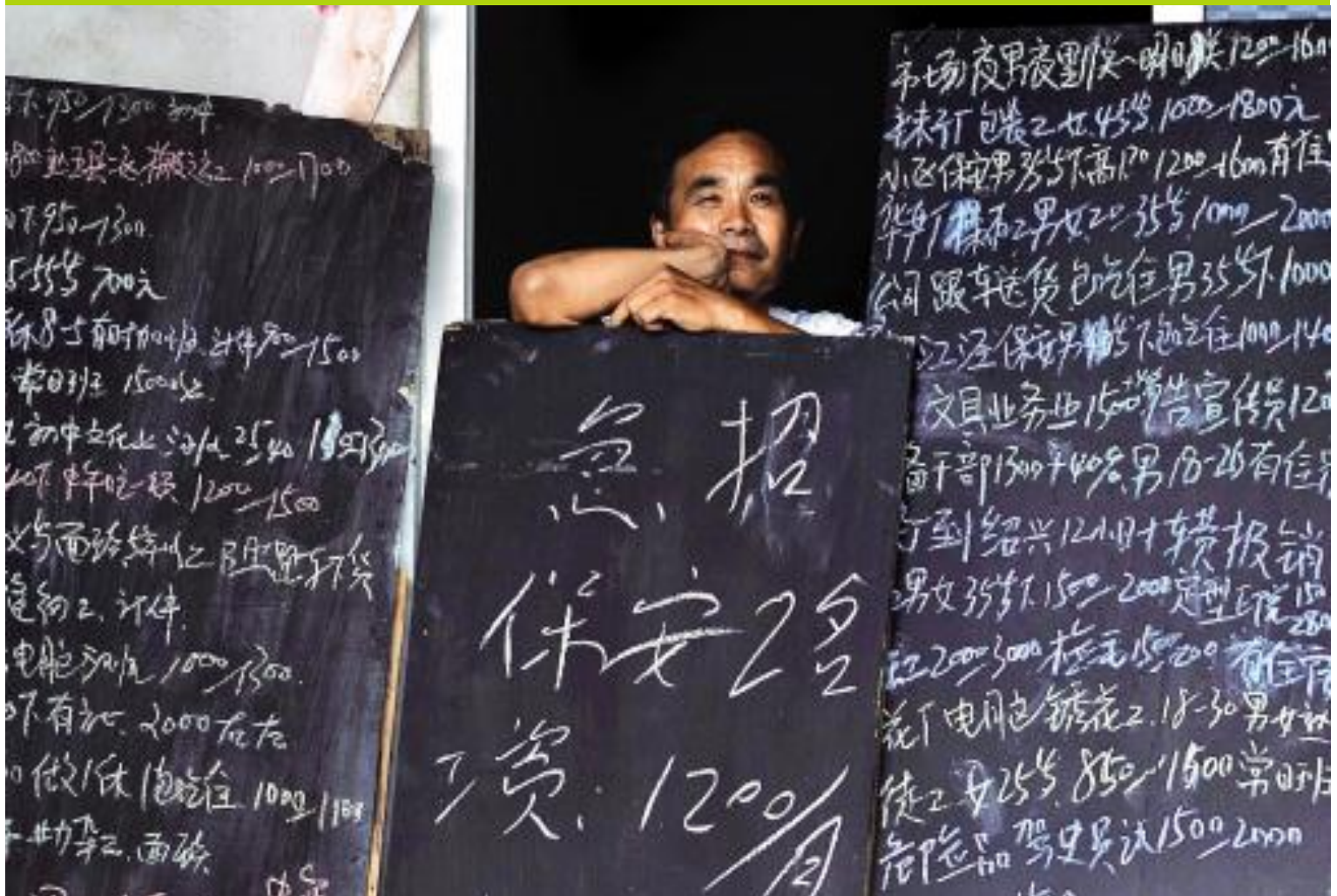


# A Study on the Labor Shortage and Employment Guidelines for Manufacturers in China



## About This Report

Since Spring Festival (Chinese New Year) in 2010, China's labor shortage has been a hot topic widely discussed by media, government, manufacturers, and foreign buyers. This report, commissioned by Primark and prepared by BSR, aims to investigate the current labor shortage faced by manufacturers in China, promote the sharing of best practices for dealing with the labor shortage, and provide advice to Primark's suppliers. The sources of data used in this report include official reports issued by the Chinese government, interviews with government officials, investigations carried out by the media, and feedback from suppliers who participated in the Primark supplier meeting. We have also included results of the labor shortage research that BSR conducted in March 2010.

We would thank the HR experts and managers from several companies who provided help in this study.

### **DECLARATION**

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A leader in corporate responsibility since 1992, BSR works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration.

With six offices in Asia, Europe, and North America, BSR uses its expertise in the environment, human rights, economic development, and governance and accountability to guide global companies toward creating a just and sustainable world. Visit [www.bsr.org](http://www.bsr.org) for more information.

### **ABOUT PRIMARK**

Primark is an Irish clothing retailer, operating in Ireland, the United Kingdom, the Netherlands, Germany, Spain, Portugal and Belgium. It operates a total of 198 stores with 38 in Ireland, 139 in the UK, 15 in Spain, two in Germany, one in the Netherlands, two in Portugal and one in Belgium. Whilst the company's main headquarters are based in Ireland, the chain is a subsidiary of Associated British Foods plc (ABF). Visit [www.primark.co.uk](http://www.primark.co.uk) for more information.

# Contents

## **3 Executive Summary**

## **7 Background of the Labor Shortage**

### **8 Current Employment Status of Migrant Workers**

The overall number of migrant workers is increasing

The change of distribution of migrant workers

The change of migrant workers' choice of working destination and its impact on enterprises in eastern coastal areas

### **11 Causes of the Labor Shortage**

The change of destination of migrant workers

The number of migrant workers is increasing, but at a lower rate

The high demand for workers due to the rapid recovery of the Chinese economy

Industrial upgrades lead to a higher demand for experienced and technical workers

The changing age structure of the labor force

Enterprises in the eastern coastal areas are less attractive than before

### **15 Response from the Chinese Government**

What does the government think about the labor shortage?

The policies from the Central Government

The policies from the local government

## **18 How Are Suppliers Dealing with the Labor Shortage?**

### **18 Challenges of Recruiting and Retaining Workers**

### **18 Problems with Human Resources Management**

### **19 Suggestions and Best Practices for Worker Recruitment and Retention**

## **23 Case Study**

## Executive Summary

Around 1990, an export-oriented economy grew rapidly in the eastern coastal areas of China. A huge number of surplus rural laborers, especially those from the mid-western areas of China, moved to the eastern coast and kick-started the famous migrant worker boom. This boom, however, was replaced by a new economic and social phenomenon, the migrant worker shortage, beginning in 2004, which marked the end of the tale of "unlimited" labor supply. This research takes an in-depth analysis to understand the root causes of the prevailing labor shortage in China and outlines the following:

### A. THE CHANGE OF DESTINATION OF MIGRANT WORKERS

The efforts of the Central Government resulted in better conditions in rural areas and improved the incomes of farmers. The agricultural allowances and higher purchase price of farm produce, for example, help farmers earn more than before. Some migrant workers have quit their jobs in the cities and returned to their hometowns to resume farming or start produce processing businesses. In addition, the economic growth of mid-western areas is attracting more migrant workers.



