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Exploring Employee Loyalty through Social Capital and Sustainable Human Resource Management Practices

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Abstract

Employee loyalty is a vital concept in organizational management, driving motivation and enhancing efficiency. It significantly affects job satisfaction, employee effectiveness, attachment, and overall organizational performance. This study investigates whether sustainable human resource management practices can enhance employee loyalty through the enhancement of social capital. Based on Morgan's table, a random sampling method was used to select 150 participants, as determined by Morgan's table. Data collection was done using a standardized questionnaire, with the tool's validity confirmed through content validation and its reliability assessed via Cronbach's alpha. The data were analyzed using Smart PLS software. The findings showed that human resource management has a direct impact on social capital. Furthermore, the path analysis showed that sustainable human resource practices significantly affect employee loyalty. The study also showed that social capital directly contributes to employee loyalty. These insights are valuable for improving organizational performance, boosting employee satisfaction, and ensuring long-term success.

Keywords: Social capital, Employee loyalty, Well-being, Human resource management, Job satisfaction

Introduction

Employee loyalty plays a central role in organizational success, acting as a key driver of motivation, retention, and productivity. It significantly influences well-being, job satisfaction, attachment, and overall organizational performance. When employees are loyal, they develop a strong connection with their organization, viewing its achievements and setbacks as their own. They contribute to the organization's success by actively participating in problem-solving, supporting their colleagues during challenging times, and working towards ambitious goals [1-3].

Loyalty in the workplace can be defined as a positive emotional commitment to the organization, often manifested in three key attributes: enthusiasm, dedication, and fascination. Enthusiasm reflects a high level of energy and resilience, dedication refers to a deep involvement in meaningful work, and fascination is characterized by a high level of focus where time passes quickly, and employees become deeply immersed in their tasks [4-6].

Research in management highlights the importance of stable human resources in fostering employee loyalty. Human resources are essential to organizational success because employees are the thinkers, decision-makers, and implementers of organizational systems [7-8]. Since an organization's effectiveness depends on how well it manages its human capital, human

resources are considered invaluable and irreplaceable. Therefore, it is crucial for organizations, especially human resource managers, to ensure that these resources are nurtured and developed effectively.

Sustainable human resource management (HRM) is a complex and evolving concept that addresses the long-term strategies for managing human capital, taking into account both social and economic factors [9, 10]. According to Thom and Zaugg [11], sustainable HRM involves long-term strategies that focus on employee recruitment, selection, development, and retention, aiming to create sustainable value for both the organization and its employees. Chams and García-Blandón [12] further elaborate that sustainable HRM focuses on fair and transparent practices while also enhancing employee welfare and profitability.

The field of sustainable HRM has seen increasing attention in recent years as researchers collaborate across disciplines to explore its role in creating organizations that are not only economically successful but also socially and ecologically responsible. This broader approach to HRM includes a focus on social responsibility, where sustainability is viewed as integral to achieving long-term success. Sustainable HRM aims to generate positive outcomes in the short and long term, benefiting economic, social, and environmental dimensions simultaneously [13-15].

The mediating variable in this study is social capital. Due to significant changes in organizational operations, traditional forms of capital, such as equipment, buildings, and financial resources, have evolved, giving rise to new forms of capital. Among these new forms is social capital, which plays a crucial role in an organization's growth. Unlike human or physical capital, social capital goes beyond individual assets [16, 17]. It serves as an essential foundation for enhancing the productivity of both human and physical capital and is key to achieving organizational success and improving performance. Managers who foster social capital within their organizations set the stage for both their personal career growth and the overall success of the company. Through social capital, we can better understand why certain organizations or groups thrive while others fail.

Social capital emphasizes the cooperation, coordination, and shared norms that promote collaboration among an organization's members. Key concepts within social capital include trust, cooperation, and mutual relationships among individuals in an organization or group [18]. Therefore, this study aims to explore whether sustainable human resource management can enhance employee loyalty through the development of social capital.

Materials and Methods

This study is applied in nature, and it employs a correlational descriptive research design. A random sampling technique was used to select the sample, allowing for an unbiased and random selection of participants, which enhances the accuracy and reliability of the results in representing the statistical population. The sample size was calculated to be 150 individuals based on Morgan's table.

Data for this research were collected through both library and field methods. The data collection tool consisted of a questionnaire with two sections: the first section gathered demographic information about the participants, and the second section focused on the research variables. The variables were assessed using standard questionnaires: sustainable human resource management was measured using a 9-item scale from Osranek and Zink [19], employee loyalty was evaluated using a 3-item scale from Rodríguez *et al*. [20], and social capital was assessed using a 9-item scale from Nahapiet and Ghoshal [21].

