

CHAPTER 1

BACKGROUND STUDY

1.1. Background Problem

Prior research in the area of Human Resource Management (HRM) strategies has mainly focused on examining human resources policies and practices from both an individual and systems perspective. Some researchers have examined individual policies and procedures while others have tried to categorize and study specific practices as HR systems (Becker & Gerhard, 1996). One example of the topic that arose from this context is the value of employee as the organization's success. Long term health and success organization depends on the retention of the employees. Organization performance in terms of increased sales, satisfied colleagues and reporting staff, effective succession planning, is depend on the ability to retain the best employee in any organization (Das & Baruah, 2013).

Managing and retaining vital employee is a very fundamental need for any organization including school. To have dedicated teachers and staffs will ensure the ability of the school to improve its outcomes. As it is mentioned in *Undang-undang Republik Indonesia Nomor 14 Tahun 2005* of teacher and lecturer, teacher and lecturer have strategic function, role and position in developing good education system in Indonesia. A professional teacher must be able to meet high qualifications made by the government and the school itself. Some of the qualifications are holding qualified educational degree, having competencies in the field, having good communication skills especially with the students, showing creative and productive work ethics, committed to the profession and showing a consistent effort in professional development. Therefore strategic position of teacher in school has become central attention to many strategic HRM study. Some studies have been conducted in order to find out the strategy to motivate teacher in order to reach organizational objectives. For example the study that was conducted in elementary schools in Tehran City that focused on the impact of transformational leadership on organizational climate in elementary school. This study revealed that leadership has direct impact towards organizational climate (Nekoukar and Nekoukar, 2015).

The phenomenon of teacher leaving their classroom or even their profession has become an interesting phenomenon to be researched further. The trend of employee turnover has been appeared and can be tracked back since the beginning of the new millennia. In 2005, it was reported that only 24% of employees consider themselves truly loyal, committed to their organization, and planning to stay at least two years, 33% of employees were high risk, not committed and not planning to stay, 39% were classified as trapped. They plan to stay, but not committed to the organization. Among those who felt they worked for an ethical organization, 55% were truly loyal. For those who didn't feel they worked for an ethical organization, the loyalty figure was 9%. (www.hr.com, last accessed on 18 June 2015). The 72% of employees at risk or trapped represent another key, yet less explored, concern for the business. It will be distracting or even damaging the organization. What they were doing will be distracting business in achieving organization's missions, goals, and strategic objectives.

A study conducted in the USA reveals that there are internal and external factors that influence teacher decision to stay at school—three external influences and four internal influences. External themes included relationship with coworkers, relationship with principals, and relationships with students. Internal themes that emerged were perseverance, self-efficacy, service and a sense of ownership. Each of these themes has strong implications for the working decision which will influence teacher's decision to stay or leave the school (Waddell, 2010). Reports also said that teachers are more interested in working at schools where the conditions of work are good rather than in getting paid more. An extensive research on beginning teacher support and found that teachers who gave even just two small initiatives in place which are working with a mentor and having regular supportive communication with an administrator are more likely to stay in the classroom (www.theatlantic.com last accessed on 18 June 2015). The fundamental assumption is employees who are engaged to their company are also more loyal to their organization (Ram and Prabhakar, 2011). Those employees have less intention to move from the company where they work. Employers therefore need a strategy to retain their key employee and crucial skilled workers.

Encouraging employees to remain in the organization for a long period of time can be defined as employee retention. According to Walker (2001), managing and retaining promising employees is an important fundamental mean of achieving competitive advantage among the organizations. Generally speaking, employee retention can be understood as the condition when the employees are happy and satisfied with their jobs which is lead to more dedication towards their work and always put their effort to improve their organizational customer's satisfaction (Stauss et al, 2001). The most significant demands on management today in any organization is keeping the most vital and dynamic human resources motivated and dedicated. It is less important to see who the organization hires but what really counts that who are kept in the firm (Das & Baruah, 2013).

Researchers such as Amadasu (2003), Taplin et al. (2003), Gberevbie (2008) have found that if appropriate employee retention strategies are adopted and implemented by organizations employees will surely remain and work for the successful achievement of organizational goals. In this context, employee retention is related to the concept of voluntary turn over. The Human Resource Department plays an active role in retaining its employees. They make policies for the employee betterment so that the employee would be satisfied and willing to stay in the organization for longer time (Acton et al., 2003).

Some researchers conducted the study to find out the factors of what determine people's decision to quit. They found two main factors which are job related factor and organizational factor. The first mentioned factor is the factor that related with job related stress which led to lack of commitment and dissatisfaction to the organization (Firth et al., 2004). Furthermore, insufficient information on how to do the job appropriately, unclear expectations of peers and supervisors, ambiguity of performance evaluation methods, extensive job pressures, and lack of consensus on job functions or duties may cause employees to feel less involved and less satisfied with their jobs and careers, less committed to their organization, and eventually display a tendency to leave the organization (Tor et al., 1997). If roles of employees are not clearly articulated by management/supervisors, this would increase the degree of employees quitting their job due to lack of clarity (Ongori, 2007).

