



Employee Loyalty Revisited: Integrating Social Exchange Theory and Edgar Schein's Organizational Culture Theory

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ABSTRACT

Employee loyalty remains a strategic concern for manufacturing organizations operating in competitive labor markets. This conceptual paper revisits employee loyalty by integrating Social Exchange Theory (SET) and Edgar Schein's Organizational Culture Theory to examine how total rewards, leadership effectiveness, and workplace environment influence employee loyalty, with organizational culture conceptualized as a moderating factor. Drawing on SET, organizational practices are viewed as relational investments through which employees assess fairness and organizational support, shaping loyalty responses. Schein's model complements this perspective by highlighting how shared values and norms shape employees' interpretations of these practices, influencing the strength of loyalty outcomes. The proposed framework advances theory by linking structural, behavioral, and contextual drivers of loyalty while emphasizing the role of culture in shaping exchange relationships. Formal propositions are developed to guide future empirical research and clarify how organizational practices interact with cultural context in manufacturing settings. By integrating these constructs, the study addresses gaps in existing literature where retention drivers are often examined in isolation. The framework also offers practical insights for managers and HR professionals seeking to align organizational strategies with cultural values to foster sustained employee loyalty and workforce stability.

Keywords: Employee Loyalty; Total Rewards; Leadership Effectiveness; Workplace Environment; Organizational Culture

INTRODUCTION

Employee loyalty has emerged as a critical strategic concern for organizations operating in increasingly competitive and knowledge-intensive environments (Cachón-Rodríguez et al., 2022). Persistent employee turnover and declining engagement undermine organizational performance, weaken innovation capacity, and disrupt the retention of valuable professional expertise, particularly in industries where human capital constitutes a primary source of competitive advantage (Arokiasamy et al., 2023). Employee loyalty is shaped not only by financial compensation but also by organizational practices, leadership effectiveness, and workplace environment, which collectively signal fairness, support, and long-term commitment to employees (Armstrong & Taylor, 2020). As loyal employees contribute to knowledge continuity, operational stability, and sustainable organizational performance, identifying the drivers that foster loyalty remains a central challenge for both strategic management and human resource development (Boxall & Purcell, 2016).

This challenge is particularly evident in Malaysia's manufacturing sector, a cornerstone of the national economy. Manufacturing contributes between 22% and 25% of gross domestic product and employs approximately 2.38 million workers across more than 54,000 establishments (Bank Negara Malaysia, 2022; Department of Statistics Malaysia [DOSM], 2024, 2025). Despite its economic importance, only 18.2% of the workforce is classified as skilled, with the majority semi-skilled or low-skilled, limiting innovation, operational efficiency, and competitiveness (DOSM, 2024). Retaining professional employees is therefore essential for sustaining productivity and achieving Malaysia's Industry 4.0 and high-value manufacturing objectives.

Retention is further challenged by the predominance of micro, small, and medium enterprises (MSMEs), which constitute 86% of manufacturing establishments and often lack the capacity to provide competitive rewards, career development, and supportive workplace conditions compared to multinational corporations (TalentCorp Malaysia, 2023). As a result, skilled professionals are highly mobile, which increases turnover risks and threatens operational stability, knowledge continuity, and innovation capabilities. Such voluntary turnover can disrupt productivity and organizational learning, positioning employee retention as a critical concern for strategic management and workforce sustainability (Hancock et al., 2013).

The sector also faces challenges from the broader labor market, including brain drain and regional talent competition. Approximately 5.5% of Malaysians work abroad, particularly in neighboring countries offering more attractive employment conditions (Ramanathan, 2023). Employer associations consistently identify talent attraction and retention as the sector's most pressing human capital concern, raising questions about the long-term viability of national initiatives such as the New Industrial Master Plan 2030 (Ministry of Investment, Trade and Industry [MITI], 2023). These pressures highlight the strategic importance of fostering employee loyalty to ensure productivity, innovation, and organizational performance.

Despite the recognized significance of loyalty, research in manufacturing remains fragmented. Most studies examine compensation, leadership, workplace environment, or organizational culture in isolation, often in Western contexts that may not reflect Malaysia's institutional and cultural realities. In particular, organizational culture shapes how employees perceive and respond to workplace practices, yet it has rarely been examined as a moderating mechanism that can enhance or constrain the effects of rewards, leadership, and workplace environment on loyalty, especially in collectivist and hierarchical organizational contexts (Schein & Schein, 2017). Addressing this gap is critical to develop a coherent conceptual framework that links organizational practices to employee loyalty outcomes.

