



Summary of Research on the Labor Situation in the Beijing Development Area

Opportunities to increase corporate competitiveness and employee satisfaction by reducing turnover

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About BSR

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](#).



The report was commissioned by Nokia and is based on literature review and interviews during February and March 2011. Any errors that remain are those of the authors. Please direct comments or questions to Adam Lane at alane@bsr.org.

This research focuses on migrant workers, which represent the greatest labor challenge, and specifically on the situation of companies in the Xingwang Park area of the BDA.

BSR's research found that recruitment and retention challenges are affecting companies in the Beijing Development Area (BDA) and that there are real opportunities to address these through collaboration to improve living conditions, provide training to operators and line managers, and improve recruitment practices.

The rapid transformation of China's labor market is having a significant impact on manufacturing businesses in Beijing. As the market changes, workers are rethinking their priorities—where they want to work and who they want to work for.

Increasing labor costs linked to rising inflation are compounding the increase of raw material prices and driving up total product cost. Meanwhile, companies continue to face intense local and international competition which places pressure on their margins.

Our research in the Beijing Development Area for Nokia illustrates these challenges and provides opportunities for potential collaborative solutions.

Impact of Recruitment and Retention Challenges

The competitiveness of companies in the BDA is influenced by a number of elements, including costs of inputs, taxes, incentives, and infrastructure. Labor costs are an important element of overall cost and competitiveness, and should be understood in terms of productivity. Our research and interviews with Nokia and several suppliers revealed many companies in the BDA face similar challenges related to workforce recruitment and retention, which affects their productivity and competitiveness.

Productivity is diminished by additional costs from paying overtime rates (which, according to Chinese labor laws, must be at least 50% higher than regular rates), difficulties in planning production and meeting production targets, the high costs of continuous recruitment and training, as well as the inefficiency of not having a skilled trained worker in every seat, every day. Additionally, increasing living costs are affecting labor costs—for example, in 2011, minimum wage in the BDA was increased by 21 percent (to RMB 1,160 per month). These challenges have brought retention and recruitment issues to the forefront for businesses operating in the BDA.

Summary of Key Findings

Companies face significant challenges hiring and retaining staff, particularly at the operator level. This causes increased hiring and training costs, difficulty in planning production schedules, and additional labor costs arising from overtime.

Because of recruitment and retention difficulties, as well as difficulty keeping up with peak production schedules, companies struggle to ensure that workers do not work more than the legal maximum of 36 hours overtime per month. In contrast, BSR's research found that companies have fewer problems complying with other regulations.

These challenges should be considered in the broader context of the socio-economic, demographic, and cultural changes taking place across China. Though these trends and changes are too large to be influenced by any individual company's actions, BSR's research has found that businesses recognize and are responding to the current labor challenges in order to try to mitigate the impact on their businesses. There are examples of successful responses by companies which point to opportunities for other companies to take action both individually and collectively.

In order to plan and implement such actions, it is very important to understand the characteristics of the workers. Our research found that the workforce of Nokia and its suppliers at operator level is largely comprised of workers who:

- » Have migrated to Beijing seeking work,
- » Are low-skilled with only a middle-school or high-school education,
- » Are paid at or above minimum wage, excluding overtime payments.

An important distinction is made, however, between workers hired by companies directly (direct) and those hired through labor agencies as external temporary labor (ETL). ETLs range from 10 to 100 percent of the workforce in the Xingwang Park Area, but the average is about 60 percent. The ETLs present the greatest retention challenge to companies, particularly those operating in the Xingwang Park area of the BDA, the focus of this research. In other areas of the BDA, where the product, workforce composition, and mix of direct and ETL labor is different, the challenges also differ.

The Main Challenges Facing Companies in the Xingwang Park Area of the BDA

1. **Excessive and inappropriate overtime:** Excessive overtime (averaging 50 hours per month compared to legal maximum of 36) is still prevalent, although it is common for companies to cover this up by spreading out overtime payments to workers over several months.
2. **Difficulties in recruitment:** It is difficult to recruit enough direct hires, so companies utilize labor agencies to hire ETLs, but agencies are also struggling to recruit enough migrant workers.
3. **High turnover:** On average, turnover is 5 percent per month for direct hires, who are often local workers, but it is significantly higher—10-15 percent—for workers hired through agencies, who are mostly migrant workers from other parts of China. Companies have high vacancy rates after Chinese New Year which they often struggle to fill.
4. **Challenges with line management quality:** Although promotion to line management represents an opportunity for workers to increase their salaries and build a career, few production line managers receive enough training in communication skills or management to be effective production line managers. It is imperative that production line managers improve their attitudes and treat workers with more respect.

