

## Labour turnover in apparel retail chains in China

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### Abstract

*The purpose of this paper is to provide an overview on consumption and retail sector in China, with focus on leisure clothing retail chains. The problem more specifically addressed in this paper is employee high turnover rate, which directly negatively influences customer experience while shopping, sales performance, as well as brand image of the retailer. During the course of four months, we have visited numerous retail outlets of four major brands, in six major Chinese cities. The study mainly focuses on the relationship between salary level and employee turnover within the given industry.*

**Key words:** apparel industry, China, labour turnover

## 1. INTRODUCTION

### 1.1 China's retail sector

China's personal consumption will continue growth in the next 5-10 years. The current consumption is around 35% of GDP, which is definitely the lowest in comparison with other developed countries. On the other hand, the growth rate of consumption in China is 6.9% during the period from 1998 to 2006 which is the highest in the world.

Since the beginning of the 21st century, China's retail and consumer products had an annual average growth rate of over 10%. At the same time, the real growth of retail sales of consumer goods were 14.8% in 2010; retail sales grew nominally by 16.6% year on year in the first five months of year 2011. Together with the rapid development of China's economy, the retail market will continue to grow as well. Some of the main factors that have contributed to this growth of the retail industry in China are: rapid urbanization, increasing middle-class population, inflation pressures and government policies.

### 1.2 China's apparel retail market

After a downturn in 2009, the global apparel market is recovering and all the forecasts show it will even accelerate. The main reasons for higher apparel consumption are increased disposable income, low interest rates and improving consumer sentiment. E-commerce is also helping significantly, as clothing

retailers use it to test a market without large capital expenditures.

According to a study by management consulting firm A.T. Kearney, China ranks as the most attractive emerging market for apparel retailers. The reasons for China's first place ranking are mainly country's large population and the growing disposable income of the middle class. In recent years, the apparel retail growth rate was more than 20 percent, and this rapid pace trend is expected to continue for the next five years.

Foreign companies are aggressively entering the Chinese market. American clothing retailer Gap, Inc. opened their stores in Beijing and Shanghai in late 2010. PVH Apparel Group also entered China with its IZOD brand and plans to open 3,000 stores over the next five years. Italian retailer RDM announced an investment of US\$910 million to set up five Italian-style luxury outlet centers in China.

Beyond brand and retail format extension, specific apparel segments are also growing. Sportswear and outdoor gear have boomed in recent years—20 and 50 percent annual growth rates respectively—as a result of the 2008 Olympics and the 2010 Asian Games. These sectors are expected to continue upward, particularly as minimum wage increases in several Chinese provinces.

Along with fast paced development of the market, a common problem that occurs is high employee turnover, which harms all aspects of doing business for any brand within this industry on the market.

This problem we will directly address in the following sections in the paper.

## 2. LITERATURE REVIEW

### 2.1 Labor turnover in the context of China

One of the most specific characteristics of China today is that this country has the largest labor force in the world. China's labor force consists of around 780 million people in 2006, of which 82% did not have an education higher than junior secondary school (Zhang *et al.*, 2009).

Employee turnover still remains one of the biggest problems faced by almost all the enterprises in the People's Republic of China. In a human resources and business management context, employees' turnover or labour turnover is the rate at which an employer gains and loses employees.

High employee turnover represents a big expense for any organizations. There are two types of costs in the context of high employee turnover. Those are direct costs (costs of recruitment and selection, training and development, replacement costs etc), and indirect costs (loss of production, reduced performance levels, unnecessary overtime, low morale, employee commitment, service/product quality, productivity and profit). Most of the local companies' executives emphasize that retaining highly skilled employees is one of the largest concerns when running a company in China (Childley & Wahl, 1999).

There were numerous studies from different perspectives about the causes of employee turnover. Cotton and Tuttle (1986) clearly identified three categories of factors that are in direct correlation with an employee turnover: work-related factors ( job satisfaction, pay, performance, organizational commitment), individual factors (age, education, sex, job tenure) and external factors (unemployment rates, employment perceptions, union presence).

There were a lot of theoretical and empirical research done in the context of employee turnover both in the context of human resource management and organizational behavior.

