

A STUDY ON EMPLOYEE LOYALTY IN CHINESE SMALL AND MEDIUM-SIZED PRIVATE ENTERPRISES AND COUNTERMEASURES

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ABSTRACT

Employee loyalty has long been a critical research topic in the field of human resource management, and its importance is even more pronounced for small and medium-sized enterprises (SMEs). High employee loyalty typically results in greater work enthusiasm and lower turnover rates, which not only effectively reduce labor costs but also enhance the competitive advantage of enterprises, contributing to their long-term stability and development. Therefore, understanding and exploring the factors influencing employee loyalty, especially within China's SME sector, holds significant practical and theoretical importance. This study investigates how Employee income, employee promotion mechanism, corporate culture effect on Employee Loyalty of SMEs in Chengdu. Drawing on the Employee Loyalty model and the Psychological Contract Theory (PCT), the research explores how these elements shape work behavior by influencing their Job Performance, Employee Satisfaction, and Employee Innovation and Problem-Solving. The study is based on survey data collected from small and medium-sized enterprises (SMEs), examining the relationship between each factor and employee loyalty. By identifying the most influential factors, this study aims to offer both theoretical insights and practical recommendations for employee stability in small and medium-sized enterprises. The findings will also provide a feasible and practical method for enterprises to establish a scientific, reasonable, fair and efficient human resource management system and continuously improve the employee performance appraisal mechanism.

Keywords: Employee Loyalty, Small and Medium-Sized Private Enterprises, employee stability, work behavior, China

INTRODUCTION

Globally, businesses face rapid changes in the market environment, intense competition, and increasing employee mobility. These challenges are particularly pronounced in SMEs, which typically face more resource constraints, less efficient management systems, and talent shortages compared to large enterprises (China SME Association, 2020). Consequently, for SMEs, improving employee loyalty not only helps reduce turnover but also strengthens organizational efficiency and improves market competitiveness. Employee loyalty refers to the sense of recognition, belonging, and commitment an employee feels toward their organization. Different scholars define and explain employee loyalty from various perspectives. The organizational commitment model proposed by Meyer and Allen (1997) divides employee loyalty into three types: affective commitment, continuance commitment, and normative commitment. Affective commitment refers to an emotional bond and identification with the organization; continuance commitment arises when employees stay with an organization due to external factors such as job conditions or personal reasons (e.g., salary, benefits); and normative commitment occurs when employees stay because of a moral obligation or responsibility. International research on employee loyalty has been systematically developed over the years. From Tett and Meyer's (1993) employee turnover model to Meyer and Allen's (1997) organizational commitment model, and more recently, studies focusing on work-life balance, job satisfaction, and quality of life, the research on employee loyalty has shifted from a single-dimension approach to a more multi-dimensional and complex perspective. Scholars generally believe that employee loyalty is not solely a response to compensation and benefits but also a comprehensive reflection of organizational culture, leadership style,

work environment, and other factors (Meyer & Allen, 1997). Compensation and benefits are fundamental factors in employee loyalty. According to Maslow's (1943) hierarchy of needs theory, once employees' basic physiological needs are met, they will seek to satisfy higher-level security and self-actualization needs. Therefore, reasonable salary and benefits can effectively enhance employees' sense of security, thereby improving their loyalty. In SMEs, where financial resources are often limited, salaries cannot always compete with those of larger enterprises. As a result, finding non-monetary incentives to improve employee loyalty becomes a crucial management challenge (Zhang, 2018). Rhoades and Eisenberger (2002) proposed the organizational support theory, which posits that employee loyalty is closely related to the support employees receive from the organization. When employees perceive that the organization supports them in terms of resources, emotions, and career development, they are more likely to demonstrate higher levels of loyalty.

A strong corporate culture provides employees with clear values and guidelines, helping them understand the organization's goals and mission, thereby increasing their loyalty. In China, collectivism and close interpersonal relationships make employees more likely to identify with corporate culture, which in turn translates into increased loyalty to the organization (Li, 2017).

However, there is still limited research on employee loyalty in China's SME sector. Most existing studies focus on large enterprises or specific industries, particularly state-owned enterprises and multinational corporations. Therefore, exploring the factors influencing employee loyalty in China's SMEs is of both theoretical and practical importance.

Extensive literature has discussed the relationship between the factors and employee loyalty of SMEs. Based on these insights, the researchers have formulated Three research hypotheses as follows:

H1 Employee income has positive effect on Loyalty

H2 Employee promotion mechanism has positive effect on Loyalty

H3 Corporate culture n has positive effect on Loyalty

These hypotheses are supported by literature on Employee loyalty in small and medium-sized enterprises Chen, Z., & Chen, C. (2014).

The conceptual framework of this study illustrates the relationship between the independent variables (employee income, employee promotion mechanism, corporate culture) and the dependent variable (Loyalty). The following diagram visually represents this relationship:

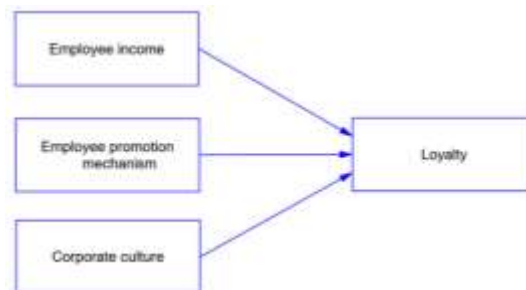


Figure 1: The Research Framework

OBJECTIVE

1. To explore whether Employee income, employee promotion mechanism, corporate culture factors influence Employee Loyalty of SMEs in Chengdu, China.
2. To investigate the relationship between each factor and Employee Loyalty to identify the most influential Employee Loyalty dimension.