The validity of the questionnaire was confirmed through expert opinions from university professors. After finalizing the questionnaire design, the original version was reviewed by these experts, and their feedback was incorporated. The reliability of the instrument was assessed using Cronbach's alpha, a measure of internal consistency.

For data analysis, structural equation modeling (SEM) was applied using Smart PLS software, which is widely used in data analysis and model evaluation. Smart PLS is recognized for its unique capabilities in the analysis of structural models and is a common tool in SEM research.

Structural equation modeling results

In this research, structural equation modeling (SEM) was applied using PLS Smart software with the partial least squares method to assess the validity and reliability of the proposed model. The advantage of this method is its ability to work without assuming the normality of the population or requiring a large sample size. The SEM process consists of two primary phases: path analysis and confirmatory factor analysis. The PLS approach tests two models:

1. *External model (measurement model):* This model checks the relationship between the observed variables (survey questions) and the latent constructs (underlying factors) through their factor loadings.
2. *Internal model (path analysis):* This model examines the relationships between the latent variables themselves, which reflects the theoretical connections outlined in the study.

Testing the significance coefficients

The significance coefficients for the hypotheses were evaluated using t-values. These coefficients help determine if the structural relationships in the model are statistically significant. A path coefficient is considered significant when the t-statistic falls outside the range of -1.96 to +1.96, which corresponds to a 95% confidence level. If the t-statistic is within this range, the path coefficient is not significant. For greater confidence (99%), the t-statistic must lie outside the range of -2.58 to +2.58. **Figures 1 and 2** display the factor loadings and significance coefficients for each variable, demonstrating the strength and relevance of the relationships in the research model.
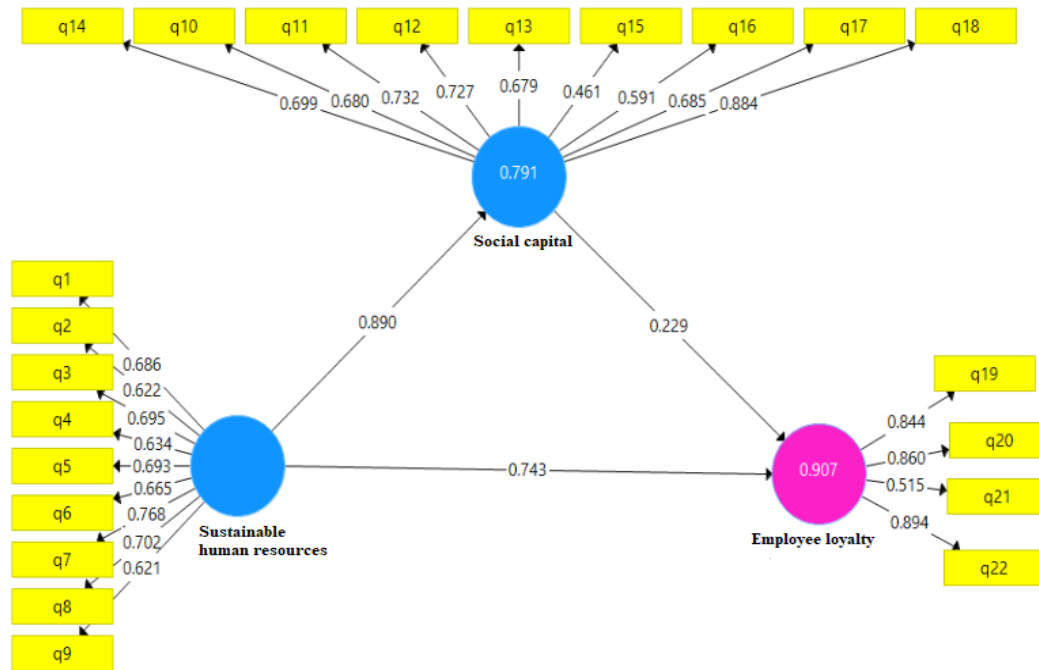
Figure 1. Confirmatory factor analysis (factor loading) for the whole model.
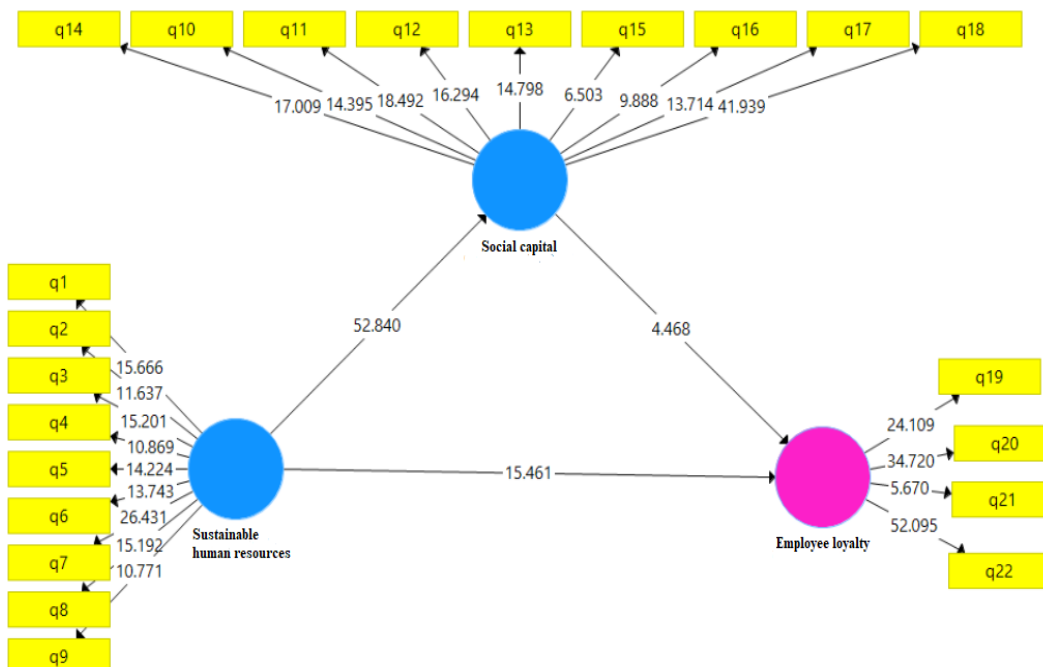
Figure 2. Analysis of significant coefficients (t-values) for the entire model.