The second factor mentioned above is including the relationship between employee and the organization. Employee have a strong need to be informed. Organization with a strong communication system enjoyed lower turnover staff (Labov, 1997). There are also factors which make employee to quit from the organization and these are poor hiring practices, leadership style, lack of recognition, lack of competitive compensation system in the organization and toxic workplace environment (Abassi et al., 2000). The organization must ensure those factors that exist within the organization will be minimized or eliminated so create good work atmosphere.

From those factors, there are three major elements that influence the retention rate in the organization; there are the involvement of the employee towards organization decision making process, leadership style and the organizational support. These three elements are shown as the significant factors that an organization must manage. The existence of these three elements are crucial in determining people's decision to quit from the organization.

In this context employee involvement can be seen from their engagement toward the organization. Several previous studies showed that employees with strong employee engagement do not have intention to leave their organization. One of the working definitions of employee engagement is the employee's sense of purpose and focused energy that is evident to others through the display of personal initiative, adaptability, effort and persistence directed toward organization's goals (Macey et.al, 2009). Haid and Sims (2009) stated that employee engagement makes the employees feel that they have commitment toward the company, feel proud to work there and feel satisfied with their works and their company. They do not have any intention to leave and work for other company and in the end; this will increase the employees' loyalty. Shuck (2010) in his research toward 283 employees from various industrial sectors found that employee engagement was reversely related to turnover intention.

Kahn (1990) use the term personal engagement that defined as simultaneous employment and expression of a person's task behavioral that promote connections to work and to others, personal presence (physical, cognitive and emotional), and active, full role performance. Kahn futher explained that people who are personally

engaged keep their selves within a role, without sacrificing one for the other. Engagement occurs when individuals are emotionally connected to others and cognitively vigilant. Employees are emotionally and cognitively engaged when they know what is expected of them, have what they need to do their work, have opportunities to feel an impact and fulfillment in their work, perceive that they are part of something significant with coworkers whom they trust, and have chances to improve and develop.

In the context of school, the role of principal or administrator is critical to the teacher's engagement and their decision to stay in the school. According to Waddell (2010), from the study of teacher focus groups, teachers who work with supportive principal are more likely to remain teaching at school. Teachers felt well-regarded and appreciated by principal. They shared stories of principals valuing their work and treating them with professional and personal respect. Even though the study didn't consider all of the principal's leadership style, it is found that each had a significant relationship with the teacher in the study and that relationship influenced the teacher's decision to remain teaching in the school. In some instances, the teacher no longer worked with the same principal but was able to share the strong impact a principal had on her early career success and plans for continuing. Teachers tend to make decision to leave the school if the principal is not supportive and show that significant relationships with a principal as a primary influence on the teacher's choice to remain teaching in the school.

A leader has a very close relationship with performance of employees. Leaders encourage, nurture, sustain, and improve employee performance. Leaders need to pay attention to the leadership styles used in driving and directing subordinates in order to increase their performance, so that the quality of their products is also increasing. The essence of leadership is an attempt to influence others to donate their expertise, both to act in accordance with capabilities owned and to grow and develop continuously. This typically leader can be classified as transformational leader.

Some empirical studies found that perceived organizational support (POS) was positively related to employee engagement (Sacks, 2006; Ram and Prabhakar 2010; Shuck 2010). Organizational culture has similar concept construction with

POS in which the implementation of good values and management system can be assumed as a support from the organization to its employees. Good organizational culture assumed by the employees can bring a feeling of being safe psychologically to employees themselves.

The basic premise that is mentioned in the study conducted by Rhoades and colleagues is POS creates an obligation on the part of employees to care about their organization's welfare and to help and support the organization reach its objectives (Rhoades et al., 2001). One reason that POS might lead to positive outcomes is through employee engagement. This premise is stringly related with the theoretical rationale proposed by social exchange theory (SET). Meaning, employees' who have higher POS might become more engaged to their job and organization as part of SET perspective which is employees who provided with enriched and challenging jobs will feel obliged to respond with higher levels of engagement.