A lot of research emphasized the importance of job satisfaction in the context of employee turnover (Mobley, 1977). A well-known fact is that in comparison to Westerners, Chinese people feel more comfortable to live and work in the collective (group) societies; they respect hierarchy more and generally emphasize relationships as of a crucial importance (Bond, 1986, Nisbett, 2003, Zhu, 2005). These are all the reasons why leadership has a special role on employee turnover in the Chinese organizational context. How a leader (manager, or direct supervisor) treats an employee, how a leader evaluates and views the subordinate will strongly influence the employee's decision of how long to work for a certain company. If not satisfied, Chinese

employee will not straight forward go to their direct supervisors or express their concerns to the top management. When their managers do not behave in the ways Chinese employee expect, it is much more likely that they will choose to react by leaving the company and looking for some other job. Managers in China need to show that they understand and care about their employees as people, not just treating them as simple workers and focusing on their performance and direct financial benefits.

Several decades ago, when most of the people in China worked for the state-owned companies, quitting was not an option. Today, when Chinese economy is booming, when there is a more than 10% of growth every year and there a lot of different types of companies and job opportunities, employees leave their works very often.

Zhou *et al.* (2009) conducted an interesting research in a call center company based in mainland China. The results indicated that relationship between organizational commitment and turnover intention as well as between career commitment and turnover intention is significantly negative. More importantly, the result demonstrated that career commitment was the most important predictor of call center employees' turnover intention.

Sometimes the research results in China can be different than the ones from the West. Chen (2005) examined the job satisfaction-turnover relationship among IT employees and concluded that there are no significant relationship between job satisfaction and turnover. He further suggests that job satisfaction is indirectly related to turnover through organizational commitment. In the same context, Wong *et al.* (2001) argued that job satisfaction has no direct influence to turnover intention in two Chinese organizations they analyzed.

Some studies have been conducted specifically in retail sector. Arndt *et al.* (2006) and Saks (2006) were trying to find relationships between job satisfaction and the turnover of salespeople and they both concluded that job satisfaction had a negative and significant relationship with turnover intention.

Even though studies about the employees' turnover in Chinese retail sector are rare, Tian-Foreman (2009) has done one meaningful study in leading Chinese retail organizations. Contrary to some other similar researches, Tian-Foreman (2009) concluded that regardless of the differences between Western and Chinese cultures, job satisfaction in general negatively affects Chinese employees' turnover in a very similar way like it does in the West. In a quite similar study, Sin and Yau (1995) also discovered a negative relationship between job satisfaction and employees' turnover, and both of these are in the contrary to the conclusion made by Chen (2005) and Wong *et al.* (2001).

### 3. RESEARCH METHODOLOGY AND RESULTS

#### 3.1 Research methodology

We have conducted a research on employee loss in leisure clothing retail sector in China in the period between February and May 2011 in six major cities. The companies whose retail stores were visited will be here referred to as Company A, Company B, Company C, and Company D, all leading low to mid-range leisure clothing brands in China\*. Research methods included structured questionnaire and less formal discussions with store employees in Beijing, Shijiazhuang, Taiyuan, Changsha, Fuzhou, and Shenzhen.

#### 3.2 General observations

From the research conducted, we could make four general observations:

- 1) Salary is the factor that primarily influences employee turnover. Through the survey we conducted at Company A, we have found that the main reason for leaving the company was dissatisfaction with salary level (37,78% respondents stated low salary as the reason for leaving). Online conducted research on other brands also showed that the employees also show intention to leave the company if they are offered a higher salary at another company.
- 2) Employees working for leisure clothing brands usually come from rural areas of China, or are just part time workers who have just started working in clothing retail industry. When these people enter the industry, they have little idea about other brands and salary levels at other industries. After working for a certain amount of time, they usually find out working for other brands or in other industries they may be considerably better paid. In case the offered salary is 200 to 300 RMB higher (in our case the sensitivity bottom line is 300 RMB), the employees will choose to leave Company A.
- 3) There is another trend that those employees prefer to switch jobs for other higher level clothing brands, such as sports brands, or higher quality female clothing brands.
- 4) If the employees find out there is a higher salary offer and a vacant position at another company, they surely choose to leave the present job.

#### 3.3 Relationship between salary level and employee loss

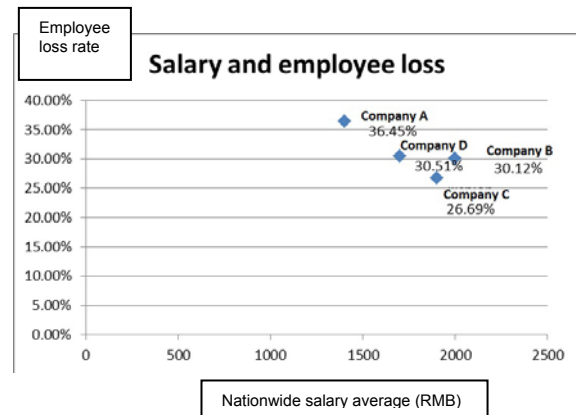


Figure 1. Salary and employee loss correlation

According to the above given chart, we can see that there is generally a tendency that the higher the salary, the lower employee loss rate.

