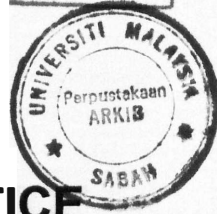


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**FACTORS OF ORGANIZATIONAL JUSTICE
INFLUENCING EMPLOYEES' TURNOVER
INTENTION OF SMES IN ZHONGGUANCUN**



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**SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITI MALAYSIA SABAH**

2006

DECLARATION

**FACTORS OF ORGANIZATIONAL JUSTICE
INFLUENCING EMPLOYEES' TURNOVER
INTENTION OF SMES IN ZHONGGUANCUN**

WANG NA



UMS

**Dissertation Submitted in Partial Fulfillment of
the Requirements for the Degree of Master of
Human Capital Management (MHCM)**

**SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITI MALAYSIA SABAH
2006**

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ABSTRACT

Turnover is the termination of an individual's formal membership with an organization. Today high turnover rate becomes a big problem in many countries, especially in China. The general objective of this research is to determine the impact of organizational justice factors (compensation, career development opportunity, supervisor, work environment and work group) has any influence on employees' turnover intention and whether age, job tenure, job opportunity outside, and education level play a moderate role in the relationship between organizational justice and employees' turnover intention. The literature review provides detail description of former research on how these variables influence employees' turnover intention. The sample of this study comprises of the managers and line managers in Zhongguancun Science Park in Beijing, China. A sample of 200 managers and line managers were targeted, however, only 160 questionnaires were returned and collected for analyzing. For this study, the research used questionnaires as the main study instrument. Nine hypotheses were constructed and tested using SPSS program of multiple regression and hierarchical regression. The research discovered that organizational justice factors (compensation, career development opportunity, and work environment) have a negative impact on employees' turnover intention and organizational justice factors (supervisor and work group) have no notable impact on employees' turnover intention. Age, job tenure, job opportunity outside and educational level do not play a moderate role in the relationship between organizational justice and employee turnover intention.

ABSTRAK

FAKTOR KEADILAN BERORGANISASI MEMPENGARUHI KADAR PUSING GANTI DI PERUSAHAAN KECIL SEDERHANA DI ZHONGGUANCUN

Pusing ganti kerja adalah pembatalan keahlian seseorang individual dengan sesebuah organisasi. Hari ini, kadar pusing ganti kerja yang tinggi telah menjadi masalah yang serius di kebanyakan negara terutamanya Negara China. Secara keseluruhannya, objektif umum penyelidikan ini adalah untuk menentukan kesan-kesan akibat faktor-faktor organisasi keadilan seperti kompensasi, peluang kenaikan kerjaya, penyeliaan, persekitaran pekerjaan dan kerja berkumpulan, sama ada mempunyai pengaruh ke atas keinginan pusing ganti kerja para pekerja. Di samping itu, ia juga menentukan sama ada umur, tempoh pemegangan sesuatu jawatan, peluang pekerjaan di luar, dan taraf pendidikan memainkan peranan penting dalam hubungan antara organisasi keadilan dan keinginan pusing ganti kerja para pekerja. Hasil penulisan dan pengajian menerangkan secara mendalam tentang peyelidikan sebelum ini bagaimana faktor-faktor tersebut mempengaruhi keinginan pusing ganti kerja para pekerja. Sampel-sampel penyelidikan ini terdiri daripada pengurus-pengurus bahagian dari Zhongguancun Science Park di Beijing, China. Sejumlah 200 sampel menjadi sasaran kepada penyelidikan ini tetapi hanya 160 sampel dapat dikumpul untuk analisis. Penyelidikan ini telah menggunakan soalselidik sebagai cara utama pengumpulan informasi. Sebanyak 9 hipotesis telah dibuat dan diuji dengan menggunakan SPSS program, iaitu regresi hirarki dan regresi (multiple). Hasil penyelidikan ini menemui bahawa faktor-faktor organisasi keadilan seperti kompensasi, peluang kenaikan kerjaya dan persekitaran pekerjaan mempunyai kesan-kesan negatif ke atas keinginan pusing ganti kerja para pekerja, akan tetapi faktor-faktor seperti penyeliaan dan kerja berkumpulan tidak mempunyai kesan-kesan yang ketara. Umur, tempoh pemegangan sesuatu jawatan, peluang pekerjaan di luar, dan taraf pendidikan juga tidak memainkan peranan penting dalam hubungan antara organisasi keadilan organisasi dan keinginan pusing ganti kerja para pekerja.