Origin of the Labor Force in the BDA (2009)

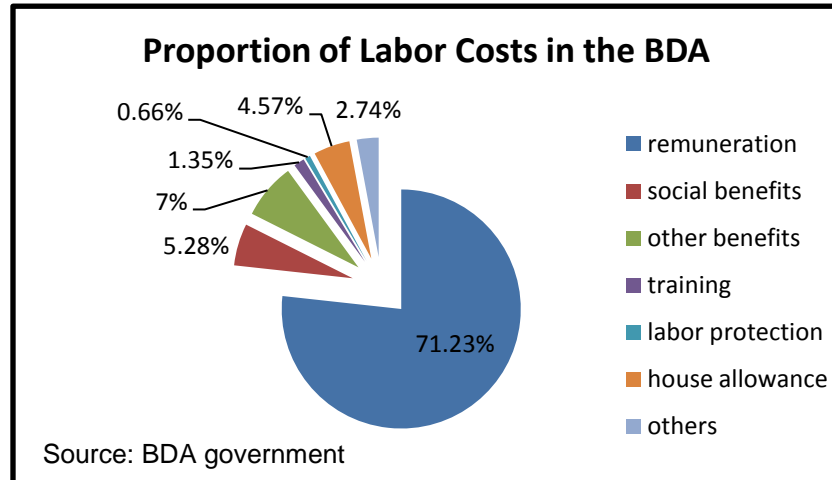
Urban Beijing: 34.71%
 Rural Beijing: 4.87%
 Other urban: 31.55%
 Other rural: 28.28%
 Overseas: 0.6%

Education Level of the Labor Force in BDA (2009)

| Education level | Ratio (%) | Yearly increase (%) |
|------------------------------------|-----------|---------------------|
| Doctoral | 0.42 | 28.55 |
| Masters | 4.82 | 25.15 |
| Bachelor | 21.94 | 13.05 |
| Junior college diploma | 17.83 | 2.37 |
| Technical secondary school diploma | 23.77 | 23.90 |
| Vocational school diploma | 13.41 | 8.32 |
| High school diploma and below | 17.81 | 4.56 |

The Main Challenges Facing Workers in the Xingwang Park Area of the BDA

1. **Low salaries and a high cost of living:** Beijing has a much higher cost of living than other parts of the country, and despite having a higher minimum wage, this leaves less cash-in-hand for workers, who may prefer to look elsewhere for opportunities.



2. **Demand for more overtime:** Workers often want to work more than 36 hours per month overtime in order to increase their incomes.
3. **Need for better living conditions:** Companies in the BDA rarely have their own dormitories and generally do not arrange housing for their workers, particularly ETLs. Often the recruitment agencies that hire ETLs are responsible for dormitories, or the workers find their own accommodation. However, workers often struggle to find accommodations that are of decent quality, in a convenient location, and most importantly, affordable. .
4. **Discriminatory treatment of ETLs:** Workers hired by labor agencies (ETL) are treated differently than those hired directly, who often receive better benefits, such as social welfare. Even when the preferential treatment is reflected in relatively small benefits such as gifts during festivals that ETL do not always receive, it matters to workers and their perception of how they are treated.
5. **Lack of training and opportunities for promotion:** Workers only receive the training required to do their current job, rather than training that will help them develop their skills or get promoted, and there is rarely a defined career path for them.
6. **Inadequate support for youth workers:** Youth workers, defined legally as workers aged between 16 and 18, should have additional legal protection but many companies do not follow these regulations strictly, such as providing health checks for youth workers or restricting shifts to 10 hours (as required by Chinese Labor Law).

Responses by Companies in the BDA

Short-term responses such as changing shift patterns and making minor changes in working conditions may help address both worker discontent and overtime issues, but companies recognize that they need to take more meaningful measures. Companies have responded to rising minimum wage levels and inflation, as well as heightened competition for fewer workers, by increasing salaries in line with the market. The example of Sodexo shows that increasing salaries above minimum wage can help the company stand out as an attractive employer.

Sodexo, which provides cleaning and cooking services for Nokia, increased wages beyond the statutory minimum to RMB 1,305 for their 130 employees on minimum wage and found that only 2 to 4 percent of workers did not return after Chinese New Year 2011 compared to 15 to 20 percent during the same period in 2010. Sodexo's business case showed that the additional costs saved from less need for recruitment and training would balance out the higher salary payments. Furthermore, Sodexo is now able to select more experienced workers, which reduces training costs, and because these new hires know what to expect, they report higher levels of satisfaction.

Outside of the BDA, some special economic zones have made investments in providing services. Nanjing, Tianjin, and Dalian provide and pay for open spaces, as well as support systems, hobby groups, and recreational services for workers, either directly through NGOs or community groups or through peer learning mechanisms.