We wanted to make estimation on how much a certain salary increase will influence job retention.

Table 1. Difference in monthly salary and employee loss among 4 brands

Brand	Average difference in salary in comparison with Company A (RMB)	Difference in monthly loss in comparison with Company A	Amount of money salary should be raised in order to reduce employee loss by 1% (RMB)
Company C	499	3.25%	153.54
Company D	324	1.98%	163.64
<b>Average</b>			<b>158.59</b>

Note: Since Company B's value is too extreme (195.62 RMB), we have omitted it from calculation.

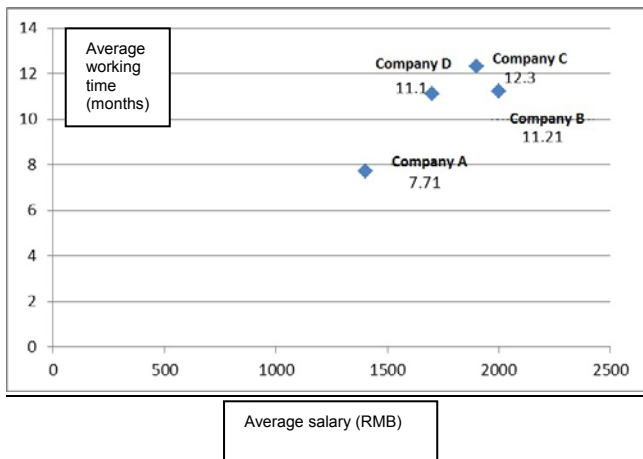
Average salary of Company A is 1439 RMB per month, and if they want to decrease employee loss rate by 1% they need to increase salary by 11%. To put it in other words, if they increase the salary by 10% the employee loss rate should fall by 0.91%.

As far as the sensitivity of employees to salary change is concerned, our research among these four brands showed that 300 RMB increase is enough for employees working in retail to consider changing the job for the higher paid one.

\* Companies' brand names are not disclosed due to their request to remain anonymous.

**Table 2.** Average working time of employees (in months)

Material source	Brands			
	Company B	Company C	Company D	Company A
Questionnaire information	10.5	14	10.8	9.84
Store to store direct investigation	10.7	10.6		5
Online research	12.43	8.8	11.4	8.28
<b>Average working time (months)</b>	<b>11.21</b>	<b>12.3</b>	<b>11.1</b>	<b>7.71</b>



**Figure 2.** Relationship between average working time and average salary among 4 brands in 2010

We can conclude from the above given table and chart that Company A's average working time is much shorter than in other brands. Company C has the longest retention, despite of lower salary than that at Company B. Company A's average salary is 1439 RMB per month, while the other 3 brands are all around 2000 RMB. Again, we can notice there is a positive relation between working time and salary.

**3.4 Models for salary structure**

The figure 3 on the following page represents two models of salary structured employed by 4 leisure apparel brands, which are general standards in the industry.

Model A is employed by Company A, while Model B is employed by 3 other brands, Company B, Company C, and Company D.

We can conclude that the Company A model is simpler, includes penalties if the monthly sales target is not reached by the employees, and does not give too high bonuses and rewards.

On the other hand, Model B is more flexible towards the employees, it does not publish sub-standard results, and it highly rewards above standard performance in sales. In certain situations, the difference in total salaries can be as high as double for the same job

position within the same industry, which greatly influences employee general job satisfaction, and consequently employee turnover, i.e. loss.

The difference in models clearly influenced Company A's high employee loss rates.

**4. CONCLUSION**

When discussing first level employee turnover, it is important to mention Price (2001) who suggested that the employees in low-status occupations would have higher rates of turnover than employees in higher-status occupations who are generally well informed and paid. In a recently done review of Chinese human resource management literature, Cooke (2009) in the same manner emphasized that there is an urgent need for doing the more research about the non-managerial workforce in China, since they make up the majority of labor force in the country.