Garment workers in factory

### B. THE NUMBER OF MIGRANT WORKERS IS INCREASING, BUT AT A LOWER RATE

According to a report published by China Academy of Social Sciences, the proportion of the working-age population in China reached its peak, 72.35 percent, in 2009, and will decrease gradually to 67.42 percent by 2030, which is about the same level as that of the early 1990s. Although the number of migrant workers continues to grow for another seven to eight years after 2009, the growth rate will be lower each year. A similar trend can be seen in the total number of migrant workers in China.

### C. THE HIGH DEMAND FOR WORKERS DUE TO THE RAPID RECOVERY OF THE CHINESE ECONOMY

In late 2009 and before Spring Festival 2010, the Chinese economy showed a rapid recovery, and companies found it was necessary to employ more workers to fulfill a large quantity of orders from abroad. However, since many migrant workers were enjoying their annual New Year's leave at the time, business owners could not find enough workers in the labor market. This caused a serious labor shortage in the eastern coastal areas.

### D. INDUSTRIAL UPGRADES LEAD TO HIGHER DEMAND FOR EXPERIENCED AND TECHNICAL WORKERS

According to statistics published by the Guangdong Human Resources and Labor Security Administration, in 2010 there will be a 32-percent shortage of technical workers in Guangdong province, and the ratio of demand to applications of technical workers will be 54:1. Although the shortage of technical workers is mainly due to an increase of demand for labor, a lack of concern or even negligence by the government on fostering technical workers is also believed to be another factor leading to the shortage of technical workers.



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*According to the results of BSR's research of more than 100 labor-intensive manufacturing enterprises in the Pearl River Delta, 84 percent of business owners recognize they need to change their management styles to give more concern and care to young workers, and help them develop their careers through more training and communication.*

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#### **E. THE CHANGING AGE STRUCTURE OF THE LABOR FORCE**

According to the results of BSR's research of more than 100 labor-intensive manufacturing enterprises in the Pearl River Delta, 80 percent of business owners believe that they are facing a significant challenge in managing new-generation migrant workers, who have different personalities, feel a strong sense of self-respect, are less disciplined, and frequently change jobs. In fact, 33 percent of business owners reported that young workers required more than elder workers in areas such as working conditions, time off, and wages; 84 percent of business owners recognize they need to change their management styles to give more concern and care to young workers, and help them develop their careers through more training and communication. Also, 37 percent of business owners are improving their working conditions and wages in order to retain and attract more young workers. These are all positive changes.

#### **F. ENTERPRISES IN THE EASTERN COASTAL AREAS ARE LESS ATTRACTIVE THAN BEFORE**

Although the statistics published by the National Bureau of Statistics and Ministry of Human Resources and Social Security indicate that the East is still the main destination for migrant workers, the proportion of migrant workers going to the East is falling greatly.

To provide insight on positive human resource management, this report recommends the following guidelines to tackle labor shortage issues:

#### **HUMAN RESOURCE PLANNING**

As a foundation for sustainable development, human resource planning is extremely important for small to medium labor-intensive manufacturing enterprises. Effective human resource planning does not depend on the scale of the factory, but rather the strategy and management style of the factory. By making human resource planning a high priority, management can become more sensitive to changes in the labor market. In this way, management can predict demand and supply of labor, and implement strategies for developing and retaining talented employees who contribute to company growth.

Advanced human resource (HR) planning needs to be carried out by a high-caliber HR management team. Although the importance and role of the HR department is finally being recognized by many business owners, the current labor shortage means support for HR is insufficient. Improving the capabilities of HR staff is the responsibility of business owners, who should provide more support to HR staff.

#### **NEW RECRUITING CONCEPTS AND CREATIVE PRACTICES UTILIZING GOVERNMENT RESOURCES**

Facing a serious labor shortage, many business owners of labor-intensive manufacturing enterprises are realizing that they cannot just wait for workers, but need to attract workers by changing their recruiting concepts and channels, and creative advertising that helps improve corporate image.

Examples of new recruitment practices include: incentives to workers who recommend new hires; sending recruitment representatives to areas where there is an abundant supply of labor; participating in job fairs or utilizing labor information published by the local government; cooperating with vocational schools; using labor dispatch companies or labor agent organizations;

advertising wages, benefits, and the corporate culture through job ads, websites, flyers, or even tissue papers.

### ***HIGHER PRIORITY ON WORKER TRAINING, CAREER DEVELOPMENT AND RESERVES OF TALENTED WORKERS***

New-generation migrant workers have become the main body of the labor force in most labor-intensive manufacturing enterprises. Compared with the elder generation, young workers care more about their working atmosphere and career development. By providing focused training and education to young workers, companies are able to attract, develop, and retain them, and increase their motivation and focus. Doing so is also helpful for building a reserve of talented, skilled workers for future needs and reducing the impact of the labor shortage. Many young migrant workers believe that workers and the factory constitute an employment relationship. Therefore, a factory should provide trainings not only on skills, but also responsibility, loyalty, professionalism, and corporate culture.

Young workers lack both work and life experience. Some factories provide trainings on values and occupational development during the orientation of new workers. BSR's research reveals that workers who receive such training are more loyal and the workforce is more stable. Other good practices are to involve workers in factory management, provide more opportunities for training, and improve communication with them. By doing so, workers develop a better understanding of their situations as well as relevant laws and regulations.

### ***HIGHER WAGES AND BETTER INCENTIVES***

Some factories are not attractive to migrant workers due to their low wages and ineffective—or lack of—incentives. Generally speaking, the East has lost its attractiveness due to the prices of goods and living costs, while the mid-western areas are becoming more attractive due to increased wages and relatively low living costs. To attract migrant workers, factories in the East have to increase wages and welfare benefits. When doing so, factories need to comprehensively analyze the wage levels of the industry and region, return on investment and workers' needs, and switch from a simple wage system to one with multiple incentives.

Some factories achieved good results by increasing workers' wages and implementing a series of policies for attracting and retaining workers. Such practices include: incentives for returning after the Spring Festival, free travel tickets for returning, "couple rooms" for married workers, better food, lower dormitory fees, reduced costs of physical examinations, awards for long service and above-quota production, extra allowance for technical workers, opportunities for promotion, and better logistics services.

### ***EMPLOYEE RELATIONSHIP MANAGEMENT TO IMPROVE WORKERS' SENSE OF BELONGING***

Establishing good personal relationships with workers is an effective practice for worker retention and reducing turnover. The current labor shortage has reminded business owners that workers are not tools for making profit, but rather important resources that need to be cultivated, developed and well-utilized. A good management-employee relationship helps shorten the distance between management and workers. It can enhance workers' sense of belonging and reduce the turnover rate. Employee relationship management may include employment contracts, claims systems, labor dispute processes, worker assistance plans, awards and incentives, satisfaction surveys, and feedback.

Some factories have established effective claims systems that provide feedback and respond to workers' opinions and suggestions. By doing so, management has won the trust of workers and built a good corporate image. Some factories implemented workers' assistance plans or established consulting rooms that can provide psychological support to help with problems or difficulties employees face in their work or social lives. Such practices enhance workers' sense of belonging, improve a factory's reputation, reduce turnover rates, and build a more stable workforce.

