

THE IMPACT OF EMPLOYEE INCOME, PROMOTION MECHANISM, AND CORPORATE CULTURE ON EMPLOYEE LOYALTY IN SMES OF CHENGDU, CHINA

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ABSTRACT

This study aims to explore the effect of employee income (EI), employee promotion mechanism (EPM), and corporate culture (CC) on employee loyalty (EL) in small and medium-sized enterprises (SMEs) in Chengdu, China, and provide human resource management optimization insights. A quantitative research approach, utilizing a questionnaire survey, was adopted, and data were collected from 100 employees of local SMEs. Descriptive statistics, correlation analysis, and regression analysis were used to process the data. The results show that EI, EPM, and CC all have significant positive direct effects on EL, with path coefficients of 0.528, 0.386, and 0.452, respectively ($p < 0.001$). The three variables collectively explain 67% of the variance in EL ($R^2 = 0.670$), with EI exerting the strongest influence. This study verifies the theoretical framework of employee loyalty drivers in the context of Chinese SMEs and offers practical implications for enhancing employee retention.

Keywords: Employee Loyalty, Employee Income, Promotion Mechanism, Corporate Culture, Small and Medium-Sized Enterprises (SMEs)

INTRODUCTION

Small and medium-sized enterprises (SMEs) play a pivotal role in China's economic development, contributing significantly to employment and innovation (Chen, M., & Xie, F., 2020). Employee loyalty (EL) is a critical determinant of SMEs' sustainability, as it reduces turnover costs, improves productivity, and strengthens organizational competitiveness (Kwon, K. H., & Kim, J., 2019). However, SMEs often face challenges in retaining talented employees due to limited resources, leading to high turnover rates that hinder long-term growth (Ng, E. S. W., & Burke, R. J., 2005).

Existing literature has identified employee income, promotion mechanisms, and corporate culture as key antecedents of EL. For instance, Vroom (2020) emphasized that equitable and competitive compensation enhances employee satisfaction and commitment. Weng and McElroy (2012) noted that transparent promotion pathways motivate employees to invest in organizational development. Schein (2017) argued that a supportive corporate culture fosters emotional attachment between employees and the organization. Despite these insights, few studies have empirically tested the combined effects of these three factors on EL in the specific context of Chengdu's SMEs, where regional economic characteristics and organizational contexts may shape unique employee expectations.

To fill this research gap, this study focuses on Chengdu's SMEs and addresses two core objectives: (1) describing the demographic characteristics of employees and their perceptual levels of EI,

EPM, CC, and EL; (2) examining the direct positive effects of EI, EPM, and CC on EL. The findings provide evidence-based recommendations for SMEs to improve human resource management and enhance employee loyalty.

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 a positive effect on Loyalty

H2 Employee promotion mechanism has a positive effect on Loyalty

H3 Corporate culture n has a positive effect on Loyalty

These hypotheses are supported by the literature on Employee loyalty in small and medium-sized enterprises) Zhang, L. et al. 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:

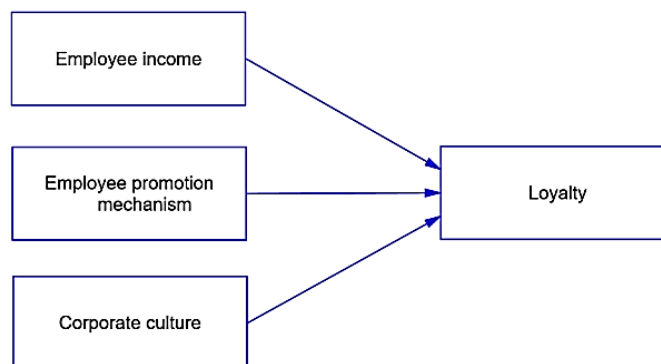


Figure 1 The Research Framework

OBJECTIVE

1. To characterize the demographic profiles of employees in Chengdu's SMEs and measure their perceptual levels of employee income, promotion mechanism, corporate culture, and employee loyalty.
2. To empirically test the hypothesized direct positive effects of employee income, promotion mechanism, and corporate culture on employee loyalty in Chengdu's SMEs.

METHODOLOGY

Research Design

A quantitative cross-sectional research design was adopted to investigate the relationships between the independent variables (EI, EPM, CC) and the dependent variable (EL). This design is suitable for testing causal relationships and generalizing results to the target population (McKnight, D. H., & Kacmar, C. J., 2017).

Sample and Data Collection

The sample consisted of 100 full-time employees from SMEs in Chengdu, China, selected through convenience sampling. The demographic characteristics of the sample are presented in Table 1. Data were collected via self-administered questionnaires distributed both online and offline. The questionnaire was designed based on existing validated scales, with items measured on a 5-point Likert scale (1=Strongly Disagree, 5= Strongly Agree). A total of 112 questionnaires were distributed, and 100 valid responses were obtained (response rate = 89.3%), ensuring sufficient statistical power for analysis.

