

THE RELATIONSHIP BETWEEN JOB SATISFACTION AND EMPLOYEE
LOYALTY IN THE MANUFACTURING INDUSTRY OF CHINA

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To my beloved father and mother

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ABSTRACT

The purpose of this study is to examine the relationship between job satisfaction and employee loyalty through research on the factors which influence employee loyalty, and puts forward some strategies to improve staff loyalty. Analysis of personal variables such as gender, age, education, marriage, work time, level and type of work, and income level variables on job satisfaction and employee loyalty difference do exist, and are based on the existing difference for different types of employees to implement targeted retention strategy. This study will be conducted in Chinese manufacturing enterprises, which are located in Mainland China. I select one manufacturing company of my hometown. This company has more than 200 employees. In this study I use 20 employees as example and all of objectives are more 200 employees. Whether the enterprise staff's job satisfaction and turnover rate are high and low produce a very big effect. At the same time, job satisfaction and employee loyalty are positively correlated. In this study, the questionnaire data analysis was by SPSS 13.0 for Windows software package which provides descriptive statistics, reliability and validity analysis, the differences of characteristic variables and individual analysis, correlation analysis, regression analysis and other methods. According to the finding of this study, job satisfaction and employee loyalty are positive correlation, when workers have more satisfaction, they have more loyalty in the company.

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji hubungan di antara kepuasan kerja dan kesetiaan pekerja melalui penyelidikan ke atas faktor-faktor yang mempengaruhi kesetiaan pekerja, dan meletakkan ke hadapan beberapa strategi untuk meningkatkan kesetiaan kakitangan. Analisis pembolehubah peribadi seperti jantina, umur, pendidikan, perkahwinan, masa kerja, tahap pendapatan tahap dan jenis kerja, dan pemboleh ubah terhadap kepuasan kerja dan pekerja perbezaan kesetiaan memang wujud, dan adalah berdasarkan kepada perbezaan yang sedia ada untuk pelbagai jenis pekerja untuk melaksanakan strategi pengekalan yang disasarkan. Kajian ini akan dijalankan dalam perusahaan pembuatan Cina, yang terletak di Tanah Besar China. Saya memilih satu syarikat pembuatan kampung halaman saya. Syarikat ini mempunyai lebih daripada 200 pekerja. Dalam kajian ini saya menggunakan 20 pekerja sebagai contoh dan objektif lebih 200 pekerja. Sama ada kepuasan kerja kakitangan perusahaan dan kadar perolehan yang tinggi dan menghasilkan rendah kesan yang sangat besar. Pada masa yang sama, kepuasan kerja dan kesetiaan pekerja secara positif. Dalam kajian ini, analisis data soal selidik adalah menggunakan perisian SPSS 13.0 untuk Windows pakej perisian yang menyediakan statistik deskriptif, kebolehpercayaan dan analisis kesahihan, dari segi perbezaan pembolehubah ciri dan analisis individu, analisis korelasi, analisis regresi dan kaedah lain. Menurut dapatan kajian ini, kepuasan kerja dan kesetiaan pekerja adalah korelasi positif, apabila pekerja mempunyai lebih kepuasan, mereka mempunyai lebih kesetiaan dalam syarikat.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

China has climbed rapidly in the world ranking of exporters from its position at number thirty-two in 1978. Since 1978 economic performance has generally been very impressive.

The pace of economic change in China has been extremely rapid since economic reforms were initiated just over twenty-five years ago. Economic growth has averaged 9.5 per cent over the past two decades and seems likely to continue at that pace for some time. Such an increase in output represents one of the most sustained and rapid economic transformations seen in the world economy in the past fifty years. In today's knowledge economy era, the competition for talent is white-hot. As companies around "human capital" wage fierce competition, enterprises have realized the value of employee loyalty, and enterprises want to keep good employees, but this is difficult as staff departure and job-hopping frequency are at all-time highs.