### **GOOD CORPORATE CULTURE FOR WORKER RETENTION**

A good corporate culture is essential for attracting and retaining workers. New-generation migrant workers care more about the working atmosphere and their feelings. For a factory in a labor-intensive manufacturing industry, a good corporate culture should include at least three things: 1) trust, which is integral for enhancing interpersonal relationships (especially relationships between leaders and workers); 2) an environment that encourages happiness at work and in social life, which is what new-generation migrant workers want; and 3) equality—new-generation migrant workers need to be treated with equality and dignity. They resent arrogant attitudes in leaders and being treated unfairly or ignored. Treating workers fairly and respectfully is essential for retaining them.

### **IMPROVED MANAGEMENT AND COMMUNICATION**

There is an important saying in human resource management: *A worker selects a good company, but resigns because of a bad leader.* In most cases, leaders or managers are the direct cause of workers' resignations. Some managers lack management and communication skills, and treat workers harshly. This is one of the causes of a high turnover rate. To attract and retain workers and tackle the problem of the labor shortage, it is important to improve the management and communication skills of supervisors and managers.

Some factories have realized the importance of human-oriented management skills. In such factories, managers have received training in communication skills and dispute resolution. They also have a line supervisor certification system to ensure good communication with workers. In fact, more factories are adopting this practice.

### **REDUCE RELIANCE ON MIGRANTS THROUGH EQUIPMENT PURCHASE(S) OR RELOCATION**

The occurrence of the labor shortage shows that labor-intensive manufacturing enterprises rely too much on cheap labor. Some leading companies have decided to change. They have increased their investment in machines and equipment, which can replace workers, at least partially. Others have relocated from the East to the West, where there is an abundant supply of workers. Both practices are good, but expensive. For those companies who cannot afford such a cost, a better option is to improve HR management and adapt to changes in the labor market.

## Background of the Labor Shortage

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*"At present, the labor shortage and recruiting difficulty seen in China's labor market has its fundamental roots in structural inequalities between supply and demand. From the supply side, there have been no significant changes. Factories continue to use traditional practices, work environments have not changed, and jobs remain predominantly blue-collar. This type of work has lost its appeal to workers."*

*--Wang Jun, Dean of the Department of Advance Social Sciences, Sun Yat-Sen University*

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Around 1990, an export-oriented economy grew rapidly in the eastern coastal areas of China. A huge number of surplus rural laborers, especially those from the mid-western areas of China, moved to the eastern coast and kick-started the famous migrant worker boom. This boom, however, was replaced by a new economic and social phenomenon, the migrant worker shortage, from the beginning of 2004, which marked the end of the tale of "unlimited" supply of labor.

In fact, the "migrant worker shortage" was not the phrase used to describe this phenomenon originally. It was called "a lack of workforce," "insufficient factory management," or "lack of labor" by the Chinese media. It was in 2004, after the release of a Ministry of Labor and Social Security report on the lack of migrant workers (September 16, 2004) that the term "migrant worker shortage" was used frequently by the media and then became a hot topic for social experts. People found that there was no mention of a "migrant worker boom" any more, only discussion of a "migrant worker shortage" in newspapers, magazines, and TV reports.

In the course of this change from "labor boom" to "labor shortage," there was a significant change in government policy. The Guangdong Provincial Government, for example, has developed a policy for attracting migrant workers through improving public services and increasing the minimum wage (2010), which was completely different from its policy in 1995, when the government tried to limit the number of migrant workers coming to Guangdong province. The background to such a dramatic change of government policy is directly related to the significant changes in the overall demand and supply of labor, regional competitiveness, and in the age structure of the labor market of China after several decades of rapid economic growth.

However, it seems that enterprises—especially labor-intensive manufacturing enterprises located in the eastern coastal areas that need workers more than any other enterprises—have not been willing to bring about a fundamental change in their wage systems, benefits packages, employment methods, labor management practices, or in the way they treat workers, even though they have suffered labor shortages several times in the past. This time, when the labor shortage occurred after the Spring Festival 2010, they found they were in real trouble. They had enough orders from foreign customers, but they could not find enough workers to help them meet the orders. Furthermore, the high turnover rate of workers, which has been a problem for a long time, is getting worse.

However, enterprises are still reluctant to change. Owners believe that their current channels can bring them enough workers from inland areas, at least to provide them with a workforce sufficient to maintain the operation of their factories. This attitude reveals a lack of awareness of sustainable operations.

It is under such a background that BSR implemented the research and developed a guideline for dealing with the labor shortage problem. We wish to help labor-intensive manufacturing enterprises understand the current situation and trends of the labor market, as well as relevant government policies. In this way, enterprises can succeed in this crisis by making improvements in employment, training, wages, worker management systems, corporate image, and staff motivation, as well as stabilizing their workforces and increasing core competitiveness and capabilities to operate sustainably.



### Current Employment Status of Migrant Workers

Factory owners are confused by the labor shortage that has occurred in 2010. They wonder where the migrant workers have gone. Is it because some regions or labor-intensive manufacturing enterprises are not as attractive to migrant workers as they were in the past, or are there less farmers who are willing to work in developed areas? We will use official data published by the government to find out the answer.

#### *The overall number of migrant workers is increasing*

According to the 2009 Migrant Worker Monitoring Report (published March 2010 by the Rural Department, National Bureau of Statistics), the number of migrant workers was 229.78 million in 2009, which is a 1.9-percent increase from 2008. Among them, 145.22 million (63.2 percent) work for more than six months in areas other than their registered residences; this number is 3.5 percent (4.92 million) more than 2008. Also, 84.45 million migrant workers did off-farm work in towns or villages in local areas. This number is 0.7 percent less (0.56 million) than 2008.

This statistical data shows that the overall number of migrant workers and the number of migrant workers working in areas other than their registered residence are increasing, and rural laborers continue to leave their hometowns and move to the secondary and tertiary industries.



New generation migrant worker rising awareness on labor rights in China

**Table 1: Number of Migrant Workers**

	2009	2008	+/-	Increase (%)
<b>Total number</b>	229.78m	225.42m	4.36m	1.9
Migrant workers in areas other than their registered residences	145.33m	140.41m	4.92m	3.5
Migrant workers in local areas	84.45m	85.01m	-560,000	-0.7

(Note: According to the definition of the National Bureau of Statistics, a “migrant worker” is a person with a rural household registration, and who does off-farm work for more than six months each year.)

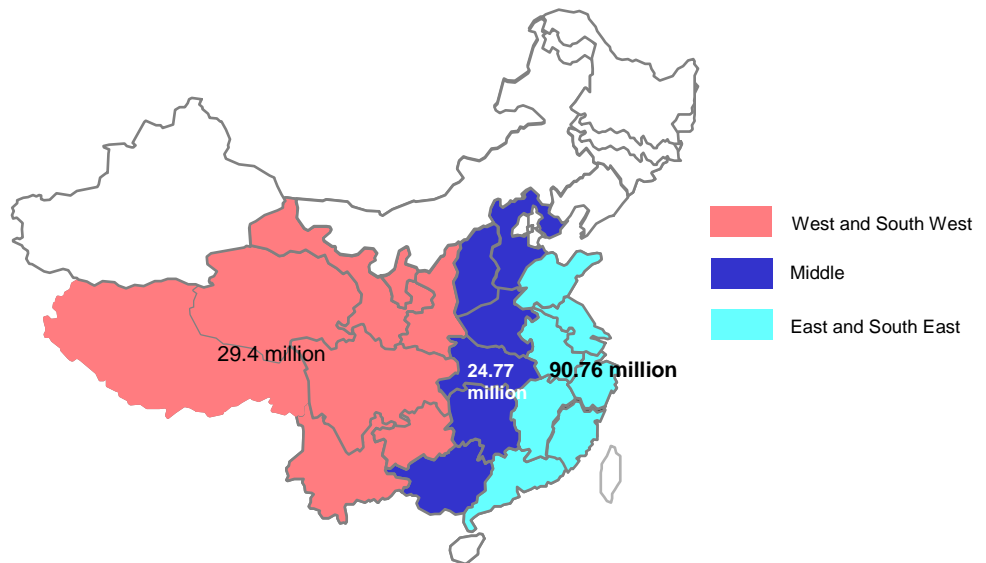
#### *The change of distribution of migrant workers*

The 2009 Migrant Worker Monitoring Report also indicates that although there is an increase in the number of migrant workers and migrant workers working in areas other than their registered residences, there are three changes in the distribution and structure of migrant workers.