Companies have also responded with a mixture of incentives and benefits, with some providing free or discounted accommodation and food. These benefits can be important for workers in reducing high living costs. Though these benefits represent a significant additional cost to companies who are already facing severe price pressure from their customers, these costs should be balanced out by an increase in productivity and reduction in other costs, such as hiring, training, and overtime.

The Business Case for Reducing Turnover

Improving working conditions, salaries, and benefits in order to retain workers may have a significant return on investment by:

- » Improving efficiency and increasing production due to reliable attendance
- » Reducing costs from not paying additional overtime
- » Reducing the costs of recruiting, hiring, and training workers
- » Reducing rework and quality issues through better worker skills and training

Our research found that few companies in the BDA have collaborated effectively with other companies or with the government beyond one-off events or through participation in the Admin-HR Working Group. However, companies recognize that these issues cannot be solved alone and may be solved more cost-efficiently if tackled together.

Recommendations for Companies in the BDA

There are four areas where companies can take action to address these labor challenges:

1. Improve culture and communication in the workplace.

- » Engage factory owners and senior management to obtain their buy-in for improving workplace culture and communication.
- » Increase worker empowerment and sense of belonging and ownership by involving employees in management and improving communication between workers and management.
- » Make it easier for employees to express their opinions to management, and encourage management to be more responsive to their suggestions.
- » Provide training to line managers so they can manage workers better by being more understanding and supportive.
- » Use labor unions more effectively so they can better fulfill their role in and contribute to improved culture and communication in the workplace.
- » Develop programs to emphasize and reinforce a corporate culture that respects employees.

2. Improve the workplace environment.

- » Provide services for employees that create a more enjoyable social environment.
- » Provide funding or other resources that support or subsidize recreational activities, community and social services.
- » Address workplace complaints regarding long periods of standing and occupational health and safety issues.
- » Improve shuttle bus services, so workers do not have to take additional transport to reach the shuttle bus station.

3. Improve wages and benefits and reduce working hours and overtime.

- » Increase wages and benefits.
- » Ensure fair payment for workers of different levels and experiences.
- » Avoid discrimination between direct hires and ETL by ensuring they receive the same or equivalent salaries and benefits.
- » Address the living wage issue by providing an accommodation allowance or free accommodation.
- » Change shift patterns, especially those that require working long hours at night; shorten night shifts and improve production planning.

4. Increase training and development.

- » Provide clearer paths for promotion and career development for employees and work with employees to set individual goals.
- » Provide training for employees to help them meet their career goals so they feel that staying with the company will benefit them.
- » Provide employee assistance programs to address workplace stress.
- » Create training programs with the government that directly relate to production, as well as other skills.

Companies Interviewed

Daimler-Benz
 DHL
 Foxconn
 Ibsiden
 Laird
 Luxi Manpower
 Nokia
 RFMD
 Sanyo
 Sodexo
 Yizhuang Guoji

Workers Interviewed

Over 100 ETLs, direct hires, and Production Line and Shift Managers

Other Stakeholders Interviewed

All China Federation of Trade Unions
 BDA government
 China Labor Research Institute
 China Relations College
 Nokia Labor Union
 Cultural Communication Center for Facilitators
 Institute of Contemporary Observation
 Little Bird Hotline

Recommendations for a Collaborative Initiative

Though each company can take action, these investments need not be taken alone, and with collaboration they could have greater impact and a greater return on investment for stakeholders. BSR identified three broad areas for collaboration:

1. Improvements to living condition and employee amenities

By identifying workers' needs and the overlap between companies, there will be opportunities for making improvements which can be cost-effective and mutually beneficial. These improvements may focus on upgrading or subsidizing accommodation, expanding transportation options, and providing new recreational activities and services for free or at subsidized costs for workers in partnership with NGOs or other service providers.

2. Training programs

Companies can reduce costs by working together to identify training needs and funding or developing training. Interactive training programs would allow for peer-to-peer learning between factories and facilitate best practice sharing. Training can improve the culture and communication practices in companies, leading to higher worker satisfaction and thus improved productivity and reduced turnover.

3. Recruitment collaboration

By identifying the specific challenges companies and labor agencies face in finding suitable workers and initiating programs to overcome these challenges, companies and labor agencies can reduce their recruitment costs, increase the quality of new recruits, reduce training costs, and better manage staffing and production schedules.

| | Value to companies | Value to workers |
|---|--|---|
| Improvements to living conditions and employee amenities | Reduced pressure on increasing salaries Reduced costs of making improvements to living conditions | Reduced living costs and increased take-home wage |
| Training programs | Increased retention. Increased workforce skills Reduced costs of training | Personal development Increased opportunities for career advancement and salary increases |
| Recruitment collaboration | Increased efficiency and reduced costs of recruitment | Clear career paths |

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