There is a very big difference between the Top 500 enterprises in China and the Top 500 enterprises of the world by industry. The industry distribution shows the differences in development and industrial structure. In terms of enterprise quantity and operating income, China's top 500 enterprises are focused on manufacturing

(accounting for 58.6%, 40.5% respectively), and the world top 500 enterprises in service industry (54.2%, 53.6%). A difference also exists in the field of manufacturing. China's top 500 manufacturing enterprises are still traditional industries and account for a larger proportion, while most of the world's top 500 are in modern manufacturing. Many economic variables are considered important for economic growth, including investment, human capital, international trade, and inflation.

Human capital plays a critical role in endogenous growth models, which hold that knowledge-driven growth can lead to a constant, or even increasing, rate of return. In Romer (1990), for instance, human capital is the major input of research and development that innovates technology. Therefore, countries with larger initial human capital stock are more likely to have new products and grow faster than other countries. Empirical evidence has also revealed a positive relationship between education and growth.

Traditional economic growth models advocate three ways of economic development: add more labour, invest more capital, or combine labour and capital in new and better ways. This last element is known as Total Factor Productivity [TFP]. The development of China is similar to Asia's early experience: a reasonable but respectable TFP role, another modest share coming from labor force growth, and an overwhelming contribution from capital investment. (Jonathan Anderson, 2006, *FEER*, pp.10-13).

But with labor force growth, problems have also appeared. The official Chinese jobless rate, the so-called urban registered unemployment rate, fell to 4.1 cent last year [2006] as the country added 11.8 million jobs, according to government data (www.iht.com, 5 February 2007).

1.2 Background of Study

In today's knowledge economy era, the search for talent is intense. Companies around the world are waging a fierce competition to attract and retain talent, and have begun to realize the value of employee loyalty. However, in the knowledge era, staff departure and job-hopping frequency are at all-time highs. According to economists, in a study of enterprises in some Asian countries and regions, Singapore and Hong Kong enterprise knowledge staff annual turnover is 20%, Thailand is 14%, the Philippines is 20%. Chinese companies are more than 12% and generally more than 10 years ago.

Japan practices the lifetime employment management mode. Enterprise knowledge staffs, however, no longer place high value on loyalty, especially the new generation of young people who have given up on the idea of life employment by some traditional enterprises, preferring instead to pursue a pay system, and therefore are very keen to find work at branches of multinational companies in Japan. In China, the coastal developed areas, especially high-tech industries and state-owned enterprises, experience such as personnel flow. According to a study survey conducted by business groups with respondents in 32 countries around the world, almost all of whom were employees of government agencies, statistics found insufficient loyalty of the employees to employers, and a downward trend.(Economost Group,2013)

Along with the advance of science and technology and development, enterprise production operates more and more by machine instead of manual work. However in overall enterprise production, operation and development of various aspects, such as it always plays a decisive role, everything can be run normally depending on the specific operational goal. So the employee's work efficiency or productivity determines whether a company can survive. The ways to improve worker performance include motivation, structure, and job satisfaction and so on.

Job satisfaction is very important. Judge et al. (2001) found a correlation between job satisfaction and productivity. Judge et al. (2001) also point out that job satisfaction is positively correlated with efficiency; the higher the job satisfaction, the higher the efficiency.

Thus, job satisfaction has significant managerial implications. If job satisfaction is at a high level, the workers will work better and deliver good performance. On the other hand, if job satisfaction is low, there will be performance problems. In examining in outcomes of job satisfaction, it is important to breakdown the analysis into a series of specific sets of variables. They are productivity, turnover, absenteeism and other effects (accidents, grievances, physical and mental health).

Employee loyalty is an important concept of psychology and behavior, and employee turnover intention, in such aspects as organization performance, has a strong correlation. Gallup consultant companies in a United States study found that an enterprise's core competence has three aspects: (1) customer loyalty; (2) employee loyalty; (3) brand image. Among them, staff loyalty is fundamental to achieve customer loyalty. In terms of branding, if employee loyalty is only a slogan, establishing a corporate brand is useless.