- 1) *Most migrant workers are working in eastern China, but there is an increase in the number of migrant workers in mid-western China*

The number of migrant workers in eastern China was 90.76 million in 2009; this number is 8.88 million (8.9 percent) less than that of the previous year. The proportion of these workers of the total migrant worker population is 62.5 percent, which is 8.5 percent lower than that of the previous year. In 2009, there were 24.77 million migrant workers in the mid-China area, a 33.2-percent (6.18 million) increase compared with that of the previous year, and the proportion of the total migrant worker population was 17 percent, an increase of 3.8 percent. In the western China area, there were 29.4 million migrant workers in 2009, which is a 35.8 percent (7.75 million) increase, and the proportion of the total migrant worker population is 20.2 percent, an increase of 4.8 percent.

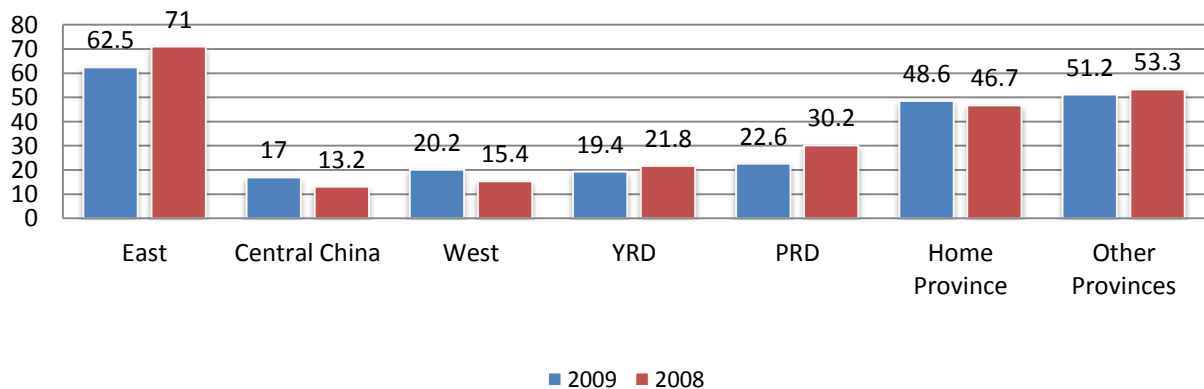
It is apparent that although the number of migrant workers increased in 2009, there is a tendency that more and more migrant workers are selecting mid-western China and not eastern China as their destination.



**Migrant workers distribution map in China in 2009**

*\*Resource: The 2009 Migrant Worker Monitoring Report by the National Bureau of Statistics.*

**Fig. 1. Proportion of migrant workers in different areas (%)**



## 2) Decrease of migrant workers in Yangtze and Pearl River Deltas

Relevant statistics show that in 2009, there were 28.16 million migrant workers in the Yangtze River Delta, a 2.38 million (7.8 percent) decrease from 2008. In the Pearl River Delta, there were 32.82 million migrant workers, which is 9.54 million (22.5 percent) less than 2008. The proportion of migrant workers of the total migrant worker population is 19.4 percent for the Yangtze River Delta and 22.6 percent for the Pearl River Delta, a 2.4 percent and 7.6 percent decrease respectively.

This data shows that the labor shortage that occurred in the eastern coastal area of China in the second half of 2009 was largely due to the decrease in the

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*“No matter what perspective one takes, one cannot avoid a basic fact: the era of cheap labor is coming to an end. The model of “Chinese manufacturing” as we know it – founded on cheap labor – is facing a serious challenge.”*

*--Liu Kai Ming,  
Director of the  
Institute of  
Contemporary  
Observation*

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number of migrant workers in the Yangtze River and Pearl River Deltas, and the main cause is the decrease of migrant workers in the Pearl River Delta.

### *3) More migrant workers decided to work in their home provinces*

There were 74.41 million (51.2 percent) migrant workers working in provinces other than their home provinces. This figure is 430,000 (0.6 percent) less than that of the previous year. On the other hand, 70.92 million (48.8 percent) migrant workers decided to work in their home provinces, an 8.2 percent (5.35 million) increase over 2008.

As shown by the results of our investigation, although the total number of migrant workers increased in 2009, more of them decided to work in their home provinces. This is particularly true for farmers in eastern China. In the middle and eastern areas of China, most farmers prefer to work in other provinces, but there is an increase in farmers who decided to work in their home provinces. It seems that with the economic growth of mid-western China areas, farmers would rather work nearby their hometowns, and not go to eastern coastal areas.

### ***The change of migrant workers' choice of working destination and its impact on enterprises in eastern coastal areas***

As shown by the data above, there is an apparent change of migrant workers' choice of working destinations, and the decrease of migrant workers in the eastern coastal areas is the main cause of the labor shortage that has occurred in the Pearl River and Yangtze River Delta areas after Spring Festival 2010.

Is this labor shortage a temporary phenomenon or will it last for a long time, particularly for export-oriented enterprises in the eastern coastal areas? Some may say that this phenomenon will not last long because the total workforce in China is increasing. However, as shown by the data above, the choice of destination of migrant workers has changed greatly. The proportion of migrant workers going to the east and south of China is decreasing, and the proportion of migrant workers going to central and western China is increasing. Considering the consistency of economic policies of the Chinese government, it is reasonable to believe that this phenomenon will last for a long time, and labor-intensive manufacturing enterprises in the eastern coastal areas will eventually find themselves in a long-term competition for labor. It seems that there are two trends affecting the choice of migrant workers' destinations.

First, there are more destinations for migrant workers than before. The Central Government's policies on developing mid-western areas and small towns have made these areas and tier two or tier three cities more attractive to migrant workers. Such areas and cities will become important destinations for migrant workers.

Second, more and more migrant workers are selecting their home provinces as their working destinations. Due to the economic growth of mid-western areas, increasing wages, and the efforts of local governments, migrant workers find there is not a big difference between working in their home provinces or in other provinces. In addition, since leaving their hometowns and coming back during the Spring Festival period imposes extra cost and inconvenience to migrant workers, many prefer to work in their home provinces.

These two trends will lead to a shortage of labor in the eastern coastal areas. To conclude, we believe there is great possibility that the labor shortage will last for an extended period of time in the Yangtze and Pearl River Deltas.

