subsequently affects their organisational performance and should consequently go on to be a key factor in their performance evaluation. This calls for a rapid and immediate overhaul of any performance evaluation system employed by any organisation which does not include this, when the very mass are rooting for it. A lot of papers, case studies and research exists out there that tries to link loyalty with organisational performance, but what they miss out on is the people's opinion on it. As long as the people think it affects the organisational performance, it will invariably go on to, and that is more than enough substantial ground for it to be included in performance evaluations as a critical factor.

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IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with Sl. No. 4481, Journal no. 46879.

Sachin Murali. "Employee Loyalty, Organizational Performance & Performance Evaluation – A Critical Survey." *IOSR Journal of Business and Management (IOSR-JBM)*, vol. 19, no. 8, 2017. pp. 62–74.