A Fortune magazine survey of employers found that the 100 best companies have outstanding company performance, with average staff turnover of 12%, far less than 26% turnover of other companies. Employee tenure averages 6 years, which is also higher than other companies at 3.6 years. These companies average an investment return rate of 23.5%, significantly higher than the 15% averaged by other companies. (Fortune Magazine Survey, 2013)

After a long investigation, Symmetries companies in the United States confirmed that based on more than 30,000 people in financial institutions, employee loyalty and customer satisfaction has absolute correlation. The research object, for example, indicates that every 10% increase in employee loyalty is followed by a 4%

increase in customer satisfaction, and the company profit level has a synchronous growth of 4%.

According to a Manpower Group (China) study in China, on enterprise staff sense of belonging and retention of human resources, managers and candidates agree that employees will leave the company. The main reasons are: (1) career development relationship; (2) the chance of promotion and space; (3) better pay and benefits. Although 70% of the human resource executives think employees leave because they expect better salary/benefits, only 15% of the candidates agree with this reason. Nearly 70% of candidates admitted that the reason for leaving the company was to pursue better career development opportunities. In addition, other reasons for leaving the company include changing the place of work, learning environment is very poor, personal values and enterprise values don't match, cannot balance work and personal life, and poor management among others.

In a survey about employees' sense of belonging, the results show that only 24% of employees feel a full sense of belonging. But for those who have or are going to leave, the sense of belonging is higher than the global average, which suggests that the company culture in mainland China is different from the rest of the world, a contributing factor in the current labor market supply and demand imbalance. Only 15% of the candidates list pay/welfare factors as the real reason for leaving the company, which does not have a great impact.

Staff loyalty is important to the enterprise, and the factors influencing employee loyalty are varied, and even difficult to determine. A systematic study of factors affecting employee loyalty, and putting forward strategies targeted to improve staff loyalty, is very meaningful. Staff loyalty research has attracted the attention of foreign scholars.

Hirschman (1970) argued that loyalty is a comment left and coordination between the function of power, the loyalty has the function such as delay the employee turnover. But Hirschman's premise has limitations, which is that

employee are loyal as long as you don't think employees leave. Later scholars, such as Butler & Cantrell (1984) and Fletcher (1993) studied attitude and behavior loyalty, but these two research routes were not integrated, so the study of employee loyalty concept led to confusion and repeated phenomenon. Frederick Reichheld (2001) pointed out that loyalty is efficiency and competitiveness, and is the cornerstone of enterprise development. Management can bring substantial rewards based on loyalty, and reason should replace customer management and employees are frequently transformed.

DaLina ChengShun is a lingerie manufacturing company, and with more than 300 staff. It is a biggest manufacturing company. For various reasons, compared with previous years, the Unicom company benefits fell, employee treatment for improvement of the unhappy, and key positions and staff turnover occur often. The cost of enterprise cultivation of employees is high, and the loss of employees is a huge loss to the corporation, so research into how to improve staff loyalty, proposing a targeted retention strategy makes sense.

In this study, from the angle of enterprise management, probes internal and external factors such as the influence of environmental variables on employee loyalty, a source of research staff loyalty before putting forward a management strategy to retain employees. Purpose is controlled by adjusting the enterprise factors, which improve staff loyalty.

1.3 Statement of Problem

According to the latest global consultancy survey, the staff turnover rate in China has increased 44%, a figure much higher than the global (33%) and Asia Pacific (32%) averages in 2012, which has been the trend over the past 12 months. In other words, enterprises in China have seen dramatic changes in staff turnover in the past 12 months compared to the previous 12 months. (<http://news.hexun.com>)

Job satisfaction and job loyalty have emerged as critical issues in organization that operate in today's unpredictable global economy (Mak & Sockel, 2001). In this era of increasing global labour costs, how can China's manufacturing industry retain its workforce? Labour costs have greatly increased, and enterprises must meet the employee's demands, which have become a very difficult choice for Chinese manufacturing enterprises.

Although most of the domestic enterprises want to increase the salary of the employees, they want to ensure that the workers stay with the company for a long time. Whether this approach is effective or not is unknown. Cuskelly and Boag (2001) investigated the impact of organizational commitment and perceived committee functioning in predicting member turnover behavior. Thus, more and more enterprises have invested a lot of money and technology to improve employee job satisfaction, to improve employee loyalty, and to improve the competitive ability of the enterprise.