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*This means that by working in East China, a migrant worker can earn 5 percent more than working in West China. Five years ago, this figure was 15 percent. However, bearing in mind the living cost in the East is 25 percent higher than that in the West, and that there is a psychological cost or opportunity cost accompanied with living away from home, the East is not as attractive to migrant workers as it was in the past.*

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## Causes of the Labor Shortage

The labor shortage started in the second half of 2009, and after Spring Festival 2010 the impact was mainly seen in the eastern coastal areas. The causes, if we take a macroscopic point of view, may be the impact of the economic policies of the government and the changing labor market, among others. However, there are many other possible causes, including challenges with HR management, employment policies, wages and welfare benefits, and the management of employees, which also partially led to this labor shortage.

### ***The change of destination of migrant workers***

As discussed above, an increasing choice in destinations for migrant workers and options for working in their home province have led to a labor shortage in eastern coastal areas, especially in the Yangtze and Pearl River Deltas. The causes are the following:

*Growth of agriculture and better life in rural areas due to the beneficial policies of the Central Government in areas related to agriculture, rural development, and farmers.* We have noticed this since 2004, when the first document/guideline was published by the Central Government for solving problems related to agriculture, rural development, or farmers. The efforts of the Central Government resulted in better conditions in rural areas and improved the incomes of farmers. Agricultural allowances and higher purchase price of farm produce, for example, help farmers earn more than before. Some migrant workers have quit their jobs in the cities and returned to their hometowns to resume farming, or they have started produce processing businesses.

*The economic growth of mid-western areas has attracted more migrant workers.*

Due to adjustments in regional policies, these areas are getting more investment. In the 10th Western China International Fair (October 2009), 1,339 investment projects were signed in 12 provinces in West China. The total investment adds up to RMB 591.139 billion, higher than the total of those of the previous nine times the Fair was held, which was only RMB 450 billion. All these projects need to be implemented by the labor force. According to the results of an investigation carried out by the National Bureau of Statistics, the average monthly salary of migrant workers is RMB 1,455 in East China, RMB 1,389 in Central China, and RMB 1,382 in West China. This means that by working in East China, a migrant worker can earn 5 percent more than working in West China. Five years ago, this figure was 15 percent. However, bearing in mind the living cost in the East is 25 percent higher than that in the West, and that there is a psychological cost or opportunity cost accompanied with living away from home, the East is not as attractive to migrant workers as it was in the past.

*The progress of urbanization accelerates the dispersion of migrant workers.* Most big cities in China have started to stabilize their populations. In the future, there will be more chances in these tier two or tier three cities, particularly small cities or towns in the mid-western areas. This will bring more of the rural population into such areas, yet not to the coastal areas in the East.

*Relocation of industries contributes to the dispersion of migrant workers.* Labor-intensive enterprises are facing pressure from the government, which requires industries to upgrade and switch from low-end manufacturing to high-end manufacturing. In addition, enterprises are also facing increasing

environment costs, land costs, and labor costs. The solution is clear and simple: They have to relocate to areas with lower costs. Such strategy will also accelerate the dispersion of migrant workers and further exacerbate the labor shortage in coastal areas.

### ***The number of migrant workers is increasing, but at a lower rate***

According to a report published by the China Academy of Social Sciences, the proportion of the working-age population in China reached its peak, 72.35 percent, in 2009, and will decrease gradually to 67.42 percent by 2030, which is about the same level as that of the early 1990s. Although the number of migrant workers continues to grow for seven to eight years after 2009 (as the total population continues to grow), the growth rate will be lower each year.

A similar trend can be seen in the total number of migrant workers in China. According to Yang Zhi Ming, Deputy Director, Ministry of Human Resources and Social Security, from 2005 to 2009 the number of migrant workers who worked for more than six months in areas other than their home provinces increased from 98.09 million to 145.33 million. This could mean the number increased by an average of 11.81 million every year. However, if we look at the data of 2008 and 2009, we find that the increase was just 4.92 million. Apparently, although the total number is increasing, the growth rate is decreasing.

Two reasons account for the reduced growth of the working-age population. First, urbanization caused a change in the population structure in cities, which led to a decrease in the number of migrant workers. Secondly, the reduced working-age population is also the consequence of family planning. The third peak of the population in China appeared in the mid-1980s and 1990s. After that, strict family planning regulations resulted in a rapid decrease. With the post-1990 generation now joining the workforce, the supply of migrant workers aged 16 to 25 is not sufficient.

In general, coupled with the aging population, China is losing its "demographic bonus." The elder generations are aging. They wish to go back to their hometowns and resume farming. The younger generations, however, may have different ideas and choices when it comes to their choice of work. All these trends lead to a gradually reduced supply of migrant workers now and into the future.

### ***The high demand for workers due to the rapid recovery of the Chinese economy***

Many export-oriented companies suffered greatly in the global financial crisis that started in late 2008. With decreased orders, labor-intensive manufacturing enterprises had to cut down the number of their employees. In late 2009 and before the Spring Festival 2010, the Chinese economy showed a rapid recovery, and companies found it was necessary to employ more workers to fulfill a large quantity of orders from abroad. However, since many migrant workers were enjoying their annual New Year's leave at that time, business owners could not find enough workers in the labor market. This caused a serious labor shortage in the eastern coastal areas.

On the other hand, the 4-trillion RMB Investment Plan made by the Central Government in 2009 to promote economic growth in West China had made mid-western China a "hot spot" for investors and migrant workers as well. As a result, the extent and degree of the labor shortage in eastern coastal areas has become even more serious.



### ***Industrial upgrades lead to higher demand for experienced and technical workers***

Facing the government's requirements on industrial upgrades and pressure from the market, labor-intensive manufacturing enterprises find they require skilled and technical workers. According to the statistics published by the Guangdong Human Resource and Labor Security Administration, in 2010 there will be a 32-percent shortage of technical workers in Guangdong province, and the ratio of demand to applications of technical workers will be 54:1. Although the shortage of technical workers is mainly due to an increase of demand for labor, a lack of concern or even negligence by the government on fostering technical workers is also believed to be a factor leading to the shortage of technical workers. The government should put more effort in supporting technical schools/colleges. Most students (80 percent) of such schools/colleges come from rural areas. Government support of such schools/colleges can enable more working opportunities for people from the countryside. In return, graduates from such schools/colleges can help the government solve problems related to the labor shortage, economic growth, and industrial upgrades.

### ***The changing age structure of the labor force***

In the first document/guideline published in 2010 by central government on migrant workers, the government required employers to "take measures and solve the problems related to new-generation migrant workers." This is further proof that new-generation workers have become an important part of the migrant worker population. According to Yang Zhi Ming, Deputy Director, Ministry of Human Resources and Social Security, the proportion of new-generation migrant workers (under 30) was 61.6 percent in 2009. Young migrant workers are different from the elder-generation workers in aspects such as values, character, behavior, and selection of work. They wish to be a part of the city where they work and they care about career development and social insurance. Such differences may be a great challenge for companies, especially labor-intensive manufacturing enterprises.

According to the results of BSR research of more than 100 labor-intensive manufacturing enterprises in the Pearl River Delta, 80 percent of business owners believe that they are facing a huge challenge in managing new-generation migrant workers, who have different characters and personalities, strong self-respect, and are less disciplined and frequently change jobs. In fact, 33 percent of business owners reported that young workers required more than elder workers in areas such as working conditions, time off, and wages. Most business owners (84 percent) recognize they need to change their management styles, give more concern and care to young workers, and help them develop their careers through more training and communication. About 37 percent of business owners are improving their working conditions and wages in order to retain and attract more young workers. All of these steps are positive changes.

