

The changing landscape for Chinese small business: the case of “Bags of Luck”

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General background

Company history

Founded in 1992, Bags of Luck (BoL), or Xingyun Bao (幸运包) in Chinese Pinyin, is located in a small coastal town, Xiao Min Nan (XMN), in South Eastern Fujian province, People's Republic of China, halfway between the coastal cities of Xiamen and Quanzhou.

As an industrial park, XMN was created out of Yang's oyster farming village with a population of just under 1,000. The name of the village derived from the fact that most of the indigenous villagers were descendents of a local Yang family. With its geographic proximity to and cultural similarity with Taiwan, XMN was developed at the beginning of the 1990s with the most advanced infrastructure with the aim of attracting Taiwanese investors to set up manufacturing facilities there to take advantage of cheap labour and tax incentives. After 20 years' of explosive development, XMN has grown to become a bustling modern town hosting over 2,000 manufacturing firms, 80 per cent of which are foreign invested, with a working population of 500,000. Almost 100 per cent of the goods manufactured in XMN are labour intensive products designed abroad and exported to North America and the EU. The products made here include shoes, bags, clothing and small plastic kitchen utensils. In the early phase of development, people of the local oyster farming community filled most of the jobs. However, the local pool of cheap labour soon ran out. Migrant workers, both male and female, now take up over 90 per cent of the manufacturing jobs typically aged between 18 and 25 from the rural areas of Fujian and the less developed provinces of Anhui, Hunan, Jiangxi and Sichuan.

BoL was set up as a partnership business between two brothers, Alfie and Ben Zhang, when they were single, aged 27 and 25, respectively. They have an elder brother Adam and an elder sister Becky. Both Adam and Becky are married with one child each. Their father and mother took early retirement in 1995 at the age of 58 and 55, respectively, when their state owned company was sold to Taiwanese investors. Like most Chinese parents, they now live with the family of their oldest son, Adam. After their retirement, Mr and Mrs Zhang have been devoting their time to looking after Adam's daughter and helping them with housework. They did take some interest in BoL in the early days and helped out during busy periods. Three years ago, their father's health started to deteriorate. Since then their parents have completely refrained from getting involved in the business.

The business idea was conceived when one of their family relatives of the Yang's village was offered, by the then principal developer of XMN, a ready built but not furnished 4,000 square-metre factory as a compensation for the loss of their oyster farming business. Although not university level educated, the two brothers had an acute business sense and quickly came to a legal and financial settlement with their relative to take over the factory facility. Unsurprisingly the settlement included a 20-year employment deal for the four members of the Yang family, the parents and their two sons.

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Without any specific technical expertise, the brothers raised RMB 20,000 from friends and relatives, quickly fitted the factory to a basic standard to include an office area, a canteen and toilet facilities. They also bought a dozen second-hand sewing machines, hired a dozen friends and distant relatives to operate them, and started a workshop making uniforms for local primary schools at a time when schools started to introduce them. The operation was relatively easy to set up and straightforward to operate as all uniform designs were specified by the schools. As long as they met the delivery deadline of 1 September each year and kept the prices within the range imposed by the school, they did not have to worry about design, marketing and sales. They were simply at the right place at the right time. Their scale of operation soon multiplied. By the end of the second year, they had 80 sewing machines and 150 workers working round the clock.

A year after the BoL company was set up, Alfie married Cindy Wang who then joined the company to keep records of the company's finances. Ben married in the following year and his wife, Dorothy Zhao, joined the company initially to keep an eye on the growing number of workers from outside the locality.

Although BoL was the first local private business to service the school uniform market, their business model was soon copied by three other players with much more advanced facilities. This meant that they had to compete on price without compromising on quality.

To prevent their operating margin being squeezed further, they started to make school bags to match the designs of the range of school uniforms they made. As school bags were not compulsory, it was uncertain how many they could sell. Because the schools did not dictate prices and they were able to set them for more attractive profit margins.

They launched their first batch of school bags in 1994 at the celebration party of 1 June International Children's Day hosted by one of their partner schools. They sponsored the event by offering a free bag for each school child awarded an "outstanding pupil" certificate by the school.

Thanks to their effective and innovative approach to marketing, subtle "word-of-mouth" promotion amongst parents and peer pressure amongst school children themselves, within three years they were able to sell school bags to 40 per cent of those who bought their uniforms. By the late 1990s, sales for school bags accounted for 80 per cent of the company's revenue although they still produced more uniforms than bags. Their unrivalled success in the school bags business soon came to an end when five specialised players moved in with more sophisticated purpose built production facilities and more developed distribution network covering not just the local schools but many others in the neighbouring provinces.