Starting from these two scholar's opinions, as well as from the current situation at the Chinese apparel retail industry situation on the market, we can fully claim that the research in this area is meaningful and this particular research we conduct has its purpose.

The findings of this research go in line with Alas (2008) who concluded that employees in Chinese manufacturing companies put more emphasis on the satisfaction of lower level needs than respondents from East Asian countries and territories of Japan, South Korea and Hong Kong.

In this research, it is evident that first level employees in apparel retail industry in China are particularly sensitive to salary difference, to a degree when an increase in salary for as low as 300 RMB (cca. 30 EUR) per month can influence them to change jobs, regardless of other factors that play a role in job satisfaction generally.

It can be concluded that the choice of model for salary structure in apparel industry plays one of the crucial roles in Chinese employees' retention. However, even a more merit-based model may not perform up to a satisfying level and market standards that would be enough for the companies' stakeholders.

This is why we highly recommend that, whenever possible, organizations should take a long term perspective on doing business in China. Because of the specific Chinese cultural and traditional values, research on organizational commitment should also be paid attention to in the future.

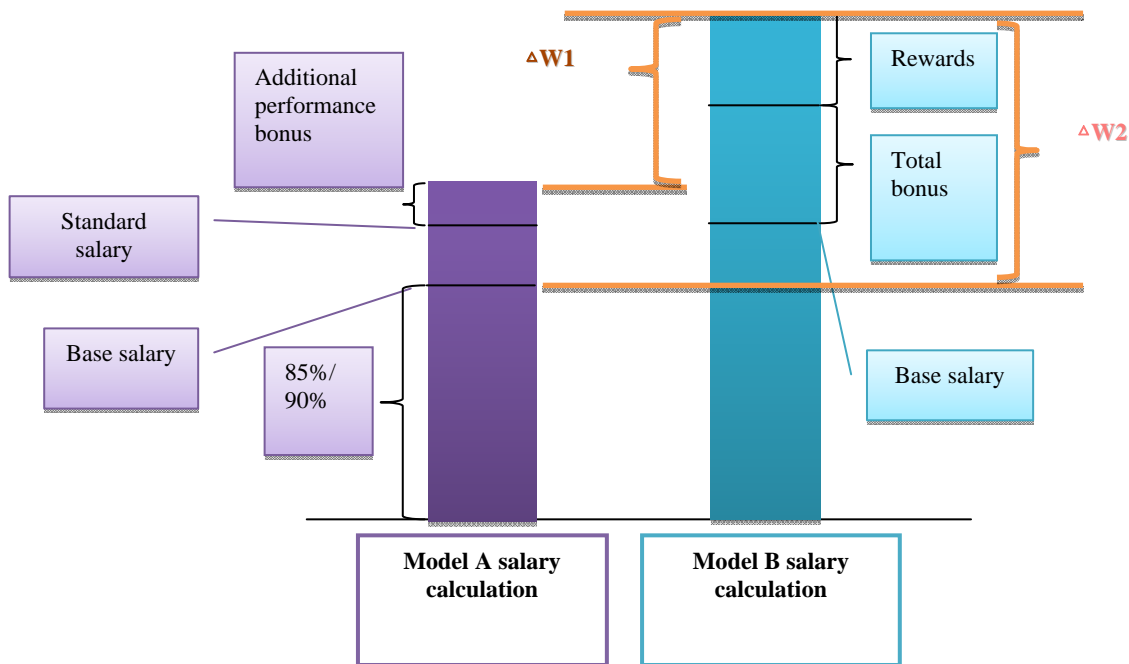


Figure 3. Model A and Model B for salary structure employed in the industry

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# Fluktuacija radne snage u maloprodajnim lancima odeće u Kini

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## Apstrakt

*Svrha ovog rada jeste da se obezbedi prikaz potrošačkog i maloprodajnog sektora u Kini, sa fokusom na maloprodajne lance ležerne garderobe. Problem koji je konkretno obrađen u ovom radu jeste visoka stopa fluktuacije radne snage koja direktno negativno utiče na iskustvo potrošača tokom kupovine, na stopu prodaje, kao i na poslovni imidž trgovaca. U periodu od četiri meseca posetili smo brojne maloprodajne outlet objekte četiri velike robne marke u šest velikih kineskih gradova. Studija se uglavnom fokusira na odnos između nivoa plate i fluktuacije zaposlenih u okviru ove industrije.*

**Ključne reči:** *industrija odevnih predmeta, Kina, fluktuacija radne snage*