However, it is obvious that some factories are not able to satisfy young workers' requirements on working conditions, quality of life, workers' rights, safety and health, and overtime. On one hand, young workers are not willing to sell themselves to factories for a cheap price, as previous generations did before them. On the other hand, factory owners still desire cheap labor. This conflict is one of the reasons accounting for the labor shortage.

### ***Enterprises in the eastern coastal areas are less attractive than before***

Although the labor shortage is becoming a serious problem, labor-intensive manufacturing enterprises are reluctant to change their traditional way of management, which is usually characterized by low wages, poor management skills, repetitive line production work, little opportunity for career promotion, poor communication, poor public image, unsafe working environment, and so on. Needless to say, such enterprises are not attractive to young migrant workers, considering the economic growth and social development of China, and the change of mindset and values of young migrant workers. Some traditional factories may succeed in employing young workers; but soon they will find they are facing problems such as high turnover rates.

On the other hand, with the increase in goods prices and living costs in the East, the real wage income of migrant workers is decreasing. This also makes the East less attractive to migrant workers. Although the statistics published by the National Bureau of Statistics and the Ministry of Human Resources and Social Security indicate that the East is still the main destination for migrant workers, the proportion of migrant workers going to the East is falling greatly.

To conclude, the labor shortage in China is not due to an insufficient overall supply of labor, but rather regional and industrial differences that lead to an unbalanced structure in the labor market, which is most serious in the East. The causes, if we take a macroscopic point of view, can be the rapid economic growth of China, the change of workers' age structure and choice of working destinations, the increase/decrease of overall labor supply, and the industrial upgrade policy from the government. But if we take a microscopic point of view, we find other causes, such as the traditional approach to human resource management and failure of enterprises to adapt to the evolving labor market. To solve this problem, the government needs to adjust its policies and help enterprises deal with their labor issues. On the other hand, businesses—especially labor-intensive manufacturing enterprises—need to improve their human resource and management skills.

## **Response from the Chinese Government**

### ***What does the government think about the labor shortage?***

When being interviewed by reporters from the Chinese Government Net and Xinhua Net after Spring Festival 2010, Premier Wen Jiabao said that the labor shortage in some areas was possibly due to: 1) recovery of the Chinese economy and increased orders from abroad; 2) lack of skilled workers; and 3) increased awareness of workers' rights (workers are looking for jobs that can pay them at least the minimum wage required by the government).

In addition, Yang Ming Zhi, Deputy Director, Ministry of Human Resources and Social Security, sees three trends contributing to the shortage: 1) a lack of skilled migrant workers capable of doing the work available (rather than a lack of working opportunities); 2) higher requirements of young migrant workers for better wages, working conditions, and public services; and 3) demands by migrant workers for formal employment contracts signed with employers. They also need training, guaranteed wages, relevant channels to protect their rights, better accommodations, improved quality of life, and career development. However, a large number of employers cannot meet such requirements.

### ***What measures can the Chinese government take to solve the labor shortage problem?***

*The policies from the Central Government* - Considering the increased number of migrant workers and the fact that a labor shortage is only seen in some regions, the Central Government has not made any policy that directly focuses on the labor shortage, but rather some general measures that aim to smooth the migration of off-farm workers and protect the rights and interests of migrant workers. According to the result of relevant meetings held by the Central Government, in 2010 all government agencies will put more effort into providing better public services to migrant workers and help them move to urban areas.

- A. The Ministry of Human Resources and Social Security has made a new training plan to help over 6 million middle/high-school graduates master vocational skills. An allowance, which totals RMB 6 billion, will be given to migrant workers so that they can go to training courses arranged by companies or training organizations and learn skills, obtain certificates, and thus succeed in finding jobs. The government believes that this measure will help alleviate the structural problem characterized by the labor shortage and unemployment.

- B. The Ministry of Housing and Urban-Rural Development plans to build apartments and houses that are affordable for migrant workers, so as to help them integrate into local societies.
- C. The Ministry of Education will further enhance implementation of a government-led education policy to help children of migrant workers study in full-time public schools. Currently, 80 percent of migrant workers' children are benefiting from free compulsory education in public schools in urban areas where their parents are working.
- D. The All-China Women's Federation will take the lead in the "Sharing Blue Sky" project, which aims to improve the living quality and education of children who are not able to go with parents to urban areas. It is believed that this project can make migrant workers more comfortable working in cities, without worrying too much about their children who are still in hometowns.
- E. Government agencies in charge of population and family planning have developed standards for the administration of family planning of migrant workers and implemented a "Care and Love" project to help migrant workers.
- F. Government agencies under the Ministry of Civil Affairs will implement the instructions given by the State Council on improving community service to ensure the same services are available for both migrant workers and permanent residents.
- G. Government agencies in charge of public security will further promote reform of the household registration system and encourage migrant workers to become permanent residents according to the relevant policies.

*The policies from the local government (Guangdong)* - Although there are some policies made by the Central Government for alleviating the labor shortage, they are generally designed to promote the relocation of the surplus rural labor force and improve public services for migrant labors; thus, these are merely "indirect policies" for enterprises. In areas suffering a serious shortage of labor, such as in Guangdong province and the Yangtze River Delta, policies made by local governments are more practical. The policies made by local governments in Guangdong province provide a good case study:

- A. Enhancement of in/inter-province labor coordination and exchange of labor information - Within the province, continuous "employment service month" projects are carried out for sharing labor information and providing employment of migrant workers. In addition, there are free job fairs held in many areas to improve labor coordination between the Pearl River Delta and east, west, and north of Guangdong province. All these events are arranged mainly for solving the problem of the labor shortage in the Pearl River Delta. On the other hand, there is inter-provincial labor cooperation throughout the Pan-Pearl River Delta. Some "training and employment" projects are implemented to enhance sharing of labor information, and they provide a supply of skilled/experienced workers that are needed by enterprises for industrial upgrades.
- B. Increase of minimum wage and improvement in living/working conditions to make enterprises more attractive - A provision made by the provincial government in March 2010 requires an increase in the minimum wage of 21.1 percent from May 1, 2010. According to Lin Wang Ping, Deputy Director,

Guangdong Human Resources and Social Security Administration, this increase of minimum wage is for adapting to the economic growth and social development of Guangdong, and will help improve the employment conditions of the province. The provincial government also requires business owners to raise wages and provide better welfare to improve workers' living and working conditions. Besides Guangdong, the governments of Jiangsu, Zhejiang, and other provinces/cities also raised minimum wages. In a press conference held by the Ministry of Human Resources and Social Security on April 23, government speakers announced that in the first quarter of 2010, the minimum wage has been raised in seven provinces, and the average increase of minimum wages is about 17 percent. In addition, there are 20 provinces that are planning to raise minimum wages later in 2010.