In response to these challenges, this conceptual paper proposes an integrated framework to examine how total rewards, leadership effectiveness, and workplace environment influence employee loyalty, with organizational culture conceptualized as a moderating mechanism. By synthesizing these constructs, the study seeks to advance theoretical understanding of employee loyalty in emerging-market manufacturing contexts and provide theoretically derived insights for organizations striving to maintain a stable, committed, and high-performing professional workforce. This framework also has implications for policy and management practice, addressing both practical and scholarly challenges of workforce retention in Malaysia's evolving industrial landscape.

Theoretical Foundation

Employee loyalty is a central concern for organizations in knowledge-intensive and competitive environments, particularly in the manufacturing sector, where skilled labor is scarce and highly mobile (Maulana, 2025). To understand how organizational practices influence loyalty, this study draws on Social Exchange Theory (SET) (Blau, 1964; Homans, 1974) and Edgar Schein's Organizational Culture Theory (Schein & Schein, 2017). Together, these theories provide complementary lenses: SET explains the mechanisms of reciprocal exchanges between employees and organizations, while OCT contextualizes these exchanges within the broader organizational culture that shapes employee interpretation and responses.

Social Exchange Theory (SET)

Social Exchange Theory, initially developed by Homans (1974) and Blau (1964), posits that social behavior is guided by the principle of reciprocity, where individuals respond to favorable actions with comparable positive responses. Within organizational settings, SET frames the employment relationship as a series of exchanges in which employees evaluate the balance of rewards and costs, including financial compensation, leadership support, and workplace conditions. When employees perceive that their contributions are fairly recognized and supported, they are more likely to reciprocate with loyalty, commitment, and discretionary effort (Cropanzano & Mitchell, 2005). Conversely, perceived inequities or inadequate rewards can lead to disengagement or turnover.

SET provides a robust theoretical foundation for linking the core constructs of this study to employee loyalty. Total rewards (TR), encompassing compensation, benefits, recognition, and career development, serve as tangible organizational investments that employees evaluate and reciprocate through loyalty (Samat et al., 2020; Zainal et al., 2022). Leadership effectiveness (LE) represents relational exchanges; transformational and ethical leadership behaviors foster trust, fairness, and support, which strengthen employee commitment (Wang et al., 2022). Workplace environment (WE), including physical conditions, flexibility, and organizational support, signals the organization's investment in employee well-being and indirectly enhances retention (Kundu & Lata, 2017). By applying SET, this study conceptualizes employee loyalty as a reciprocal response to organizational investments, encompassing both tangible and intangible rewards.

Edgar Schein's Organizational Culture Theory

While SET explains the mechanisms of reciprocity, it does not account for the contextual lens through which employees interpret organizational practices. Edgar Schein's Organizational Culture Theory, also known as Schein's model, emphasizes that shared values, norms, and underlying assumptions shape employee behavior, perceptions, and engagement (Schein & Schein, 2017). Organizational culture influences how employees perceive rewards, leadership, and workplace practices, and can either amplify or constrain the effectiveness of these factors in promoting loyalty.

Schein's model identifies three levels of culture: artifacts (visible structures and processes), espoused values (stated principles and norms), and underlying assumptions (unconscious beliefs that guide behavior) (Schein & Schein, 2017). A strong and coherent culture aligns employee values with organizational goals, fostering a sense of belonging, psychological safety, and commitment. Within the Malaysian manufacturing context, broader societal characteristics, including collectivist values, hierarchical leadership norms, and diverse workforce expectations, provide an important contextual backdrop for understanding employees' workplace expectations (Alias et al., 2022). These broader societal characteristics are distinct from organization-level culture, which reflects the shared values, norms, and underlying assumptions developed within individual organizations (Schein & Schein, 2017).

Edgar Schein's Organizational Culture Theory is particularly relevant as a moderating lens in this study. Organizational culture is conceptualized as the shared values, norms, and underlying assumptions that characterize how organizational members interpret and respond to workplace practices (Schein & Schein, 2017). Rather than treating Schein's three cultural levels as separate moderating variables, the present framework considers organizational culture as an overarching organizational-level construct reflected through these interconnected cultural elements. When organizational practices align with shared cultural values, employees are more likely to perceive these practices as credible and meaningful, thereby strengthening their positive responses (Cahyono, 2025; Randel et al., 2018). Conversely, misalignment between organizational practices and prevailing cultural values may weaken such responses. Accordingly, organizational culture is expected to shape the strength of the relationships between total rewards, leadership effectiveness, workplace environment, and employee loyalty.