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CHAPTER 1

INTRODUCTION

1.1 Overview

Nowadays, globalizations, scientific and technological innovation of our society all shows that we have entered an era of knowledge economy and encountered a more competitive environment. This requires employers to pay more attention to human resource--the intellectual resource of our world.

Human resource is the most valuable resource of organization. The employees in the companies are the key assets. However, with the economic globalization, people can move more easily than ever, this high rate of turnover incurs organization provide more replacement cost in management. This problem is encountered by the whole world. For example, Barnett (1995), Chang (1996), Barnard and Rodgers (1998) found voluntary turnover is a major problem for companies in many Asian countries and areas such as Hong Kong, South Korea, Malaysia, Singapore, and Taiwan. It was even viewed that job-hopping had become so rampant in these countries and areas that it had become a culture (Asia Pacific Management News, 1997).

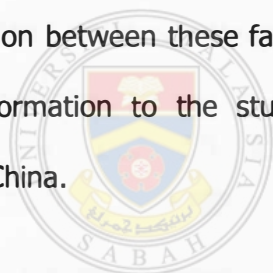
Similarly, employee turnover is very prevalent in China as well (MacLachlan, 1996). Stability was ever viewed as an important characteristic of Chinese, but since China began execute the economic and social reform policy in 1979, many changes in economy, society and culture have appeared. Now job-hopping is common to many employees, especially to that working in hi-tech enterprises.

The reason why there exist high turnover rate of China is complicated. But the most important is the rapid development of the economy and society, and the entering into WTO, which give great impact on people's idea, even the traditional

culture. People consider more economic and social factors in their work and lives. Change is no longer refused by labor; they compare their income, work environment, career development opportunity with each other. This comparison may result in quit from current organization. This kind of quitting of employees is turnover. The costs of turnover include easy-to-quantify, out-of-pocket expenses and intangible opportunity costs associated with lost productivity.

All these problems required academicians and practitioner pay more attention to turnover and analysis the factors resulting in turnover. But we should notice that most employers in China are lack of high-level ability of management compared to the employers in other country, and research on turnover is far from mature.

In this paper, we will focused on the factors of organizational justice, and find the association between these factors and turnover. We hope this study will provide valuable information to the study of turnover and finally help resolve turnover problem in China.



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1.2 Background of Small and Medium Enterprises in Zhongguncun Science Park in Beijing in China

Because of their flexibility and creativity, small and medium enterprises develop quickly in China, especially the hi-tech enterprises. Small and medium enterprises now are one of the main types of organizations who contribute to national economy. Most of these small and medium enterprises are private-owned, while large enterprises are national-owned. So during the development, small and medium enterprises meet more problems, such as turnover, than large enterprises.

In Beijing the Small and medium hi-tech enterprises located mainly in Zhongguancun Science Park. Figure 1.1 shows that gross income of small and medium enterprises in Zhongguancun increased quickly in recent years. In 2003,

there are 16299 small and medium hi-tech enterprises in Zhongguancun. The gross income of these enterprises is 285250 million Chinese Yuan, which is one of the main sources of financial revenue of Beijing. Besides this, the small and medium enterprises of Zhongguancun have provided many employment opportunities for Beijing labor market. In 2003, it involved about 326,000 employees totally. Generally to say, enterprises in Zhongguancun sustain the hi-tech industry in China.