Brown & Peterson (1993), Griffeth et al., (2000), Hom & Kinicki (2001), Martensen & Gronholdt (2001), share the opinion that employee satisfaction and employee loyalty have a very significant positive correlation, and tend to associate significant negative correlation with loss. Guimaraes (1997) suggested that employee satisfaction will promote a higher level of organizational loyalty and commitment, and staff retention will be high. Minjoon Jun, Shaohan Cai & Hojung Shin (2005) think the employee job satisfaction has a positive effect on employee loyalty.

Meanwhile the more satisfied the employees, the higher the positive correlation exists between employee satisfaction and loyalty. In practice, many enterprises invest a lot of manpower and material resources to improve employee satisfaction, such as higher pay, increased opportunities for training and promotion in the expectation that staff loyalty brings improvements in efficiency. But in many cases, the improvement of employee satisfaction did not lead to improvements in employee loyalty. China Human Resource Research Network (2004) found that 70% of respondents were satisfied with the services by the company, however, only 30%

of the respondents showed loyalty to the company by a loyalty survey of thousands of workers.

In this study the assumption is that employee satisfaction and loyalty have different levels, and the employee satisfaction with different dimensions has different effects on the employee loyalty level. This research studied the relationship between job satisfaction and employee loyalty, the influencing factors of job satisfaction and employee loyalty. The researcher believes job satisfaction and employee loyalty have positive correlations. This research founding is similar with Matzler and Renzl (2006) found that employee satisfaction is positively related to employee loyalty.

Companies also know how to increase employee loyalty and reduce employee turnover from the finding of this research. Spector (1997) offered three important types of job satisfaction:

- (i) The organization should be under the guidance of human values. Such organizations will face, respect and offer fair treatment of employees. In this case, the evaluation of job satisfaction can serve as a good indicator of the efficiency of employees. A high level of job satisfaction may be a sign of good mood and positive mental state of employees.
- (ii) The worker's behavior depends on their job satisfaction level which can affect function and the organization's business activities. From here can be concluded that job satisfaction can lead to positive actions and vice versa, dissatisfaction with work will cause employee's negative behavior.
- (iii) Job satisfaction can be used as indicators of organizational activities. Job satisfaction evaluation of different levels of satisfaction in different organizational units can be defined, but, in turn, can serve as

a good indicator of the change of the organizational unit, and should improve performance.

Thus if an employee has less job satisfaction, they will have lower work motivation and don't like working in the company. Furthermore, they also will have less loyalty to the company and easy to leave company. Therefore, the company should help the employee to achieve higher level of job satisfaction in order to retain them to work in the company for a long time.

1.4 Purpose

The purpose of this study is to examine the relationship between job satisfaction and employee loyalty through research on the factors which influence employee loyalty, and to put forward some strategies to improve staff loyalty. Analysis of personal variables such as gender, age, education, marriage, work time, level and type of work, and income level on job satisfaction and employee loyalty difference do exist, and are based on the existing difference for different types of employees to implement targeted retention strategy.

1.5 Research Questions

This purpose of this study is to determine and analyze the relationship of job satisfaction and employee loyalty. This study focuses on the following questions:

- (i) What is the level of job satisfaction and employee loyalty?
- (ii) What is the association between demographic factors and job satisfaction and employee loyalty?

- (iii) What is the association between job satisfaction and employee loyalty at the workplace?

1.6 Objectives of Study

According to the purpose of study, some objectives are listed as follows:

- (i) To identify the level of job satisfaction and employee loyalty.
- (ii) To identify association of demographic factors on job satisfaction and employees loyalty.
- (iii) To identify correlation between job satisfaction and employee loyalty.

1.7 Significance of Study

In the West, many people researched relationship of job satisfaction and employee loyalty early. However Chinese researchers just begin to study them now. So this study was based on research at home and abroad concerning employee loyalty and used Da Lian Cheng Shun Company as the research object. This paper will study the relationship of job satisfaction and employee loyalty.

Throughout the research history, very few researches have classified the employee. The level of employee loyalty is differs with the type of employees. So in this research, hopefull can determine the factors which are affected the degree of employee loyalty. This research can guide the organization how to treat the employee to stay in the organization.