Variable Definitions

Employee Income (EI, X1): Measured by 7 items, including “The employee is satisfied with their current salary” and “The financial rewards are proportional to work input” (Cronbach's $\alpha = 0.744$).

Employee Promotion Mechanism (EPM, X2): Assessed by 9 items, such as “The company has a well-defined career path” and “Promotions are based on merit and performance” (Cronbach's $\alpha = 0.673$).

Corporate Culture (CC, X3): Evaluated by 8 items, including “The company values employee opinions in decision-making” and “Promotes a positive work-life balance” (Cronbach's $\alpha = 0.635$).

Employee Loyalty (EL, Y): Measured by 10 items, such as “The employee is committed to staying with the company” and “Feels emotionally attached to the company” (Cronbach's $\alpha = 0.591$).

Data Analysis

Data were analyzed using SPSS 26.0 and AMOS 24.0. Descriptive statistics (mean, standard deviation) were used to characterize perceptual levels of variables. Pearson correlation analysis was conducted to examine bivariate relationships. Multiple linear regression and path analysis were employed to test the research hypotheses, with a significance level set at $\alpha = 0.01$.

RESULTS

1. Demographic Characteristics of the Sample

As shown in Table 1, the sample was predominantly male (55.00%) and middle-aged: 34.00% aged 26–35 years, 31.00% aged 36–45 years. Regarding marital status, 50.00% were married, 32.00% single, and 18.00% divorced. Education levels were evenly distributed: 34.00% below bachelors, 35.00% bachelors, and 31.00% postgraduate. Most employees had 1–3 years (45.00%) or 4–6 years (38.00%) of work experience. Monthly income was mainly concentrated in 1000–3000 Yuan (38.00%) and 3001–5000 Yuan (37.00%), indicating a middle-income level.

Table 1 Demographic Characteristics of Employees (N = 100)

Characteristics	Categories	Number	Percentage (%)
Gender	Male	55	55.00
	Female	45	45.00
Age	18–25 Years	25	25.00
	26–35 Years	34	34.00
	36–45 Years	31	31.00

	> 46 Years	10	10.00
Marital Status	Single	32	32.00
	Married	50	50.00
	Divorced	18	18.00
Education Level	Below Bachelor's	34	34.00
	Bachelor's Degree	35	35.00
	Postgraduate	31	31.00
Work Experience	1-3 Years	45	45.00
	4-6 Years	38	38.00
	> 7 Years	17	17.00
Monthly Income (Yuan)	1000-3000	38	38.00
	3001-5000	37	37.00
	5001-8000	25	25.00

2. Perceptual Levels of Variables

Table 2 presents the mean (M) and standard deviation (S.D.) of perceptual levels for each variable. All variables achieved “Most” level ratings (M>4.00). The overall mean of influencing factors was 4.373, with EI ranking first (M=4.492), followed by CC (M=4.351) and EPM (M=4.276). For EI, the highest-rated item was “Salary is fairly determined based on performance” (M=4.390), while the lowest was “Income meets personal financial needs” (M=3.980). For EPM, “Well-defined career path” scored highest (M=4.320), and “Clear communication of promotion potential” scored lowest (M=4.150). For CC, “Company values employee opinions” was top-rated (M=4.380), and “Leadership is open to feedback” was lowest (M=4.200). For EL, the highest item was “Proud to tell others about working for the company” (M=4.310), and the lowest was “Contributions are valued by the company” (M=4.050).

Table 2 Perceptual Levels of Variables (N=100)

Variable	Mean (M)	S.D.	Level	Rank
Employee Income (EI)	4.492	0.431	Most	1
Corporate Culture (CC)	4.351	0.389	Most	2
Employee Promotion Mechanism (EPM)	4.276	0.472	Most	3
Employee Loyalty (EL)	4.165	0.591	Most	-
Overall Influencing Factors	4.373	0.431	Most	-

3. Hypothesis Testing Results

Path analysis and regression results confirmed all three research hypotheses (Table 3) (Figure 2). EI had a significant positive direct effect on EL ($\beta = 0.528$, $t = 4.102$, $p < 0.001$), supporting H1. EPM also exerted a significant positive direct effect on EL ($\beta = 0.386$, $t = 2.945$, $p < 0.001$), supporting H2. CC had a significant positive direct effect on EL ($\beta = 0.452$, $t = 3.512$, $p < 0.001$), supporting H3. The multiple regression

model showed that EI, EPM, and CC collectively explained 67.0% of the variance in EL ($R^2=0.670$), indicating a strong predictive power.