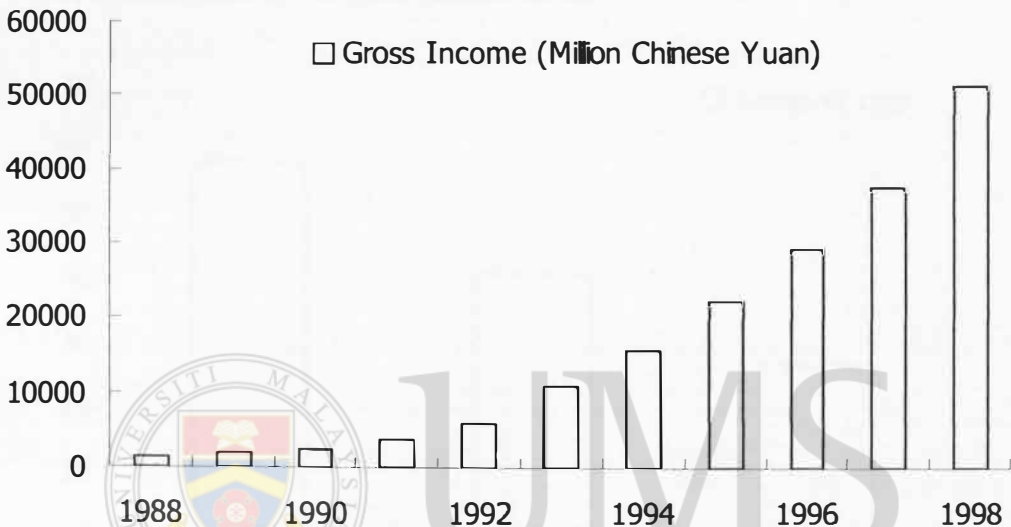


Figure 1.1 Gross Incomes in Years 1988-1998 in Zhongguancun

Data in this figure is sourced from the web page of Zhongguancun Science Park (<http://www.zgc.gov.cn>)

But according to recent investigation, the turnover in Zhongguancun enterprises is very frequent. In 2003, the average rate of turnover is up to 48.97%, which is much higher than that of other industry in Beijing. Among all the organizations, the small and medium businesses have highest turnover rate (Figure 1.2). Through figure 1.2 we can also conclude that small and medium business in Zhongguancun should consider how to solve this problem of high turnover rate. The high rate of turnover brought many problems. It is harm to not only enterprises' development, but also employees' career development. Another investigate also provide some

information that 62% of employees in Zhongguancun think that job-hopping will help them realize their value of life. The attitude to turnover of these people is positive, which is opposite to the attitude of these employees of other industry. So the turnover of enterprises in Zhongguancun should be paid more attention to.

Some researchers of China have studied that employees in hi-tech tend to be more easy to feel unfair and quit than those in other industries. So the research on the organizational justice is significant and useful.

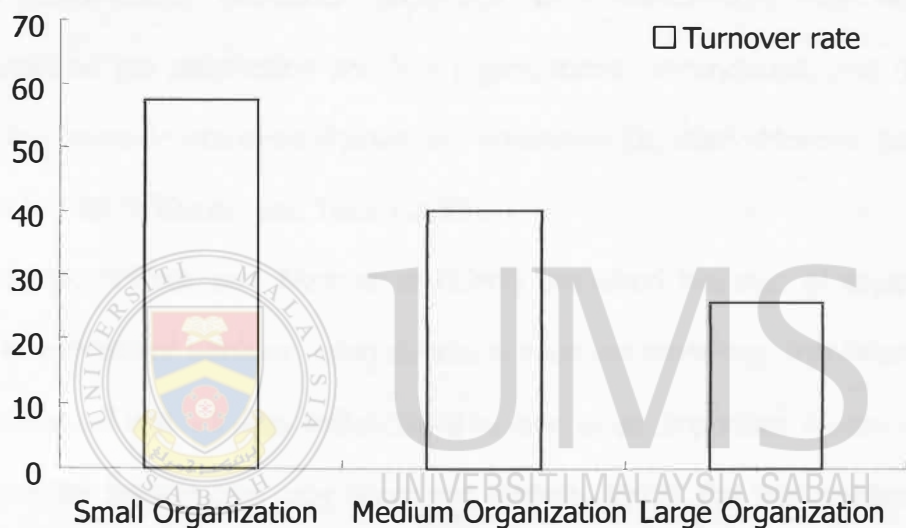


Figure 1.2 Turnover Rate of Organization in Different Scales in Zhongguancun

Data in this figure is sourced from the web page of Zhongguancun Science Park (<http://www.zgc.gov.cn>)

1.3 Rationale of This Study

Employee turnover have critical consequences both for the person and the organization. For this reason, it has been investigated in a relatively large number of studies, including the reason resulting in turnover, the impact of turnover on the organization, and the relationship between turnover and some human resource practices. Generally, employees leave their organization for a myriad of reasons. Much literature has shown that an employees’ decision to leave an organization is

influenced by a number of demographic variables (e.g., educational level), affective variables (e.g. job satisfaction), and intent to turnover variables (e.g. intent to quit).

