Changing Worker Attitudes Reshape Management Views

Struggling to strike a balance between keeping expenditure and turnover low, suppliers are modifying their starkly utilitarian factory complexes, bearing employee comfort and recreational needs in mind.

by *Gordon Styles, Engineer & Managing Director,* Star Prototype *[1]*

The growing demands of China's new generation of workers are eroding the cost competitiveness of many export products, particularly those in labor-intensive industries such as garments, footwear and bags. Because of rising manufacturing costs and the decoupling of the yuan's peg to the US dollar, profit margins for these products are estimated to be between 2 and 5 percent.

Hong Kong Small and Medium Enterprises Association chairman Danny Lau said low costs, inexpensive labor in particular, are one of China's biggest competitive differentiators among global factories. While suppliers are still able to negotiate specifications with clients to avoid price adjustments, they may have no choice but to raise quotes if worker-related expenditure continues to climb. Should this happen, "many buyers will choose to source from Vietnam and other countries with lower production costs," Lau said.

To reduce outlay, companies are moving away from the Pearl River Delta region. Guangzhou Canttro Extension Electronics (Group) Co. Ltd built factories in

Hangzhou, Zhejiang province, and Wuhan, Hubei province. General manager Zheng Haibin said manufacturing in the cities along the Pearl River Delta is no longer as cost-effective, and that moving to the Yangtze River Delta region could save the company 10 to 20 percent in labor expenses.

"Many companies in the Pearl River Delta region offer higher-than-minimum wages, which range from 1,500 to 2,000 yuan ($221 to $295) per month, but employees still feel unsatisfied," Lau said. He stressed that China's workers should not compare their salaries with those in developed countries such as the UK, where hourly wages stand at about 7 pounds ($10.50). Instead, the average rate of 10 yuan ($1.50) per hour should be set off against what workers received 10 years ago, which was roughly 1.25 yuan ($0.18) per hour.

That belief, however, is not shared outside manufacturers' circles.

The Institute for Contemporary Observation director Liu Kaiming did his own research, which showed labor-intensive industries generally have a markup of at least 10 percent. One of the factory owners he talked to in Jiangsu province even said the factory would not accept orders if the potential profit is less than 20 percent.

If the profit margin is only 2 percent, Liu opines it would be better for the supplier to let a fund manager handle its money. Investing in a savings account, for example, could result in 5 percent earnings per annum.

China Labour Bulletin editor Geoffrey Crothall agrees with Liu's findings. Crothall believes low profit is just an excuse manufacturers use to keep minimum wages from rising too fast.

Liu also debunks the claim that smaller plants are at greater risk. He said such factories can actually post higher gains as they have fewer maintenance and administration costs, and are subject to less expensive taxes.

Star Prototype China Ltd managing director Gordon Styles said labor costs generally account for 10 to 25 percent of export prices. A typical factory in China, meanwhile, can probably boost annual efficiency by an average of 5 percent.

Concessions to Retain Manpower

Even though labor-related expenses are eating significantly into manufacturers' margins, companies are improving working and living conditions to minimize turnover.

Many foreign-invested companies are setting a good example. At Styles' production facility, each dormitory room houses only five employees, which is lower than the usual eight to 10. Individual beds, wardrobes, desks, computers with Internet connection and chairs are provided.

Lau of the Hong Kong Small and Medium Enterprises Association, and China Center

for Labor and Environment project manager David Abrahamson said some companies are building recreational facilities such as basketball courts. Others also organize regular karaoke or barbecue parties.

Availability of hot water in bathrooms is not common, but a welcome provision. Few factories currently offer this, and many of those that do limit supply to several hours per day.

More than these improvements, however, Liu believes employers should respect workers and not treat them like machines. Contracts should be honored, salaries given on time and factories kept safe and clean.

In addition, Crothall and Abrahamson think regular communication between management and staff is important. There should be a system where constant dialogue can take place.

Liu admits salaries, and the working and living environment have actually been improving in recent years. But he estimates it would take more than a decade before wages and conditions can be on a par with Western levels.

Between increasing monthly salaries and improving factory and dormitory settings, manufacturers find it more practical to address the latter. Building an outdoor basketball court, for instance, requires a one-time investment of roughly 50,000 yuan ($7,380). Raising wages, meanwhile, involves spending 10 to 20 percent more per employee each month.

Styles of Star Prototype said most foreign-owned enterprises are allocating funds to give workers a better living and working environment. Local businesses, however, are less willing to invest in such measures but are being forced to do so to minimize turnover.

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