Confirmatory factor analysis

Confirmatory factor analysis (CFA) was performed to assess the validity and reliability of the measurement scale used in the study. CFA tests specific hypotheses about the standardized loadings and the correlations between the variables. In CFA, a higher factor loading closer to 1 indicates a strong relationship between the survey questions and the respective variables. Conversely, a factor loading of 0 implies no relationship between a question and the variable.

The results of the confirmatory factor analysis, shown in **Table 1**, demonstrate that all factor loadings greater than 0.4 have good validity, confirming the strength and relevance of the measurement model.

Table 1. Confirmatory factor analysis of questionnaire items.

Objects	Factor load	Objects	Factor load	Objects	Factor load
Q1	0.686	Q9	0.621	Q17	0.685
Q2	0.622	Q10	0.680	Q18	0.884
Q3	0.695	Q11	0.732	Q19	0.884
Q4	0.634	Q12	0.727	Q20	0.860
Q5	0.693	Q13	0.679	Q21	0.515
Q6	0.665	Q14	0.699	Q22	0.894
Q7	0.768	Q15	0.461	Q23	-
Q8	0.702	Q16	0.591	Q24	-

Cronbach's alpha, convergent validity, and composite reliability

Cronbach's alpha is a traditional measure of reliability, providing an estimate based on the internal correlation of the indicators. A value above 0.7 is considered acceptable for reliability. However, another measure, composite reliability (CR), is often preferred over Cronbach's alpha. CR is advantageous because it calculates reliability based on the correlation between structures rather than on absolute terms. It gives more importance to indicators with higher factor loadings. Both Cronbach's alpha and composite reliability are used together for a more accurate assessment of reliability. A composite reliability value above 0.7 is considered suitable.

Convergent validity is another important criterion in structural equation modeling. It assesses how well a set of indicators represents a latent construct. Fornell and Larcker recommended using the average variance extracted (AVE) to measure convergent validity, with a value above 0.5 being desirable for validity.

Table 2 presents the Cronbach's alpha, composite reliability, and AVE values for the variables in this study.

Table 2. Research model fit criteria

Variable	Average explained variance (AVE ≥ 0.5)	Composite reliability (CR ≥ 0.7)	Cronbach's alpha (Alpha ≥ 0.7)	The coefficient of determination (R^2)	Predictive power factor (Q^2)
Sustainable human resources	0.536	0.874	0.801	-	-
Social capital	0.518	0.823	0.785	0.791	0.539
Employee loyalty	0.652	0.811	0.741	0.907	0.758

According to **Table 2**, all the values obtained for Cronbach's alpha (> 0.7), composite reliability (> 0.7), and average variance extracted (AVE > 0.5) indicate that the model fits well at a favorable level. These results suggest that the constructs and measurement scales used in the research are reliable and valid.