As we have ascertained above, much research has been discussed on the reasons inducing turnover, but the study on the relationship between organization justice and turnover intention is relatively scarce. It does not mean there is not valuable correlation between them. Parker and Kohlmeyer III (2005) found there are significant link between organizational justice and turnover intention. Perceptions of bias in compensation, promotion, supervisor, work environment, even work group will cause low job satisfaction and low organizational commitment, and finally will cause high turnover intentions (Parker and Kohlmeyer III, 2005; Morrow, Suzuki, and Crum et al., 2005; Eberlin and Tatum 2005).

Acquino, Griffeth and Allen et al (1997) examined the role of organizational justice in a model of turnover using structural equation modeling. This situation gave the findings of exit surveys indicating that pay is an important reason given by employees for leaving their jobs (Hom and Griffeth, 1995). But this problem may be caused not just from the level of pay but the method in which it is distributed and communicated to employees (i.e., organizational justice). Thus, a need for additional research analyzing the effect of organizational justice on pay, supervisor and turnover appears to exist. More detailed research suggested that the behavior of turnover is related to organizational justices: distributive justice and procedural justice during the HR practice such as pay, promotion etc.

There are also some literatures that studied the moderators in the relationship between organizational justice and its outcome: turnover. Lipponen, Olkkonen, and Myyry (2004) have found that the strength of the relationship between distributive justice and turnover was dependent on the personal value orientation and other characteristic, for example, distributive justice was strongly associated with respect

and turnover intentions only among those high on self-enhancement orientation. In this paper, age, job tenure, job opportunity outside and education level are selected to be the moderate variables.

1.4 Research Problem

As we have said, employees in Zhongguancun tend to flow more frequently than those in any other SMEs, which bring a question for our research: Why turnover in SME in Zhongguancun is high? What are the underlying factors that would explain this situation?

Parker and Kohlmeyer III (2005) found that perceptions of bias in compensation, career development etc., is positively associated with organizational commitment and job satisfaction, and negatively associated with turnover intention. According to Blau (1985), employees lower in commitment are significantly more likely to be thinking about leaving their organization than those high in commitment. Much research found that low job satisfaction also result in turnover intention.

Therefore, by focusing on 5 fields of human resource practices (compensation, career development opportunity, supervisor, work environment, work group,) and find how organizational justice in these fields affect turnover, we may find some solution to problems meted by SMEs in Zhongguancun. Overall, this research, basically, will try to answer to the foregoing research questions as outlined below:

- 1.4.1 Is there a relationship between organizational justice resulting from compensation and employee turnover intention?
- 1.4.2 Is there a relationship between organizational justice resulting from career development opportunity and employee turnover intention?
- 1.4.3 Is there a relationship between organizational justice resulting from supervisor and employee turnover intention?

1.4.4 Is there a relationship between organizational justice resulting from work environment and employee turnover intention?

1.4.5 Is there a relationship between organizational justice resulting from work group and employee turnover intention?

1.4.6 Are age, job tenure, job opportunity outside and educational level play a role in moderating the relationship between organizational justice and employee turnover intention?

1.5 Research Objectives

Until now the study on the relationship between organizational justice and turnover is scarce. To understand this point, we select different human resource practices that may cause organizational justice, and study its effect on employees' turnover. Therefore the objectives of this research are divided into two parts. The first part consists of the main objective while the second is the supplementary objectives.

The main objectives of this research are as follows:

- a) To examine whether factors of organizational justice (compensation, supervisor, career development opportunities, work environment, work group) has a negative impact on employees' turnover to the organization.
- b) To explore whether age, job tenure, job opportunity outside, education level play a moderated role in the relationship between organizational justice and turnover.

The supplementary objectives of this research are as follows:

- a) To discuss the solution of turnover problems in organizational justice through finding the impact of factors of organizational justice on turnover.
- b) To increase managers' ability to recognize turnover factors, this will provide prospective organizations to react swiftly in meeting their strategy objectives.

1.6 Scope of the Study

The objective of this research is finding the relationship between factors of organizational justice and turnover. The researcher surveyed large amounts of employees in small and medium enterprises in Zhongguancun in China. The survey occurred through questionnaire. Most of the small and medium enterprises in Zhongguancun Science Park in Beijing are Hi-tech companies; human resource is the core competitiveness of them. But the ratio of turnover of these enterprises is much higher than that of other enterprises. To evaluate the relationship between organizational justice and turnover, managers and line manager from these hi-tech companies have been selected as the respondents.

