

China Contract Labor Law - 10 Steps Brands and Retailers Can Take

It has been more than six months since the new contract labor law went into effect in China. During that time, many brands and retailers have asked: "What is the impact of the law on our operations in China and what should we be doing about it?" This simple question has a not-so-simple answer. To help, we have prepared 10 steps for brands and retailers to consider implementing.

Ten Steps

- 1. Work with suppliers to ensure that they understand the new law.** China factories are legally bound to adhere to a range of new requirements as a result of the new contract labor law in China. Ask suppliers to study the new law in order to understand its provisions.
- 2. Facilitate third-party training.** Bring in a qualified trainer to instruct factories in their obligations under the new law in order to ensure consistent understanding of the law's provisions and best practices for implementation.
- 3. Ask factories about their concerns.** By asking factories to express their concerns about implementing the new law, you can gain a better appreciation for the challenges they face. Then, together with the factories, you can help create an implementation plan that for each of the law's key provisions that includes a list of action steps, time lines for completion, and accountabilities.
- 4. Update audit instruments.** Key provisions of the law will require changes to audit instruments. Compliance staffs should review their current audit instruments to determine what provisions need to be changed. Audit staff can then use the updated audit instruments when assessing conditions in factories and reporting on them.
- 5. Evaluate/analyze factory assessment results.** Factory assessments can track progress toward full implementation of the law over time. Progress, (or the lack of progress) can be a key benchmark in 2008 and beyond in judging how successful factories are at achieving acceptable compliance levels.
- 6. Interview dismissed workers.** Prior to January 1, 2008 when the law became effective, some factories dismissed workers rather than incur the additional burden of payments to long tenured workers. Authorities have subsequently ruled that these dismissals were not legal. If dismissed factory workers are known to compliance staff, interview them to learn if they have received any redress.
- 7. Calculate cost of factory compliance.** There are costs associated with full compliance with the new law. Brands and retailers can estimate the cost of compliance with the law so brand and retailer costing departments will have full factory cost information.
- 8. Adjust FOB to accommodate increased factory cost.** Brands and retailers can help ensure factory compliance with the law by adjusting FOB payments to the factory in order to accommodate the increased costs required by the new law.
- 9. Track percentage of workers with signed contracts.** As one means of assessing factory implementation with the new law, track how many workers have signed contracts and retain a copy of the contract in their possession.
- 10. Emphasize capacity building to increase ability of factories to implement law.** Factory human resource professionals will have to take a leading role in addressing the many requirements of the law. Equally, the factory may be able to reduce costs through production efficiencies in order to mitigate increased labor costs. Increasing management's capacity to address complex management needs will benefit the factory and its buyers.