Evaluation of the structural model

Following the validation and reliability checks of the measurement model, the structural model was evaluated by examining the relationships between the key variables. In this research, three primary criteria were used to assess the structural model: significance coefficients (t-values), the coefficient of determination (R^2), and the predictive power coefficient (Q^2).

The first criterion, significant coefficients, tests the strength of the relationships between the variables. As shown in **Table 3**, most of the significant coefficients exceed the threshold of 1.96, which indicates that the relationships between variables are statistically significant at the 95% confidence level, confirming the robustness of the structural relationships in the model.

The second criterion, coefficient of determination (R^2), gauges the proportion of variance in the dependent variable explained by the independent variables. The results of this criterion suggest that the structural model provides a good fit, with R^2 values showing strong explanatory power for the endogenous variables.

The third criterion, predictive power (Q^2), evaluates the model's ability to predict outcomes using data that was not part of the original sample. According to **Table 2**, the model demonstrates a high level of predictive power across all relevant variables. Lastly, the GoF (goodness of fit) index, which combines both measurement and structural model evaluations, was used to assess the overall model fit. With a GoF value of 0.530, the model exhibits a strong overall fit, confirming its adequacy.

Testing of research hypotheses

With satisfactory results from the measurement and structural model evaluations, we proceeded to test the research hypotheses. The path coefficients, significance values, and the results of hypothesis testing are provided in **Table 3**, offering insight into the significance and strength of the relationships hypothesized in the study.

Table 3. The results of statistical tests of research hypotheses

Conceptual model relationships			Path coefficient	t statistic	Result
Sustainable human resources	⟶	Social capital	0.890	52.840	Confirmed
Conceptual model relationships	⟶	Employee loyalty	0.743	15.461	Confirmed
Social capital	⟶	Employee loyalty	0.229	4.468	Confirmed
Conceptual model relationships	Through the role of mediator	Employee loyalty	0.324	8.751	Confirmed

This study's findings highlight the direct influence of human resource management (HRM) on social capital. HRM plays a crucial role in fostering social capital within organizations through strategic initiatives, particularly in employee communication, professional development, and cultivating a positive workplace culture. One significant way HRM enhances social capital is by promoting effective communication among employees. HR strategies that facilitate open and reciprocal interactions create strong interpersonal relationships, encourage knowledge-sharing, improve teamwork efficiency, and instill a sense of belonging—key elements in building social capital.

Beyond communication, professional development opportunities also contribute to HRM's direct impact on social capital. By offering training programs and career advancement pathways, organizations enhance employees' competencies, which strengthens interpersonal connections and overall social capital. In essence, HRM initiatives focused on communication, development, and work culture directly contribute to the enhancement of social capital in organizations [22-24]. These positive effects also help foster trust, collaboration, and employee loyalty.

Furthermore, the study indicates that HRM directly influences employee loyalty. Research consistently supports the idea that HRM strategies aimed at improving work conditions, offering professional growth opportunities, promoting participation, and fostering commitment result in stronger employee loyalty. Programs for skill development, career advancement, and a supportive workplace culture deepen employees' connection to their organization, leading to heightened loyalty and dedication. These findings affirm that HRM significantly strengthens employee loyalty through initiatives that enhance working conditions, professional development, and organizational culture [25-27].

Additionally, the study underscores the direct impact of social capital on employee loyalty. Strong relationships between employees, inter-group cohesion, and a collective sense of belonging are key determinants of employee loyalty. Effective communication fosters social capital by creating environments that encourage interaction and knowledge exchange. Over time, these relationships enhance employees' sense of connection to the organization, which in turn reinforces their loyalty [28, 29]. These findings align with Liang *et al.* [30], further confirming that social capital strengthens employee commitment through communication and organizational belonging.

Conclusion

This research aimed to explore whether sustainable human resource management (HRM) enhances employee loyalty through social capital. The findings indicate that HRM plays a crucial role in strengthening social capital within organizations by fostering effective communication, trust, and collaboration among employees. Additionally, the results confirm that sustainable HRM significantly influences employee loyalty by improving workplace conditions, promoting professional growth, and encouraging organizational commitment. Moreover, social capital was found to have a direct and positive impact on employee loyalty, reinforcing the importance of strong interpersonal relationships and a sense of belonging in the workplace. These insights highlight the need for organizations to invest in HR strategies that not only enhance employee satisfaction but also contribute to long-term organizational success.

Ethics statement: None

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