Integration of SET and Schein's Model

The combination of SET and Schein's model provides a coherent theoretical foundation for this study. SET explains why and how employees reciprocate organizational investments through loyalty, while Schein's model contextualizes these exchanges within the cultural framework that shapes employee perception and response. Integrating these theories allows the conceptual model to capture both the mechanistic and contextual dynamics of employee loyalty in Malaysia's manufacturing sector. Specifically, SET links total rewards, leadership effectiveness, and workplace environment to employee loyalty, while Schein's model provides a moderating perspective, highlighting how organizational culture amplifies or constrains these relationships.

This theoretical integration is particularly suitable for Malaysia's manufacturing industry, dominated by MSMEs with limited resources and highly competitive labor markets. SET clarifies the transactional dynamics that drive loyalty, while Schein's model ensures that cultural nuances are incorporated into the analysis. By combining these two frameworks, the study captures both the direct mechanisms of reciprocity and the contextual

contingencies that determine the effectiveness of organizational practices, providing a strong foundation for conceptual propositions and future empirical testing.

The theoretical contribution of this integration lies not merely in combining two established perspectives, but in specifying organizational culture as a boundary condition of social exchange. SET explains why employees reciprocate favorable organizational practices with loyalty, whereas Schein's framework explains why the strength of this reciprocity may differ across organizational cultural contexts. This integration extends the conventional exchange-based explanation of employee loyalty by proposing that comparable organizational practices may generate different loyalty outcomes depending on the cultural context in which those exchanges are interpreted.

Review of Core Constructs and Conceptual Framework

This section reviews the core constructs underpinning the proposed conceptual framework, namely employee loyalty, total rewards, leadership effectiveness, workplace environment, and organizational culture. Drawing on prior empirical studies, the discussion clarifies how these constructs have been defined and examined in the literature, particularly within manufacturing and professional employment contexts. The review highlights the need for an integrated perspective that explains how organizational practices and contextual factors collectively shape employee loyalty, thereby providing a foundation for the development of the conceptual framework and propositions in subsequent sections.

Employee Loyalty

Employee loyalty (EL) has received sustained scholarly attention as a critical determinant of organizational sustainability, particularly in dynamic and skills-intensive sectors such as manufacturing. Employee loyalty is conceptualized as a multidimensional construct reflecting employees' affective, cognitive, and behavioral orientation toward maintaining a positive and enduring relationship with the organization (Dutta & Dhir, 2021). Unlike organizational commitment, engagement, intention to stay, and turnover intention, employee loyalty is treated here as a broader multidimensional orientation toward maintaining a positive and enduring relationship with the organization. Within Malaysia's manufacturing context, employee loyalty extends beyond job satisfaction to represent a strategic asset that is associated with productivity, innovation, and workforce stability (Rahman et al., 2025).

Empirical evidence indicates that employee loyalty is shaped by a combination of intrinsic and extrinsic organizational factors. Studies in Malaysia and comparable contexts highlight the roles of career development, compensation, job security, leadership behavior, and workplace flexibility in fostering long-term commitment (Hou & Hanapiyah, 2024; Samat et al., 2020). Importantly, organizational culture has been shown to condition how employees interpret and respond to these practices, reinforcing or weakening their effects on loyalty (Hajah et al., 2025). These findings position employee loyalty as an integrative construct that captures the combined influence of rewards, leadership, work environment, and culture, providing a coherent foundation for examining its antecedents within a unified conceptual framework.

Total Rewards

Total Rewards can be understood as a strategic mechanism through which organizations demonstrate support, fairness, and long-term commitment to employees, thereby encouraging reciprocal attitudes such as trust, commitment, and loyalty (Nazir et al., 2012; Piaralal et al., 2014). Rather than focusing solely on pay, Total Rewards integrates financial compensation with non-financial provisions such as benefits, career development and recognition to create a comprehensive value proposition for employees (Kaplan, 2007; Tornikoski, 2011). From an exchange perspective, these combined rewards enhance perceptions of organizational support and strengthen the psychological contract, moving the employment relationship beyond short-term economic exchange toward a more relational and enduring bond (Silverman & Reilly, 2003; Turnea & Prodan, 2020). As workforce expectations evolve, particularly among skilled and younger professionals, the effectiveness of Total Rewards increasingly depends on their ability to address both material needs and developmental aspirations such as growth, autonomy, and meaningful work (González et al., 2021; Hai & Othman, 2022).

