



ICTI CARE Foundation
国际玩具工业理事会“关爱”基金

ICTI CARE Process Survey Report 2010¹

Summary

This summarizes the results of the second annual ICTI CARE Process (ICP) survey of factories enrolled in the ICTI CARE Process in China (“Factory Survey”). Its intent is to provide regular input from those participating in the process so that the ICP will better understand their views. This in turn will help the ICP to evaluate and adjust its programs to improve working conditions in toy factories worldwide.

The Respondents

Management of 423 factories responded, located principally in Guangdong (77%), Zhejiang (9%) and Jiangsu (6%) provinces. There was a broad distribution of factory sizes. Management was asked to identify the key challenges they face related to the economic environment, commercial relationships and social compliance requirements.

Economic Environment

Factory managers identified four key economic challenges they face in obtaining a desired level of profitability, all of which were important in 2010 and are expected to continue in 2011:

1. Increasing raw material costs (73% of responses), as prices begin to rebound following the latest financial crisis.
2. Labor shortage (58%), as the supply of migrant workers declines, due to rising prosperity and government action to expand work opportunities in the interior. In about 70% of the factories responding, at least 60% of the workforce was made up of migrant labor.

¹ Survey prepared by INFACT Global Partners, Summary by ICF Secretariat

3. Currency appreciation (56%). In 2010, the Chinese Yuan appreciated about 3.6% against the US dollar – a trend expected to continue in 2011.
4. Increasing compensation costs (47%), reflecting labor shortages and mandated minimum wage increases.

Commercial Relationships

When asked to identify areas of concern with customers, factories focused on pressure from buyers to maintain or reduce prices, the frequent changes in quantities and delivery timing and the complex social compliance requirements (multiple standards and guidelines). Net, there is a simultaneous downward pressure on prices and upward pressure on raw material, labor and compliance costs.

Compliance Issues

Factory managers also identified four major compliance issues affecting their businesses: Wages and Working Hours, Auditor Performance, Communications and Worker Cards & the Hotline.

1. Wages and Working Hours: This is identified as the most challenging aspect of compliance, especially with regard to overtime hours. The ICP also gives this area high priority and has been using the new Continuous Improvement Process (CIP) to address it. However there are inexorable upward pressures on labor costs:

- a. Respondents indicated that, in order to retain trained workers and attract new ones, they have had to move to a more incentive-based system, as opposed to the straight hourly wage system that prevailed in the past. The use of hourly wages has dropped from 72% to 63% during 2010.

A change in working hours practices to try to meet buyer demand has also had a major effect on labor costs. During both peak and non-peak seasons, manufacturers have moved to longer work weeks.

As a result of these two factors and of mandated increases in minimum wages, there has been a significant increase in labor costs, over previous year.

On the positive side, there is increasing compliance with payment of correct overtime wages.

- b. One complicating factor has been the changing motivation of workers regarding overtime. There is a delicate balance between providing

enough overtime opportunities to attract workers who want the income, while not crossing the border into excessive overtime that alienates workers and pushes factories way out of compliance with social norms. Traditionally it was believed that migrant workers wanted the income; it now appears that is truer for older workers with families, while younger, single ones increasingly prefer to have more free time.

- c. An additional complication is the continued seasonality of demand. It is difficult to attract and retain in the slow season a core group of good workers who can meet peak season demand.

While all of the above are standard business issues in a maturing economy, the core issue between factories and the ICP is what constitutes reasonable overtime. The ICP requires steady progress toward compliance with national law. Factories feel this is unrealistic given their narrowing margins. The Continuous Improvement Program, by moving away from a pass/fail system toward one of ongoing improvement, has eased the situation somewhat and promises to continue to do so – but its end goal is still compliance with national law. And factories see that as a problem.

2. Third Party Auditor Performance: In general, factories believe the third-party auditors used by the ICP are professional and are becoming more so. For the 25% of respondents that do not agree, their main concerns relate to auditor attitude, especially when there are disagreements, and unwillingness to provide advice on how to correct violations.

With regard to inappropriate benefit requests, about 14% reported being solicited by an auditor during 2010, down from 20% in 2009.

The question of handling disputes is an important one. Most factories would prefer to settle the dispute with the auditor and, failing that, be able to appeal to the ICP in Hong Kong. This is borne out by their request that a factory management hotline be established. As the opportunity to appeal by calling ICFAL already exists, it is clear that its existence and the procedures involved are not sufficiently known.

3. Communications: Factories were asked how they learn about ICP program updates and what recommendations they have for improvements. Some 13% are unaware of updates. Of those who were aware of them, at the moment about 72% receive information electronically, via the Chinese website (39%) or e-mails (33%). Their preference going forward is for much more e-mail communication (62%) and less use of the website (21%) – active as opposed to passive outreach. Their third choice – more seminars – supports this. In addition, respondents asked for a greater flow of information, quarterly checks for changed e-mail addresses and actions to ensure e-mails are not

mistaken for spam (re-design and remind recipients to whitelist the ICP address).

4. Worker Card and Hotline: The survey indicates that the majority of factories received the Worker Cards and most of those have distributed them – although they do have up to a year to do so.

Not surprisingly, factory managers that object to distribution of the cards feel that they will raise endless worker questions and that the hotline specifically will just cause endless problems. However, of those participants who did distribute the card, more than one third noted a positive effect on workers, who seemed more engaged.

The factories' key suggestion was to work out a program for handling worker complaints that would include the appropriate government Labor Bureaus and the factories.

Conclusions

The survey notes four key themes:

1. ICP must continue to build trust with factories by improving communications channels and building its training programs as planned.
2. ICP audit standards should be further adapted to reflect the realities of the Chinese market – essentially relaxing the overtime standards required by the Continuous Improvement Process.
3. ICP needs to be more transparent in its operations, especially as regards auditors' assessment of compliance levels, but also as regards the appeals process.
4. More frequent and better quality interaction between ICP and factories is crucial, improving current communications channels and extending its training programs.

Overall, it is clear that the toy industry in China is going through a sea change related to the modernization of the economy and resultant rising expectations of its work force. The very nature of an industry as it, and the economy in which it exists, mature leads to changes in cost structures and economies of scale that affect the very structure and viability of what has been a small-enterprise dominated industry. It results in major adjustments in strategic approach for those who survive – just as happened in Japan, South Korea and Taiwan. The ICP should be cognizant of this and help to smooth the process to the extent it can.

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