The year 2000 was a major turning point in BoL's history. The two brothers turned up for a Christmas party on 24 December 1999 at one of the private schools to which they supplied uniforms and bags. It was there that they met two English teachers – a retired couple, Katie and Simon Jones, from the USA, who were able to converse in reasonable Chinese. Having taught at the school for nearly one semester, the two English teachers had seen BoL's school bags carried around by the children they taught and had been very impressed with their quality. It turned out that their daughter worked for the US retail giant, Wal-Mart. Provided that BoL could modify their design to suit the taste of the US consumers, Katie and Simon said they would talk to their daughter to help them open up the US market. Alfie and Ben treated this as just one of those polite party conversations and never thought much about it after the party.

In March 2000 when Katie and Simon returned to XMN after taking their Chinese New Year break back in the USA they brought with them three prototype ladies' bags and asked if BoL could produce 100 each within two weeks. The reason for the tight deadline was to time the market trial with the launch of Wal-Mart's spring range of ladies accessories at a designated Wal-Mart store. If their products were able to meet the US Government's import standards the range could be expanded to all major stores with minimal seasonable modifications and there could be regular orders in the months and years to come. This was a huge challenge for Alfie and Ben. They had no knowledge of the American market and the US import

standards for ladies' bags. They also had no knowledge of how to get the Chinese Government approval in order to export their products to the USA. Internally, they did not know whether they could adapt their machinery and hire people with the right skills in time to make it happen.

Opinions were divided between the two brothers and their families. At the time Ben's wife, Dorothy, was heavily pregnant with their first and probably only child. Because of a miscarriage back in 1995 she had the whole family behind her to safeguard her pregnancy at all cost. Therefore, she would rather things stayed the same for a year or two. Cindy on the other hand, in her role as a Finance Manager, saw this as a potential opportunity to regenerate the company and offered to step into help her sister-in-law manage the shopfloor operatives during the trial production period.

In the end, they decided to go ahead with the trial production. They used all their local connections to bring in the right people to modify their machinery. They set up three small, special production teams working round the clock to make the ladies' bags. They used a local intermediary to handle import/export formalities in China and the USA. Katie and Simon helped to handle their day-to-day communication with Wal-Mart in the USA.

The news that the 300 ladies' bags were all snapped up by customers on the first day of the trial came from the USA by e-mail at 0830 on 1 April 2000, just an hour after Dorothy gave birth to their baby son. This date might be a "Fool's Day" in the USA, but it brought the best luck the two brothers and their families could ever have wished for. What made it particularly auspicious was the fact that the good news followed the arrival of Ben and Dorothy's new born baby. Everybody in the family were ecstatic and named the baby Xingyun Baobao 幸运宝宝 (lucky treasure). It was then that the brothers decided to rename the company from the former Xuetang Zhuang 学堂装 (meaning school uniform in Chinese mandarin) to Xingyun Bao (lucky bags), or BoL as it is now known. For ease of reference, BoL will be used for the company in this case study.

The success of the initial trial production subsequently led to the company discontinuing its school uniform production within 12 months and its school bags production came to an end by the end of 2002. Since then, BoL focuses solely on making ladies' bags exclusively for the US market with impressive growth in the years that follow.

To cope with the rapid growth of demand, in 2003 they acquired the adjacent factory facility, effectively doubling its factory floor space to 8,000 square metres with space for 400 shopfloor workers. In the same year, they decided to build a 4,000 square metres workers' dormitory to accommodate the migrant workers who came to work for them.

With enlarged production capacity, in 2005 BoL decided to diversify into unisex fashion backpacks and trendy lightweight cases for laptop (and netbook from 2008) computers.

Organisational structure

The two brothers and their wives are the four key people involved in running the business. Whilst there is no formal management structure their job titles reflect the role that each of them plays, which have evolved over the years alongside the growth of the business. As things stand their roles are described below:

- *Alfie Zhang*. He is less outgoing but more methodical than Ben and has opted to take charge of all aspects of production including organisation of work-in-progress, maintenance, and stock management, etc. There are two staff reporting to him – Elton MA oversees production on a day-to-day basis whilst Fred LU manages the warehouse storing all raw materials and finished products.
- *Ben Zhang*. He is more outgoing than Alfie and is responsible for all external relations including working with export agents, and managing relationships with suppliers, customers and relevant Chinese government agencies, etc. He has an assistant, George Tang, to help him with routine liaison and communication with all interested external parties.