Empirical evidence consistently identifies Total Rewards as a key driver of employee loyalty, although its influence varies across industries and institutional contexts. Studies in Malaysia and comparable emerging economies show that fair and performance-based compensation strengthens satisfaction and commitment, especially in manufacturing environments where talent retention is critical (Samat et al., 2020; Zakaria et al., 2024). However, recent research highlights that loyalty is more sustainably reinforced when financial rewards are complemented by benefits, recognition, and career development opportunities (Kaur & Singh, 2021; Zainal et al., 2022). Accordingly, Total Rewards in this study refers specifically to compensation, employee benefits, recognition, and career development opportunities. Despite these advances, much of the existing literature examines reward components in isolation or within service-oriented sectors, offering limited insight into how integrated reward systems operate in manufacturing settings alongside other organizational factors.

Leadership Effectiveness

Leadership effectiveness serves as a relational signal through which employees evaluate the organization's support, fairness, and intentions, thereby influencing reciprocal behaviors such as trust, commitment, and loyalty (Blau, 1964; Eisenberger et al., 1986). In this study, leadership effectiveness refers to a leader's capacity to guide, support, communicate with, and influence employees effectively in achieving organizational goals while fostering positive employee–organization relationships. Effective leaders influence loyalty not through authority alone but through consistent behaviors that demonstrate respect, empowerment, and concern for employee well-being (Yukl, 2013). Transformational leadership, in particular, strengthens affective attachment by aligning individual and organizational goals, fostering trust, and encouraging discretionary effort, thereby reinforcing long-term employee commitment (Bass & Avolio, 1995). Empirical studies consistently show that leaders who communicate clearly and empower employees cultivate stronger leader–member relationships, which translate into higher loyalty through relational rather than purely transactional exchanges (Rahman et al., 2025; Zhang et al., 2022).

The role of leadership effectiveness is especially pronounced in manufacturing environments characterized by hierarchical structures and high performance demands. Transformational and ethical leadership styles have been shown to improve job satisfaction and organizational attachment, with organizational culture further strengthening these effects by legitimizing supportive leadership practices (Hasim et al., 2024; Wang et al., 2022). Leaders also act as sense-makers during periods of uncertainty, shaping employee interpretations of change and sustaining trust, which reinforces loyalty beyond short-term conditions (Wang et al., 2022; Serang et al., 2024). Despite strong empirical support, leadership is often examined in isolation or linked to engagement rather than loyalty. This study addresses this limitation by positioning leadership effectiveness as a core organizational practice that fosters employee loyalty through sustained social exchange relationships, contingent on organizational culture. Accordingly, the present framework treats leadership effectiveness as an overarching leadership capability rather than combining transformational, ethical, inclusive, and other leadership styles as separate dimensions of the construct.

Workplace Environment

The workplace environment plays a central role in shaping employees' day-to-day experiences and their perceptions of organizational support and commitment. It comprises physical conditions, such as workspace design, safety standards, and ergonomic arrangements, as well as structural and psychological elements, including flexibility, support systems, and a climate of trust (Moos, 2008; Batt & Valcour, 2003). In manufacturing contexts, where work intensity and operational risks are high, the quality of physical conditions directly influences comfort, stress, and productivity (Shaari et al., 2022; Hamed et al., 2023). Empirical evidence suggests that inadequate facilities, outdated equipment, and weak safety practices undermine morale and signal organizational neglect, thereby weakening employees' attachment to the organization (Ibrahim et al., 2025; Minwalkulet, 2019). These findings indicate that the physical environment functions not merely as an operational setting but as a symbolic indicator of how much organizations value their workforce.

Flexible arrangements and psychological support have increasingly emerged as critical dimensions of the workplace environment that shape employee loyalty. Supportive work structures are associated with higher job satisfaction, lower stress levels, and stronger organizational commitment, particularly when employees perceive

these practices as fair and consistently applied (Shifrin & Michel, 2022; Çivilidağ & Durmaz, 2024). Studies in Malaysia show that positive physical and psychological environments significantly reduce turnover intention and enhance loyalty, even in traditionally rigid sectors such as manufacturing (Mawardi, 2022; Zakaria & Hashim, 2023). However, the effectiveness of workplace environment initiatives depends on their alignment with leadership practices and organizational culture. When flexibility and support are fragmented or perceived as symbolic rather than substantive, trust erodes and loyalty declines (Mujtaba & Lawrence, 2024; Astriani & Muafi, 2023). Despite its importance, existing research often treats the workplace environment as an isolated factor. This study advances the literature by conceptualizing workplace environment as an integrated construct that operates in conjunction with total rewards and leadership effectiveness to influence employee loyalty, with organizational culture shaping how these environmental signals are interpreted.