1.7 Significance of the Study

The research on the relationship between organizational justice and turnover is far from maturation; much study can be done here. This paper gives a helpful trial. It not only provides an example for further study on turnover, but also helps the managements of the hi-tech companies in Zhongguancun Science Park improving the human resource practices. From this study, managements will find that compensation is not the only reason that can keep employees in their position. A more fair work environment compared to other companies will attract more talented person. Call out their spirit of fair competing will bring the company with great benefits.

Without doubt, this study is still limited in some fields, but the result of this research could serve as a reference for further investigations about factors of turnover.

1.8 Definition of Key Terms in This Study

The key variables used in this study have specific meaning and such definition in general context as well as in the context of this research are outlined below.

1.8.1 Organizational Justice

According to Cropanzano (1993), Eberlin and Tatum (2005, p1041), organizational justice refers to the fair and ethical treatment of individuals within an organization. While Folger and Cropanzano (1998), two of the leading researchers in this area, define organizational justice as the conditions of employment that lead individuals to believe they are being treated fairly or unfairly by their organization (Lipponen, Olkkonen, and Myyry, 2004, p276).

1.8.2 Employee Turnover

Price (1977, p15) defines turnover as "the degree of individual movement across the membership boundary of a social system."

Woods (1995, p345) refer to turnover as the entire process associated with filling a vacancy. He pointed out "Each time a position is vacated, either voluntarily or involuntarily, a new employee must be hired and trained. This replacement cycle is known as turnover."

While Lee (1997, p247) describes turnover as "the termination of an individual's formal membership with an organization".

1.8.3 Compensation

Compensation is a multidimensional concept and topics covered include direct payments such as salary, wages, bonuses and indirect payments such as payments to cover the costs of private and public insurance plans (Milkovich & Newman, 1999).

1.8.4 Career Development Opportunity

According to Arthur & Rousseau (1996); Greenhaus & Callanan (1994), a career development opportunities is the sequence of employment-related positions, roles, activities and experiences encountered by a person.

1.8.5 Supervisor

Supervisor is a manager at the first level of management who assigned tasks, monitor performance and appraisal result to subordinates (Vandenberghe, Bentein & Stinglhamber, 2004; DeConinck, Stilwell, 2004).

1.8.6 Work Environment

Work environment is focused on the requirement for people on working life. According to Eriksson (1996), it includes three main categories; the first is the content and character of the work. The second deals with the organization of the work and the employees' possibilities for self-control, and the third concern the social relations in the work, especially social support. Besides these three main categories, Physical health should also be considered a category of work environment (Baron, 1995). Organizations should offer a safe, healthy and comfortable physical work environment for the personnel.

1.8.7 Work Group

A work group is two or more individuals interacting with each other to accomplish a common goal. In this group individuals collaborate with each other to finish their work (Ivancevich & Matteson, 2002).

1.9 Summary

Globalization, development of economy, technology and science make turnover being a big problem in many countries, especially in China. The economic reform in China brings many changes to labors, such as pay structure, the policy of the flow of labor, and the view of employees' mobility etc. The rate of turnover increases quickly every year. This paper studied the problems encountered by small and medium hi-tech enterprises in Zhongguancun Science Park in Beijing in China.

Turnover is associated with many factors. Academicians have done abundant significant job in this fields. But the relationship between organizational justice and turnover is relatively scarce. To find this relationship and help practical in China solve the problem of turnover. This paper provided a significant trial of study based on the data of small and medium enterprises in Zhongguancun.



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CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Much research has been done on employees' turnover, so as to organizational justice. To best understand the factors of organizational justice influencing turnover and utilize the result of former researchers, a review of all these studies, especially the factors discussed above and its variables are as outlined in this chapter.

2.2 Definition of Concepts

Each of the concepts will be defined as to show the relationship of turnover and the variables of organizational justice (compensation, career development opportunity, supervisor, work environment, and work group). The researcher will relate to these concepts with the findings in the latter chapters.

2.2.1 Organizational Justice

In the last decade there has been much attention surrounding organizational justice as an important construct and a major research area in industrial/organizational psychology (Greenberg, 1990). Organizational justice refers to the fair and ethical treatment of individuals within an organization (Cropanzano, 1993). Organizational justice is important because it has been linked to critical organizational processes such as commitment, citizenship, job satisfaction, and performance (Colquitt et al., 2001, 2002; Greenberg, 1993; Tatum et al., 2002). Additionally, recent literature by the authors suggests that there is an intimate link between leadership style, decision-making, and organizational justice (Bradberry and Tatum, 2002; Tatum et