SET argues that obligations are built through a series of interaction between elements who are in a state of reciprocal interdependence. According to this theory, relationships evolve over time into trusting, loyal, and mutual commitments as long as the elements abide by certain "rules" of exchange (Cropanzano and Mictchell, 2005). This is consistent with Robinson et al., (2004) description of engagement as a two-way relationship between the employer and employee, when individuals receive economic and socio-emotional resources from their organization, they will feel obliged to respond in kind and repay the organization (Cropanzano and Mictchell, 2005). The state of engagement in both Kahn's (1990) and Maslach et al., (2001) model can be considered economic and socio-emotional exchange resources. The definition offered by Kahn is when employee feel obliged to bring themselves more deeply into their performances as repayment for the resources they receive from their organization the employee engagement emerged. When the organization failed to fulfill this resources, individuals are more likely to withdraw and disengage themselves from their roles.

The topic of the effect of transformational leadership and perceived organization support towards employee retention with employee engagement is chosen in purpose to measure the influence of each variables toward employee retention and to enrich the study of the same field. Many study conduct the effect

of each variables independently. To find broader knowledge and understanding of the combined variables effect toward employee retention. The title “The Analysis of The Effect of Transformational Leadership and Perceived Organization Support with Employee Engagement as Intervening Variable toward Employee Retention in Sekolah Ciputra Surabaya” is given to show a direct correlation between the variables mention in this part. It is very helpful for the leadership and management team to reduce the rate of teacher turn over every year.

This research will be conducted in Sekolah Ciputra Surabaya. Sekolah Ciputra can be characterized as a medium enterprise where the number of the employee is small but highly educated. It has high level of informality, the close personal relationships and short lines of communication. Since the number of employee is small and the line of communication between leader and employees is shorter, the interaction that happens in this type of organization is different with big organization. It would be interesting to see how leadership and organizational culture, influence employees’ loyalty with employee engagement as intervening variable Sekolah Ciputra Surabaya.

1.2. Research Problem

1. Does transformational leadership influence employee engagement in Sekolah Ciputra Surabaya?
2. Does perceived organizational support influence employee engagement in Sekolah Ciputra Surabaya?
3. Do transformational leadership and perceived organizational support jointly influence employee engagement in Sekolah Ciputra Surabaya?
4. Does transformational leadership influence employee retention in Sekolah Ciputra Surabaya?
5. Does perceived organizational support influence employee retention in Sekolah Ciputra Surabaya?
6. Does employee engagement influence employee retention in Sekolah Ciputra Surabaya?

1.3. Research Objectives

1. To find the influence of transformational leadership towards employee engagement in Sekolah Ciputra Surabaya
2. To find the influence of perceived organizational support towards employee engagement in Sekolah Ciputra Surabaya
3. To find the influence of transformational leadership and perceived organizational support jointly toward employee engagement in Sekolah Ciputra Surabaya
4. To find the influence of transformational leadership towards employee retention in Sekolah Ciputra Surabaya
5. To find the influence of perceived organizational support towards employee retention in Sekolah Ciputra Surabaya
6. To find the influence of employee engagement influence employee retention in Sekolah Ciputra Surabaya

1.4. Research Purpose

1.4.1. Theoretical Purpose

This research is expected to provide support toward research model on employee retention especially in education organization. This research was aimed to find out whether transformational leadership and perceived organizational support are included as factors which influence employee loyalty with employee engagement as mediating variable.

1.4.2. Practical Purpose

The study provides opportunities to establish affiliation to outcomes that are directly relevant to most businesses. The outcomes such as as customer loyalty, profitability, productivity and employee turnover. In the individual level, it is an advantage to show substantial correlation between employee engagement and employee turnover.

1.5. Research Limitation

The research limitation of this study is the employee retention and the factors that affect employee retention. In particular the research will limit its analysis on:

1. Correlation between transformational leadership and employee engagement in Sekolah Ciputra Surabaya
2. Correlation between perceived organizational support and employee engagement in Sekolah Ciputra Surabaya
3. Correlation between transformational leadership, perceived organizational support and employee engagement in Sekolah Ciputra Surabaya
4. Correlation between transformational leadership and employee retention in Sekolah Ciputra Surabaya
5. Correlation between perceived organizational support and employee retention in Sekolah Ciputra Surabaya
6. Correlation between employee engagement and employee retention in Sekolah Ciputra Surabaya

1.6. Framework

Generally the paper will be divided into 5 (five) chapters which include:

CHAPTER 1: BACKGROUND STUDY

Contain background study, research problem, objectives, purposes, research limitation and framework.

CHAPTER 2: LITERATURE REVIEW

Contain prior study, theoretical framework, research framework, research design and hypothesis.

CHAPTER 3: RESEARCH METHODOLOGY

Contain research design, research variables, and data analysis technique

CHAPTER 4: RESULT AND ANALYSIS

Contain general description of the research object, respondents' identification, research variables' statistics, data testing analysis, Goodness of Fit, structural equation, hypothesis testing result and analysis.

CHAPTER 5: CONCLUSION AND CRITICS

Contain conclusion of the research and constructive critics for the development of the study

TABLE OF CONTENT

APPENDIX