This study will enrich the research on employee loyalty in the manufacturing industry and draw some valuable conclusions. In the manufacturing industry, there are many different types of employees. How can the different types of employee job satisfaction and employees loyalty are improved. This study will analyze different needs according to age, income, and work environment and so on.

Findings from this research can enhance the knowledge of job satisfaction and employee loyalty for the reader and data analyze to research relationship of job satisfaction and employee loyalty. And this study also expands findings from previous research.

1.8 Scope of Study

This study analysis relationship of job satisfaction and employee loyalty. And the variables of job satisfaction include: work content, work independent, soft work environment, additional work and good work environment, the variables of employee loyalty include: company execution, work itself, work environment and benefits.

This study are conducted in Chinese manufacturing enterprises, which are located in Mainland China. Because China are very big and have many company, one manufacturing company doing business in the author's hometown has been selected. This company has more than 200 employees. In this study 20 employees have been used as example. Whether the enterprise staff's job satisfaction and turnover rate are high or low produce a very big effect. At the same time, job satisfaction and employee loyalty are positively correlated.

1.9 Limitation of Study

Although vast related literature on job satisfaction and employee loyalty has been reviewed as a secondary data, but gathering primary data through a survey could potentially put some limitation by several factors, such as time and cost, among others.

This research was conducted within the determined scope of study and therefore the findings insufficient to elaborate all issues of concern on job satisfaction and employee loyalty.

Research scope restrictions: based on the limitation of various realistic conditions, this study cannot be all about the inclusion of loyalty influential factors

The limitation of research tools: this study adopts questionnaire survey, mainly because the respondents in the questionnaire process of collecting subjective reasons lead to questionnaire answers which are consistent with the actual situation, resulting in a statistical error.

1.10 Conceptual Definition

1.10.1 Job Satisfaction

The first research of Hoppock (1935) suggested that worker job satisfaction includes psychological and physical factors. Many scholars have published their own views. The following are some definitions of job satisfaction: Hoppock (1935): worker job satisfaction is a psychological and physiological factor associated with

the feeling of self-satisfaction. Smith, Kendall & Hulin (1969): job satisfaction is the workers feelings while on the job, feelings or affective reactions, i.e. workers in a particular business environment experience a reward gap between actual and expected value; a large gap indicates low satisfaction, while a small gap indicates high satisfaction. Locke (1976): job satisfaction comes from working and is a happy and positive emotional reaction. Davis (1977): job satisfaction is based on employees finding work that they prefer to do, which in turn generates job satisfaction for workers. Morse (1953): job satisfaction is the objective of job characteristics and the interaction of personal motivation function. Vroom (1964): job satisfaction is the feeling of the workers in relation to their current job role or emotional reaction.

The research direction of these theories all contend that job satisfaction is the employee's attitude toward work. When employee feel satisfaction to the work, they like working in the company and have more motivation. Satisfied employees are satisfied with job content and environment. If employee can fit to the work environment, they will work hard more and more.

When employees enjoy their work, they will have high job satisfaction, the heart will have high enthusiasm, and they will be in a good mood. So their attitude toward work will be very positive, generating high efficiency.

1.10.2 Employee Loyalty

Hirschman (1970) said that loyalty is a comment left and coordination between the function of power, has the function such as delay the employee turnover. While Getchell (1975) argued that loyalty is a kind of tendency, including continuing to work for a company while looking for a new job. However, Jacoby & Kyne (1975) believe that staff loyalty includes attitude factors of repeat purchase behavior. Frederick & Reichheld (2001) held that loyalty is efficiency and competitiveness. Loyalty is the cornerstone of enterprise development, as management can bring

substantial rewards based on loyalty, so loyalty should replace the customers and employees frequently transform way of management. Richard (2005) contends that loyalty is a kind of behavior, and this behavior is determined by the spontaneous interaction of individuals in the group, and inner promises to have a close relationship. This behavior in the pursuit of individual and collective goals includes common moral principles.

