

An analysis of job dissatisfaction and turnover to reduce global supply chain risk: Evidence from China

Bin Jiang^{a,*}, Revenor C. Baker^{b,1}, Gregory V. Frazier^{b,2}

^a *Department of Management, Kellstadt Graduate School of Business, DePaul University, 1 E. Jackson Boulevard, Chicago, IL 60604, United States*

^b *Department of Information Systems and Operations Management, College of Business Administration, The University of Texas at Arlington, Box 19437, Arlington, TX 76019, United States*

Received 5 January 2007; received in revised form 7 June 2007; accepted 21 September 2007

Available online 2 October 2007

Abstract

Suppliers' labor problems in developing countries have emerged as a key risk in global supply chains. In China's coastal industrial zones, where most Fortune 500 companies have established their manufacturing bases, local suppliers are facing serious labor turnover problems. High labor turnover rates have caused poor quality, low productivity, and unfilled orders in supply chains. Applying a combination of quantitative techniques to determine the reasons why workers leave China's export factories, this research tries to identify the root causes of job dissatisfaction leading to turnover and provides managerial implications that may assist managers in dealing with labor-related supply chain risks.

© 2007 Elsevier B.V. All rights reserved.

Keywords: Human resource/operations interface; Supply management; Global operations; Questionnaires/surveys/interviews

1. Introduction

The absence of a mechanism establishing international labor standards is propelling developing countries in a race-to-the-bottom in terms of wages and labor conditions in the production of labor-intensive commodities (Ross and Chan, 2002). As more and more multinational companies (MNCs) are outsourcing manufacturing to developing countries to take advantage of inexpensive labor, there is no doubt that labor problems are looming for those suppliers. More than just minor upstream inconveniences, suppliers' labor

problems can trigger substantial shortages and delays at the downstream end of the global supply chain. Dealing with suppliers' labor problems is a timely and important managerial topic, because these problems are exposing the global supply chain to three kinds of business risks: cost risk, operational risk, and reputational risk.

1.1. Cost risk

Labor-intensive enterprises in many developing countries have felt great pressure from the rise of labor-related costs, such as wages and costs to improve working conditions. According to BusinessWeek's special report "How rising wages are changing the game in China," China's labor turnover rate surpassed 20% and the labor costs increased 10% in 2005. A January 2006 report by American Chamber of Commerce in China found that rising labor costs

* Corresponding author. Tel.: +1 312 362 6061.

E-mail addresses: bjiang@depaul.edu (B. Jiang), rcbaker@uta.edu (R.C. Baker), frazier@uta.edu (G.V. Frazier).

¹ Tel.: +1 817 272 3547.

² Tel.: +1 817 272 3559.

significantly decreased margins in 48% of U.S. manufacturers in China (Roberts, 2006).

1.2. Operational risk

Labor problems can also result in operational risks associated with poor quality, low productivity, and unfilled orders. High turnover rates cause organizational friction, created instability of skills and damaged customer service, as workers have to be trained on the job until reaching a satisfactory performance level.

1.3. Reputational risk

MNCs face important moral issues associated with the production of low-cost goods at the expense of labor health, safety and welfare in developing countries. Consumers are shunning products that contain materials manufactured under sweatshop labor conditions (Emmelhainz and Adams, 1999). Recently many global brands have been damaged among consumers in media-rich societies by criticism from non-governmental organizations (NGOs) and fair trade/no sweat organizations. The cases of labor abuses in the sporting goods industry show that such negative publicity can damage brands and erode market positions substantially (Zadek, 2004; Frenkel and Scott, 2002).

Facing these risks, both western buying companies and local suppliers need to carefully evaluate their existing labor-related practices in developing countries and modify them, if needed, so that suppliers' laborers can effectively contribute to operational performance improvement. Yet little is known of the factors that affect job attitudes of supplier's laborers in developing countries. For example, in the database hosted by the Industrial Relations Center at the University of Minnesota-Twin Cities, there are 360 peer-reviewed "employee attitudes" articles, but only two of them focus on developing countries' laborers. One article (Lawrence, 2002) studies how to distinguish between acceptable and harmful work for adolescents in the Brazil shoe industry; another one (Nyambegera et al., 2000) focuses on the impact of Kenya culture on local organizations' design of HR policies and practices. While both reveal valuable insights of developing countries' labor attitudes from ethical or cultural perspectives, there is a significant desire to understand and improve local labor attitudes, because workers with negative job attitudes are likely to perform poorly, cause disruptions to normal operations, and eventually jeopardize the viability of supply chains. Also, labor markets in developing countries are at different stages

of evolution than those in developed countries. This study attempts to fill this gap in the existing literature of global supply chain risk by examining the root causes of suppliers' labor dissatisfaction and turnover to identify ways to reduce the risk. All empirical evidence is from China because of the importance and reputation of its labor-intensive manufacturing sector in the global supply chain.

To much of the world, China's reputation for labor-intensive manufacturing can be summed up in one word: cheap. Much like their counterparts in other developing countries, Chinese factories seek a very specific type of employee: industrious, mobile, with low salary expectations, and willing to work long hours. China's limited supply of arable land is unable to absorb the large supply of surplus labor in the inland countryside. Also the coastal regions are more prosperous than the inland areas (see Fig. 1). As a result, large numbers of young farmers have left the inland countryside in droves preferring to take their chances in the new factories along the coast rather than live in rural poverty. These migrant workers have been fueling China's labor-intensive manufacturing industries.

Since 2004, however, these coastal industrial zones have been suffering a severe shortage of migrant workers. For example, the Pearl River Delta, which encompasses Guangdong province and Hong Kong, experienced a shortage of two million workers in 2005 alone (Yuan, 2005). Conventional wisdom might attribute the labor shortage to low pay. Actually, the labor arbitrage opportunity in China, created by significant wage gaps between coastal and inland areas, should continue to attract migrant workers to the coastal areas for many years. Simply attributing this most populous country's severe labor shortage to low pay disregards the fact that most migrant workers would get even lower incomes in the countryside if they leave the coastal factories to return home. Focusing on low pay does not address the root causes of labor-related supply chain risk in China.

The major goals of this research are to analyze certain causes of supply chain risk by identifying root causes of voluntary employee turnover and job dissatisfaction, and then to offer possible improvement opportunities. Four sections of this paper follow. Section 2 reviews the literature on managerial measures of the labor turnover/quitting decision and constructs a questionnaire which is modified from existing scales in the current literature. Section 3 covers the research methodology, including sample selection and data collection, factor analysis, and the LOGIT model. The results and a comprehensive discussion of the findings are presented in Section 4. Finally, Section 5

Download English Version:

<https://daneshyari.com/en/article/1031944>

Download Persian Version:

<https://daneshyari.com/article/1031944>

[Daneshyari.com](https://daneshyari.com)