Organizational Culture

Organizational culture encompasses the shared values, beliefs, and norms that guide behavior, decision-making, and interpersonal interactions within an organization (Schein & Schein, 2017). It shapes the way employees interpret and respond to organizational practices such as total rewards, leadership, and workplace environment. Studies indicate that cultures characterized by adaptability, inclusivity, and alignment with employee values influence employees' perceptions of fairness, psychological safety, and organizational support (Elrayah & Piaralal, 2023; Hajah et al., 2025). In the Malaysian manufacturing context, broader cultural characteristics such as hierarchical norms, collectivist orientations, and intergenerational differences affect how employees perceive and engage with organizational initiatives (Hasim et al., 2024). However, these broader contextual characteristics are conceptually distinct from organizational culture, which in this study refers to the shared values, beliefs, and norms operating within an organization (Schein & Schein, 2017). These contextual characteristics establish the relevance of the Malaysian manufacturing setting, while the proposed moderating role of organizational culture is grounded in Schein's organizational-level perspective.

Empirical research emphasizes the interaction between organizational culture and HR constructs. Employees perceive total rewards, including compensation, recognition, and career development, as more meaningful when these practices align with shared cultural values (Pee et al., 2022; Zainal & Koo, 2021). Leadership effectiveness, particularly transformational and inclusive styles, is reinforced in cultures that emphasize fairness, empowerment, and engagement (Hasim et al., 2024; Lui et al., 2023). Similarly, workplace environment features such as flexible arrangements, psychological safety, and supportive infrastructure are interpreted through the cultural lens, affecting employee perceptions of organizational support and retention (Mujtaba & Lawrence, 2024; Astriani & Muafi, 2023). These patterns suggest that organizational culture provides a contextual framework that shapes the relative influence of HR practices on employee loyalty. In the present study, organizational culture is conceptualized as a moderating construct, providing the contextual conditions under which total rewards, leadership effectiveness, and workplace environment interact with employee loyalty.

Conceptual Framework

This subsection presents the proposed conceptual framework, illustrated in Figure 1, which positions employee loyalty as the outcome influenced by total rewards, leadership effectiveness, and workplace environment. Grounded in Social Exchange Theory (SET), these organizational practices are viewed as relational investments that employees evaluate in terms of fairness, support, and alignment with expectations, shaping loyalty responses. Edgar Schein's Organizational Culture Theory complements this perspective by highlighting how shared values and norms influence employees' interpretations of these practices, thereby affecting the strength of loyalty outcomes. Organizational culture is conceptualized as a moderating factor that shapes the magnitude of these relationships. This integrated framework provides a theoretical foundation to guide future empirical research on employee loyalty in manufacturing contexts.