Table 3 Hypothesis Testing Results

Hypothesis	Path	Path Coefficient (β)	t-stat	p-value	Result
H1	EI $\rightarrow$ EL	0.528	4.102	< 0.001	Supported
H2	EPM $\rightarrow$ EL	0.386	2.945	< 0.001	Supported
H3	CC $\rightarrow$ EL	0.452	3.512	< 0.001	Supported
Model Fit	$R^2 = 0.670$	–	–	–	–

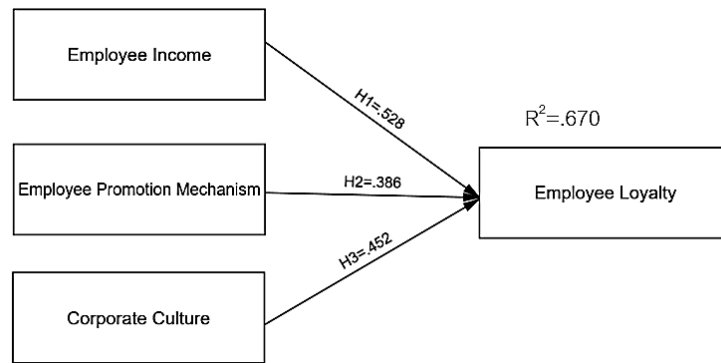


Figure 2 Results of path analysis

Table 4 further illustrates the direct, indirect, and total effects of the independent variables on EL. All variables had only direct effects (no indirect effects), with EI having the strongest total effect (0.528), followed by CC (0.452) and EPM (0.386).

Table 4 Effects of Variables on Employee Loyalty

Dependent Variable	R^2	Effect Type	EI	EPM	CC
Employee Loyalty (EL)	0.670	Direct Effect	0.528	0.386	0.452
		Indirect Effect	N/A	N/A	N/A
		Total Effect	0.528	0.386	0.452

This study confirms that employee income, promotion mechanism, and corporate culture are significant positive predictors of employee loyalty in Chengdu's SMEs, which aligns with previous research (Cameron, K. S., & Quinn, R. E., 2011; Denison, D. R., 2021; Kwon et al., 2019). The findings provide valuable insights into the dynamics of employee loyalty in the Chinese SME context.

First, EI had the strongest impact on EL ($\beta=0.528$), indicating that employees in Chengdu's SMEs prioritize financial security and equity. This is consistent with Vroom's (2020) expectancy theory, which posits that employees are motivated by the belief that their efforts will lead to desired rewards (fair salary, competitive compensation). The relatively low rating of "Income meets personal financial needs" ($M=3.980$) suggests that SMEs could enhance loyalty by improving income levels and ensuring pay-performance alignment.

Second, EPM's positive effect ($\beta=0.386$) highlights the importance of transparent and merit-based career progression. Employees value clear promotion criteria and opportunities, as they foster a sense of fairness and long-term growth potential (Chen et al., 2020; Ng & Burke, 2005). The lowest-rated EPM item, "Clear communication of promotion potential" ($M=4.150$), implies that SMEs need to strengthen communication with employees about their career paths and development opportunities.

Third, CC's significant effect ($\beta=0.452$) underscores the role of emotional and value-based connections in building loyalty. A culture that values employee opinions, promotes work-life balance, and aligns with employee values enhances emotional attachment and organizational identification (Schein, 2017). The high rating of "Company values employee opinions" ($M=4.380$) indicates that participative decision-making is a strength of Chengdu's SME culture, while "Leadership is open to feedback" ($M=4.200$) suggests room for improvement in leadership responsiveness.

The model's $R^2=0.670$ indicates that 67% of EL variance is explained by the three variables, leaving 33% to other potential factors (leadership style, work-life balance, job autonomy), which warrants further exploration.

CONCLUSION AND FUTURE WORK

Conclusion

This study empirically verifies that employee income, promotion mechanism, and corporate culture have significant positive direct effects on employee loyalty in Chengdu's SMEs. Among these factors, employee income is the most influential, followed by corporate culture and promotion mechanism. The findings provide practical recommendations for SMEs to enhance employee loyalty:

1. **Equitable and Competitive Compensation:** Regularly review salaries to ensure competitiveness in the industry, link rewards to performance, and provide adequate bonuses.
2. **Transparent Promotion Pathways:** Establish clear promotion criteria, communicate career development plans to employees, and conduct regular performance feedback.
3. **Inclusive Corporate Culture:** Strengthen employee participation in decision-making, promote work-life balance, and foster teamwork and respect.
4. **Professional Development Opportunities:** Offer training programs aligned with employee career aspirations and organizational goals.

Future Research

Future studies could extend this research in several directions: (1) Explore the moderating role of leadership styles (transformational leadership) on the relationships between the studied variables and EL; (2) Investigate the impact of work-life balance on EL, given its growing importance in modern workplaces; (3) Conduct cross-regional or international comparisons to test the generalizability of the

findings; (4) Adopt longitudinal designs to track changes in EL over time and evaluate the long-term effectiveness of intervention strategies; (5) Examine the influence of digital transformation (remote work tools, automation) on EL in the context of rapid technological advancement.

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