- C. Enhancement of training and increasing the supply of skilled workers - Based on the "Guiding Opinions of the General Office of the State Council on Further Fulfilling the Work on Training of Migrant Workers" published in February 2010, the provincial government of Guangdong plans to provide at least one vocational training to each migrant worker who is willing to accept such training before 2015. Some detailed methods, such as bidding for training organizations and training cards, have been adopted. The government also provides allowances to migrant workers and workers who receive such allowances will be given training before others. To increase the supply of local skilled workers, the government has provided incentives such as training allowances for workers/companies. The "skill-up and reserve" plan includes five types of training, namely on-the-job/job transfer skills, skill reserves for new workers, employment for the unemployed, training for rural labor, and skills for opening business. This plan aims to improve the skills of local workers and reduce turnover rates.
- D. Better public services to attract/stabilize migrant workers - These include: 1) incentives for urban households with high-skilled labor; 2) increased coverage of social insurance (relevant jobs are focusing on access to and easier transfer of insurance benefits); 3) education for children of migrant workers; and 4) enhancement of labor protection and supervision (such as arbitration of labor disputes), and protection of the rights and interests of migrant workers.



# How Are Suppliers Dealing with the Labor Shortage?

## A. CHALLENGES OF RECRUITING AND RETAINING WORKERS

*Recruitment* - With this backdrop of a labor shortage, companies, particularly labor-intensive manufacturing enterprises in eastern China, are facing increased competition for labor, and their profits are reduced because they do not have enough workers to fulfill orders from foreign buyers. Young migrant workers are becoming the majority of the labor force. They have higher demands for wages, working conditions, living environments, and career development. Most companies are not able to satisfy such demands, at least within a short time. This is why such companies failed to find enough workers, and even when they found some, the workers would not stay for a long time.

In general, recruiting challenges facing labor-intensive manufacturing enterprises include: 1) high demands by workers for better wages, welfare, living/working conditions, dormitories, food, etc.; 2) lack of skilled workers; 3) lack of channels for publishing recruitment information and corporate image building; 4) lack of attractiveness due to ineffective recruitment advertising; 5) loss of orders (due to needs for better production management and labor prediction); 6) more "humane" management, law compliance, care workers; and 7) factories scaling down or even closing due to a lack of workers.

*Retention* - One of the reasons accounting for the labor shortage that has become a major challenge for labor-intensive manufacturing enterprises is the high turnover rate of workers. According to some business owners from Taiwan, in the past the high turnover rate was offset by the high speed of worker replenishment; but now, the speed of worker replenishment is getting slower, and owners are facing a serious labor shortage.

The causes of high turnover can be related to wages, welfare, working conditions, working hours, accommodations, working atmosphere, employee management, after-work activities, training, career development, and corporate culture, among others.

Therefore, the challenges of worker retention that labor-intensive manufacturing enterprises are facing may include: 1) unsatisfying wages/welfare; 2) unsatisfying working conditions/environment, long working hours, boring work, pressure, etc.; 3) unsatisfying living conditions; 4) poor worker management and corporate culture, such as lack of communication and respect; 5) insufficient career development due to lack of training and promotions; and 6) headhunting by other companies.

## B. PROBLEMS WITH HUMAN RESOURCES MANAGEMENT

The labor shortage is closely related to problems with HR management in labor-intensive manufacturing enterprises. The recruiting and retention challenges that such companies face are largely due to their unskillful, out-of-date HR management practices, which lead to a lack of preemptive thinking, attraction, and cohesiveness. Generally, HR management problems that labor-intensive manufacturing enterprises have can be summarized by the following:



Sharing good HR practices at a Primark supplier workshop

*Lack of HR planning* - Although there is an HR department in most companies, its function is limited to recruitment and dealing with HR files. Without relevant information, the management of such companies cannot have a clear picture of the demand and supply of labor in the market. Managers lack preemptive thinking, not to mention making decisions on worker recruitment, training, wages, and employer-worker relationships. This is why a minor change in the labor market will cause an earthquake in such companies.

*Unreasonable wages and incentive policies* - Many managers in labor-intensive manufacturing enterprises believe that there is a sufficient supply of labor in China, the labor shortage is just temporary, and they will be able to get workers soon. Thus they provide low wages to workers and do not care about training, career development, personality, and the mental needs of workers. Some managers do not have any idea about "non-monetary payments." Such a situation leads to the low satisfaction of workers and becomes one cause of the labor shortage.

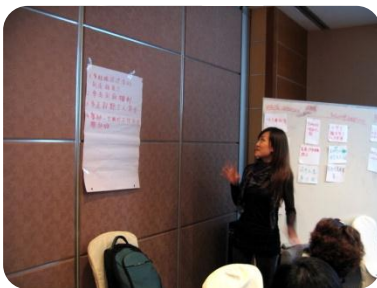
*Lack of concern about establishing corporate culture* - The fact is, many factories do not have any corporate culture. Managers do not care about working/living condition improvements, the mental needs/feelings or the entertainment needs of workers, or the career development of workers. Workers feel confused and are not comfortable working in such factories. Once there is a better choice, they simply leave.

*Excessive reliance on low-level labor* - Lacking financial/technical power and advanced equipment, many factories have to rely on low-level workers. Such factories suffer greatly when a labor shortage occurs.

## C. SUGGESTIONS AND BEST PRACTICES FOR WORKER RECRUITMENT AND RETENTION

According to theories on HR management, retaining workers requires satisfying their needs. The labor shortage phenomenon has shown that there is a fundamental change in the labor market in China, and migrant workers are not an unlimited resource that factories can obtain at any time, but rather a resource to be obtained through competition (regional, industrial, or inter-company competition). Currently, young migrant workers have become the main body of the labor supply, and conventional HR management is not suitable anymore. Companies must change their mindset and management styles. They need to treat workers as human beings, not as tools for fulfilling orders. To attract and retain workers, companies should consider workers' actual situations, and improve corporate image and worker recruitment and retention practices.

*Human resources planning* - As a foundation for sustainable development, HR planning is extremely important for small to medium labor-intensive manufacturing enterprises. Effective HR planning does not depend on the scale of the factory, but rather the strategy and management styles of the factory. By making HR planning a high priority, management can become more sensitive to changes in the labor market. In this way, enterprises can predict demand and supply of labor, and implement good strategies for retaining and developing talented employees that can contribute to the growth of the company. Scientific, effective HR planning is a good strategy for dealing with the labor shortage.



Suppliers exchanged ideas on how to retain workers at Primark supplier workshop.

Advanced HR planning needs to be carried out by a high-caliber HR management team. Although the importance and role of the HR department is finally being recognized by many business owners, the current labor shortage means their support is not enough. In fact, improving the capabilities of HR staff is a responsibility of business owners, who should give more support to HR staff.

*New recruiting concepts and creative practices utilizing resources of the government* - Facing a serious labor shortage, many business owners of labor-intensive manufacturing enterprises have realized that they cannot just wait for workers, but need to attract workers through changing their recruiting concepts and channels, and creative advertising that can help improve corporate image.

Examples of new recruitment practices include: incentives to workers who recommend new hires; sending recruiters to areas where there is an abundant supply of labor; participation at job fairs or utilization of labor information published by the local government; cooperation with vocational schools; using labor dispatch companies or labor agent organizations; and advertising wages, benefits, and the corporate culture through job ads, websites, flyers, or even tissue papers.



Competing for workers

*Higher priority on worker training, career development and reserves of talented workers* - New-generation migrant workers have become the main body of the labor force in most labor-intensive manufacturing enterprises. Compared with the elder generation, young workers care more about their working atmosphere and career development. By providing focused training and education to young workers, enterprises are able to attract, develop, and retain them, and increase their motivation and focus. Doing so is also helpful for building a reserve of talented/skilled workers for future needs and reducing the impact of the labor shortage. Many young migrant workers believe that workers and the factory constitute an employment relationship. Therefore, a factory should provide trainings not only on skills, but also responsibility, loyalty, professionalism, and corporate culture.