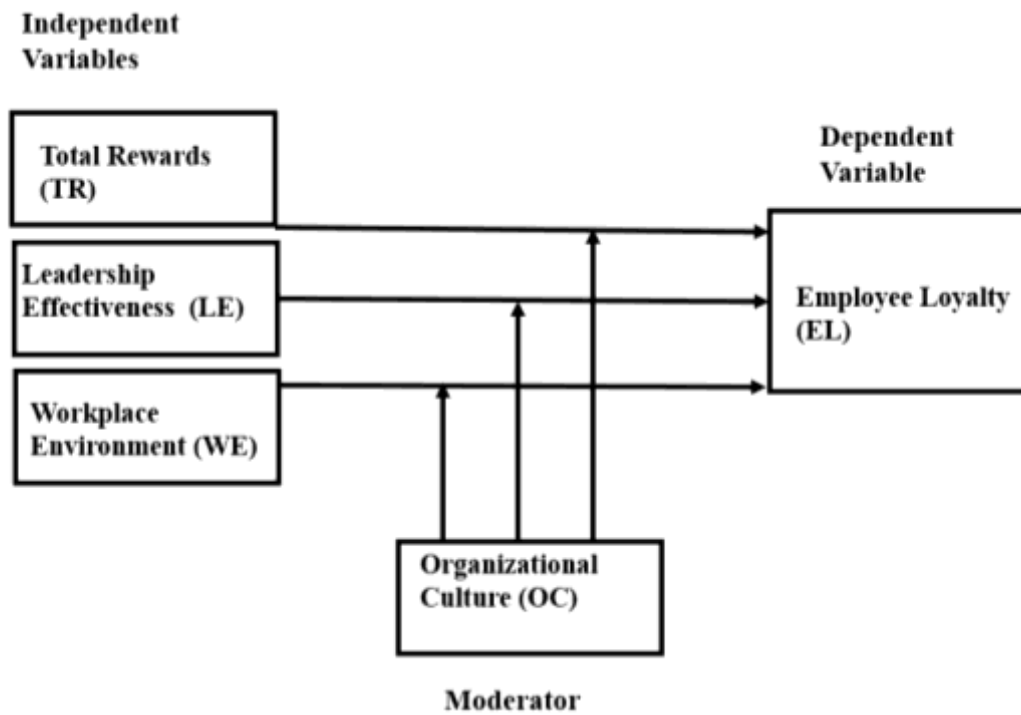


Figure 1. Conceptual Framework

DISCUSSION AND PROPOSITIONS DEVELOPMENT

Theoretical Contributions and Development of Propositions

This study contributes theoretically by integrating Social Exchange Theory (SET) and Edgar Schein's Organizational Culture Theory to advance a relational and contextual explanation of employee loyalty. While prior research has frequently applied these theories in isolation (Rahman et al., 2025; Hasim et al., 2024), this conceptual framework extends existing scholarship by clarifying how organizational practices function as exchange signals and how shared cultural meanings shape employees' interpretations of these signals. In doing so, the study positions employee loyalty as an outcome emerging from the interaction between organizational actions and cultural context, addressing gaps in the literature that often overlook contextual contingencies in the manufacturing sector.

From a SET perspective, total rewards, leadership effectiveness, and workplace environment represent organizational investments that employees evaluate in terms of support, fairness, and mutual obligation. These evaluations inform reciprocal responses, including trust, commitment, and loyalty (Eisenberger et al., 1986). Schein's model complements this logic by emphasizing that such evaluations are socially constructed and embedded within organizational culture, which shapes how employees assign meaning to rewards, leadership behaviors, and work conditions. By linking SET and Schein's model, the study contributes to employee loyalty research by explaining not only why organizational practices matter but also under which cultural conditions their effects are strengthened or constrained.

Based on this integrated theoretical foundation, the following propositions are advanced to guide future empirical inquiry:

- **Proposition 1 (P1):** Total rewards are positively associated with employee loyalty.
- **Proposition 2 (P2):** Leadership effectiveness is positively associated with employee loyalty.
- **Proposition 3 (P3):** Workplace environment is positively associated with employee loyalty.
- **Proposition 4 (P4):** Organizational culture moderates the relationship between total rewards and employee loyalty.

- **Proposition 5 (P5):** Organizational culture moderates the relationship between leadership effectiveness and employee loyalty.
- **Proposition 6 (P6):** Organizational culture moderates the relationship between workplace environment and employee loyalty.

Practical Contributions

From a practical perspective, the conceptual framework offers theoretically derived insights for HR professionals and organizational leaders in Malaysia's manufacturing sector. By emphasizing the interplay of rewards, leadership, and workplace environment within a culturally aligned context, organizations may consider targeted strategies to enhance retention, engagement, and performance (Arokiasamy et al., 2024). Potential interventions include competitive and transparent reward systems, leadership development that emphasizes empowerment and ethical practices, and workplace enhancements that integrate flexibility, well-being, and supportive physical environments. Organizational culture serves as a critical lens through which these initiatives gain meaning and effectiveness, underscoring the need for alignment between HR practices, leadership behaviors, and cultural values. Implementing such integrated strategies may contribute to employee loyalty while also supporting operational efficiency, institutional knowledge retention, and long-term competitiveness in a globally contested talent landscape (Ali et al., 2023).

CONCLUSION AND FUTURE RESEARCH DIRECTIONS

This conceptual paper advances the theoretical understanding of employee loyalty by integrating Social Exchange Theory and Edgar Schein's Organizational Culture Theory to explain how total rewards, leadership effectiveness, and workplace environment interact within cultural contexts to shape loyalty outcomes. The framework highlights organizational culture as a moderating mechanism that is proposed to condition the relationships between organizational practices and employee loyalty, offering a nuanced perspective on why and when these practices may be more effective. Future research can empirically test the proposed relationships across diverse manufacturing settings, explore generational or sectoral variations, and examine additional contextual moderators such as industry competitiveness, labor policies, or digital transformation. By linking theory with practical implications, this study provides a foundation for advancing scholarship while offering managerial guidance to sustain a stable, committed, and high-performing workforce in industrial environments.

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