These definitions indicate that employees are the elementary component of the enterprise and their enthusiasm reflect the morale of the enterprise, and their work self-consciousness reflects the strength of the enterprise. Employee loyalty will greatly stimulate the subjective initiative and creativity of employees, allowing employee potential to bloom. As employee loyalty is raised, so too is the competitive power of the enterprise.

1.11 Operational Definition

1.11.1 Job Satisfaction

In this study, The Minnesota Satisfaction Questionnaire (MSQ) scale will be used. This scale is designed to measure an employee's satisfaction with his or her job. Three forms are available: two long forms (1977 version and 1967 version) and a short form. The MSQ provides more specific information on the aspects of a job that an individual finds rewarding than do more general measures of job satisfaction. The MSQ is useful in exploring client vocational needs, in counseling follow-up studies, and in generating information about jobs reinforcements.

The MSQ is a paper-and-pencil inventory of the degree to which vocational needs and values are satisfied on a job. The MSQ can be administered to groups or to individuals, and is appropriate for use with individuals who can read at the fifth grade level or higher. All three forms are gender neutral. Instructions for the administration of the MSQ are given in the booklet. The MSQ Long Form requires

15 to 20 minutes to complete. The Short Form requires about 5 minutes. Unless the 15 to 20 minutes required for the Long Form is impractical, it is strongly recommended that the Long Form be used, as it provides much more information for the short additional administration time required.

So in this study Short-Form MSQ will be used. This form consists of 20 items from the long-form MSQ that best represent each of the 20 scales. Factor analysis of the 20 items resulted in two factors--Intrinsic and Extrinsic Satisfaction. Scores on these two factors plus a General Satisfaction score may be obtained. The short-form MSQ uses the same response categories used in the 1977 long form. Normative data for the three scales for six selected occupations are in the manual.

1.11.2 Employee Loyalty

Staff loyalty refers to the degree of staff loyalty to the enterprise, and is a quantitative concept. At present, staff loyalty evaluation uses Porter's OCQ scale. In addition, many scholars used and improved the OCQ scale to form a new scale to assess employee loyalty, such as Li Yuandun's OCI scale. This scale operates on the basis of OCQ scale combined with empirical proposed a situation that is suitable for Taiwan enterprise employee loyalty evaluation questionnaire. OCQ and OCI scale is from the perspective of organizational commitment to evaluate staff loyalty; also some scholars use the organizational commitment of the staff loyalty model research.

Frederick's (2001) Loyalty Acid Test Survey is a questionnaire that can be used directly to test employee loyalty. But Frederick's lacks of loyalty test questionnaire scale structure of the corresponding instructions are strict, and in practice the application has limitations.

Most of the current study of Employee loyalty measurement is based on measuring OCQ organizational commitment scale, considering the differences of

organizational commitment and Employee loyalty. This study adopted both OCQ & OCI as a measurement method to operate employee loyalty.

1.12 Conclusions

When it comes to China's garment industry, there are two very important factors to consider: one is that China is the world's leading "clothing manufacturing power", the second is that China is the world's leading "garment exporter."

However in the boom of Chinese clothing manufacturing's false prosperity, with cheap labor and huge market cultivating international brands and support for foreign designers reveals an embarrassing truth. Take in the fact that like an airbus with 800 million shirts, China's garment industry is like a kite flying high in the sky with no direction, thus her lifeline in the hands of others.

China offers low-cost products assembled by cheap and low productive labour, and has become a key link in the global manufacturing chain. In fact, direct foreign investment in China doubled from 2002 to 2008, and has become an emerging Asian powerhouse manufacturing parts mainly for export. China still has plenty of cheap labour and will continue to take advantage of high productivity, technology and human capital, assembling these parts together with the parts made in China.

China has not the advantage of a cheap labor market, so Chinese enterprises must strengthen staff loyalty, invest a great deal of resources, and increase staff job satisfaction in order to control turnover.

From the perspective of the relationship between employee job satisfaction and employee loyalty, this study uses the MSQ scale and OCQ & OCI scale to study the positive correlation between the two, so as to help enterprises reduce the turnover rate and to increase the competitiveness of the enterprise.

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