Young workers lack both work and life experience. Some factories provide trainings on values and occupational development during orientation of new workers. Research shows that workers who received such trainings are more loyal and the workforce is more stable. Other good practices include: involving workers in factory management, giving them more opportunities for training, and improving communication with them. By doing so, workers can have a better understanding of their situations, as well as relevant laws and regulations.

*Higher wages and better incentives* - Some factories are not attractive to migrant workers due to their low wages and ineffective/no incentives. Generally speaking, the East has lost its attractiveness due to the prices of goods and living costs, while the mid-western areas are becoming more attractive due to increased wages and relatively low living costs. To attract migrant workers, factories in the East have to increase wages and welfare benefits. When doing so, factories need to comprehensively analyze wage levels of the industry and region, return on investment, and workers' needs, and switch from a simple wage system to one with multiple incentives.

Some factories achieved good results by increasing workers' wages and implementing a series of policies for attracting and retaining workers. Such

practices include: incentives for returning after the Spring Festival; free travel for returning; "couple rooms" for married workers; better food; lower dormitory fees; reduced costs of physical examinations; awards for long service and above-quota production; extra allowance for technical workers; promotion opportunities and better logistics services.

*Employee relationship management to improve workers' sense of belonging*

– Establishing good, personal relationships with workers is effective for worker retention and reducing turnover rates. The current labor shortage has reminded business owners that workers are not tools for making profit, but rather important resources that need to be cultivated, developed, and well-utilized. A good management-employee relationship helps shorten the distance between management and workers. It can also enhance workers' sense of belonging and reduce turnover rates. Worker relationship management may include: an employment contract/relationship management, claims system, labor dispute management, worker assistance plans, awards and incentives, satisfaction surveys, and feedback.

Some factories have established effective claims systems that provide feedback and deal with workers' opinions and suggestions. By doing so, these factories have won the trust of workers and established a good corporate image. Some factories have implemented workers' assistance plans, or established consulting rooms that provide psychological support to help workers with problems or difficulties they face in their work or social lives. Such practices enhance workers' sense of belonging, and contribute to higher attractiveness of the factory, reduced turnover rates, and a more stable workforce.

*Good corporate culture for worker retention* - A good corporate culture is essential for attracting and retaining workers. New-generation migrant workers care more about the working atmosphere and their feelings. For a factory in a labor-intensive manufacturing industry, a good corporate culture should include at least three things: 1) trust, which is the core approach for enhancing interpersonal relationships (especially relationships between leaders and workers); 2) an environment that encourages happiness at work and in social life, which is what new-generation migrant workers want; and 3) equality—new-generation migrant workers need to be treated with equality and dignity. They resent arrogant attitudes in leaders and being treated unfairly or ignored. Treating them fairly and respectfully is essential for retaining workers.

*Better management and communication* - An important saying in HR management states: *A worker selects a good company, but resigns because of a bad leader.* In most cases, leaders or managers are the direct cause of workers' resignations. Some managers lack management and communication skills, and treat workers harshly. This is one of the causes of a high turnover rate. To attract and retain workers and tackle the problem of the labor shortage, it is important to improve management and communication skills of supervisors and managers.

Some factories have realized the importance of human-oriented management skills. In such factories, managers have received training in communication skills and dispute settlement. They also have a line supervisor certification system to ensure good communication with workers. In fact, more factories are adopting this practice.



Dormitory rooms for married couples are one way of retaining workers

*Reduce reliance on migrant labor through equipment purchase or relocation*

- The occurrence of the labor shortage shows that labor-intensive manufacturing enterprises rely too much on cheap labor. Some leading companies have decided to change. They increased their investments in machines and equipment, which can replace workers, at least partially. Others have relocated from the East to the West, where there is an abundant supply of workers. Both practices, however, are expensive. For those companies who cannot afford such costs, a better option is to improve HR management and adapt to changes in the labor market.



Computer room and free access to internet for workers



## Case Study

Company: ABC Company Limited

Location: DG, Guangdong

Type: Labor-intensive manufacturing enterprise

Number of employees: 300-500

### PROFILE

As a labor-intensive manufacturing enterprise, 95 percent of the company's workforces are migrant workers, mostly from rural areas in west China. About 80% of them are young workers who are comparatively independent, need to be respected, like to browse the Internet, hate to be lonely, and demonstrate a high turnover rate (average monthly between 8 percent to 10 percent) due to lack of a feeling of belonging. The line leaders lack management skills.

Clearly, this company needs to improve its HR management, particularly under the circumstances of the labor shortage.



Factory girls are working at the production floor.

### SOLUTIONS

To reduce turnover rate and improve the relationship with workers, the HR department took the following measures:

*Employee Assistance Program* - To relieve the tension between management and workers and reduce the high turnover rate, the company implemented an employee assistance program. The program aims to improve managers' control of their emotions and their overall management and communication skills, and help workers relieve pressure, control their emotions, improve interpersonal relationships, and support new workers so that they can adapt to the new working and living environment as fast as possible. Through implementation of this plan, workers felt the management cared about them, and most workers experience a strong sense of belonging.

*Grievance system* - To provide workers with a channel for expressing opinions and giving suggestions, the company established a grievance system. Workers can express their opinions through the CEO mailbox, BBS, or to an HR specialist directly, or do so on a regular monthly interview day. Since all feedback and suggestions are expressed smoothly, anonymously, and dealt with properly and in a timely manner, young workers feel they are respected. Therefore, the workforce in this company is very stable.

*After-work entertainment events* - To enhance workers' sense of belonging and improve their interpersonal relationships, the company published a corporate magazine, established an HR intranet and information network, and arranged many after-work entertainment events (such as forums, birthday parties, New Year's party, and contests). The purpose of such events is to create a home-like atmosphere and encourage communication. The HR department also implemented a "model worker" campaign. Workers with good performance will be selected as model workers, and their pictures will be posted in the factory.

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*“Some workers came to us due to our reputation. It’s not a tough task for us to recruit workers even in the situation of a labor shortage; 95% of workers returned to work after Spring Festival. I think we have built a respectful and participatory culture. Now our worker turnover is below 5%, which means our current practices are successful.”*

*-- HR manager,  
Primark supplier*

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*Personal referrals from workers and cooperation with vocational schools -* The employer encourages workers to recommend their friends or relatives to join the company. In addition, through donations and other means, the company has established a cooperative relationship with vocational schools as part of its medium/long-term plan for building a labor pipeline.

*Resignation management and retention plan -* On one hand, the HR department implemented a resignation procedure, allowing workers to resign after presentation of a notice for termination of the employment contract. HR also provided trainings on resignation management to managers. Their experience demonstrated that by treating workers who resign fairly, workers may be grateful and come back if they are not doing well in other factories. On the other hand, the company also implemented a worker retention plan, which included: establishing a resignation treatment team, resignation analysis, discussion meetings, sharing of experiences of resignation treatment from managers, trainings for exit interviews, and target setting for department leaders. This plan helped the company retain many workers. It also contributed to better understanding the causes of resignations and increased the communication skills of management.

## **OUTCOME**

The turnover rate is 10% lower than that of the previous year. In all factories within a 2 km distance from the company, the company has the highest rate of successful recruitment and the lowest turnover rate.