METHODOLOGY

The study of the effect of Employee income, employee promotion mechanism, corporate culture on Employee Loyalty of SMEs in Chengdu, China, the researcher has studied documents, textbooks, concepts, theories, and related research consistent with the study's objectives. This research uses mixed qualitative and quantitative research. The quantitative in the format is survey research, the research tool was a questionnaire. The qualitative research through semi-structured interviews.

Part 1: Personal characteristics

Characteristics of administrators	
1. Gender	- Male - Female
2. Age	- 18 - 25 Year - 26 –35 year - 36 –45 year - More than 46 year
3. Marital status	- single - married - divorced
4. Degree of education	- lower than bachelor's degree - Bachelor's degree - postgraduate
5. Working time	- 1-3 years - 4-6 years - More than 7 years
6. Monthly income	- 1000-3000 Yuan - 3001-5000 Yuan - 5001-8000 Yuan

Part 2: Research Variables

Items		Level of Agreement				
		5	4	3	2	1
Employee Income						
1	The employee is satisfied with their current salary.					
2	The income offered by the company is competitive compared to others in the same position.					
3	The financial rewards provided by the company are proportional to the work the employee puts in.					
4	The employee's income meets their personal financial needs.					
5	The employee believes their salary is fairly determined based on their performance.					
6	The company offers adequate financial incentives or bonuses to its employees.					
7	The employee believes their income reflects their skills and experience.					
Employee Promotion Mechanism						
1	The company provides clear criteria for employee career advancement.					
2	The company offers sufficient opportunities for promotion.					
3	The company communicates an employee's potential for promotion clearly.					
4	The employee feels that their efforts are recognized when it comes to promotions.					
5	Employees are promoted based on merit and performance in the company.					

Items		Level of Agreement				
		5	4	3	2	1
6	The company provides employees with adequate feedback on their performance and areas for improvement.					
7	The promotion process in the company is transparent and fair.					
8	The company has a well-defined career path for its employees.					
9	The employee feels confident that they will be considered for promotion if they continue to perform well.					
Corporate Culture						
1	The company values employee opinions and input in decision-making.					
2	The company promotes a positive work-life balance for its employees.					
3	There is a strong sense of teamwork and collaboration in the company.					
4	The company supports employee development and training programs.					
5	The values of the company align with the employee's personal values.					
6	The company promotes an inclusive and respectful work environment.					
7	The employee feels proud to work for the company due to its reputation and values.					
8	The leadership of the company is open to employee feedback and suggestions.					
Employee Loyalty						
1	The employee is committed to staying with the company for the foreseeable future.					
2	The employee is proud to tell others that they work for the company.					
3	The employee would recommend the company as a great place to work.					
4	The employee is willing to go above and beyond their job responsibilities to contribute to the company's success.					
5	The employee feels emotionally attached to the company.					
6	The employee believes in the goals and values of the company.					
7	Even if the employee were offered a higher salary elsewhere, they would be reluctant to leave the company.					
8	The employee trusts the leadership of the company.					
9	The employee feels that their contributions are valued by the company.					
10	The employee is satisfied with the direction in which the company is headed.					

The population is entrepreneurs of small and medium enterprise (SMEs) business in Chengdu China, the total number of entrepreneurs is XXX Firm in Chengdu, China, The sample group used 100 administrators were which the researcher has determined the sample size by using the schedule of the sample size of Krejcie & Morgan, 1970, p. 607-610), The sample group used in the interviews for this study are 100 administrators, and which the researcher has determined the sample size by using simple random sampling.

4 Statistical Analysis Methods

This study employs Multiple Linear Regression (MLR) to analyze the effect of the 4P marketing mix on

consumer purchase intention.

Regression Equation:

$$EL = \beta_0 + \beta_1 P_1 + \beta_2 P_2 + \beta_3 P_3 + \varepsilon$$

EL (Employee Loyalty) is the dependent variable.

P_1, P_2, P_3 are the independent variables representing employee income, employee promotion mechanism, corporate culture.

$\beta_1, \beta_2, \beta_3$ coefficients measure the effect of each variable on Employee Loyalty.

If the R^2 value is high (Close to 1), the model effectively explains variations in purchase intention. If the F-test is significant ($p < 0.05$), the regression model is statistically valid.

RESULTS

1 Reliability and Validity Testing

Cronbach's Alpha > 0.7 : Indicates strong reliability of survey responses.

Kaiser-Meyer-Olkin (KMO) > 0.8 and Bartlett's test significant ($p < 0.05$): Confirms that the sample is suitable for factor analysis.

2 Multiple Linear Regression Analysis

Price strategy (highest β coefficient, $p < 0.001$): Price is the most influential factor affecting purchase intention. Product strategy ($p < 0.05$): Product variety and quality significantly impact purchase intention. Promotion strategy ($p < 0.05$, lower β coefficient): Social media ads and promotions have a moderate impact on purchase decisions. Place strategy ($p < 0.05$): Store location and accessibility significantly influence purchase behavior.

CONCLUSION

This study, through multiple regression analysis, confirms that employee income, employee promotion mechanisms, and corporate culture are important factors influencing employee loyalty in SMEs. Specifically, companies should focus on improving employee income levels, optimizing promotion mechanisms, and cultivating a positive corporate culture to enhance employee loyalty. Based on these findings, it is recommended that SMEs not only offer reasonable compensation but also provide ample career development opportunities, well-designed incentive mechanisms, and foster a healthy corporate culture to enhance employee engagement and long-term commitment. This study provides SMEs with practical management recommendations. It helps managers understand the key factors that influence employee loyalty and take effective measures to improve employee satisfaction and loyalty, thereby reducing employee turnover and enhancing organizational stability and competitive.

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