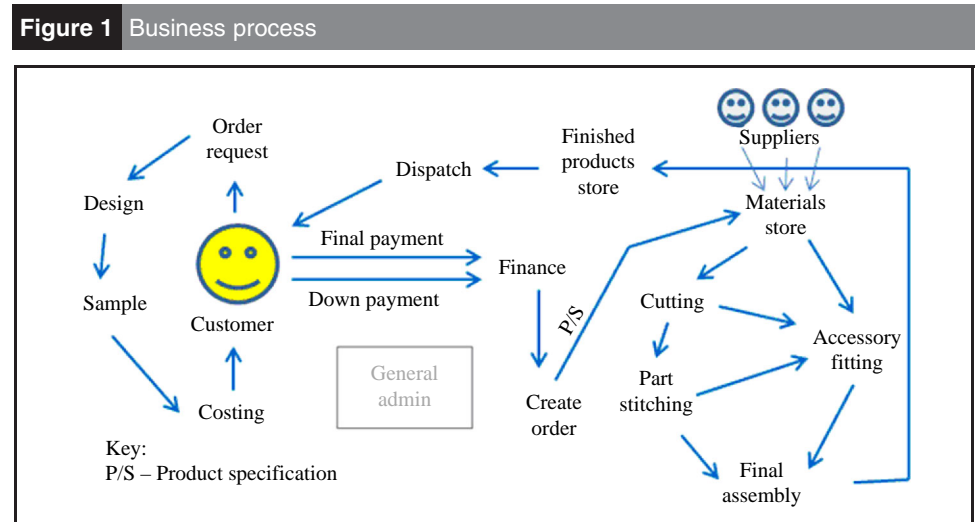
- *Cindy Wang*. With a Chinese three-year diploma in Accounting, she keeps all records of the company's incoming and outgoing finances, prepares the quarterly cash-flow reports and annual financial statements including profit and loss account and balance sheet. She has an assistant, Helen Chen, who keeps the books up-to-date and also doubles up as the Office Manager.
- *Dorothy Zhao*. With a Chinese secondary education background, she joined the company initially to keep an eye on the shopfloor operatives to ensure that they understood their tasks and were able to perform them to the required standard. As the company grew, she developed into an HR manager being involved in recruitment, training and managing the welfare of all the workers. There are four supervisors reporting to Dorothy, each overseeing an area of production and quality control. Beneath each supervisor, there are four team leaders.

With an annual turnover in the region of ¥7.5-9.5m, BoL has the capacity to employ 400 shopfloor workers but is currently running with 150. About 90 per cent of the operatives are migrant workers from inland provinces of China with the remaining 10 per cent drawn from the surrounding areas.

The management team meets whenever they feel there is a need to sit around the table. Decision making tends to be by consensus or by majority views. If there is a need for someone to have the final say, all of them tend to look up to Alfie as he is the oldest in the family. This management structure works well when the business is buoyant and there are no major changes in the global business environment.

Business process

The business process of the company generally starts when an order request is received, which then triggers a series of internal and external actions. Figure 1 summarises the typical flow from when a customer request arrives to when products are dispatched and payment received. There are variations to this, of course. For example, when an order request comes from an existing customer with only minor modifications for an existing product, the in-house design team of two can often take care of the modification. When a brand new product brief is issued, BoL needs to bring in one of its regular out-side designers to carry out the design work, produce prototype and help with costing and sourcing of fabric materials and accessories. Having been in the market for 19 years, BoL has established a network of reliable contacts with designers and suppliers that allow them to respond quickly and cost effectively to changes in customer demand.



Procurement and material handling

Procurement

About 80 per cent of the materials and accessories for their products are down-stream products of crude oil and readily available. As such, many of BoL's competitors tend to shop around for cheaper supplies and switch suppliers regularly.

At BoL, about 90 per cent of raw materials are purchased locally with only 10 per cent sourced from other provinces. Unless something happens BoL tends to stick to the same dozen or so suppliers for most of their raw materials and accessories. This is because they do not have an established purchasing department to source competitive supplies on a regular basis. Nor do they feel that they need to have one. Ben has quarterly meetings with each of their main suppliers to ensure that the quality and quantity of supplies and the prices stay within manageable range. Another reason is that BoL have maintained very good working relationships with their suppliers, who are very familiar with their quality standards and are prepared to share the business risks. For example, despite the significant rise in oil prices over the past ten years which has affected the prices of most commodities, their main suppliers have kept the price increase to a minimum in the interest of their long-term business partnership with BoL.

One of their accessory suppliers, Tianfu Xiaowujin (TX), was based at the outskirts of Chengdu, Sichuan province in central China. They supplied a range of durable magnetic studs used for fastening ladies' bags quickly and securely. It was a small family owned and run workshop making only one line of products. Their high-quality raw material came from a small mining facility located in a village next to Wenchuan. The 12 May 2008 Wenchuan earthquake cut off their supply completely. Although none of the family members was hurt in the quake their livelihood was wiped out. The impact of that earthquake was profoundly felt by BoL. The inability to obtain supply from TX in time meant that BoL had to find alternative sources at short notice, which resulted in missed delivery deadlines for a range of ladies' fashion bags for summer 2008 with serious financial consequences. Thanks to the worldwide media reporting of the devastation caused by the quake, the amount of compensation they had to pay out was halved by their American customers. Although that disaster was totally out of their control, it did make Ben wonder about their "single-sourcing" policy.

Material handling

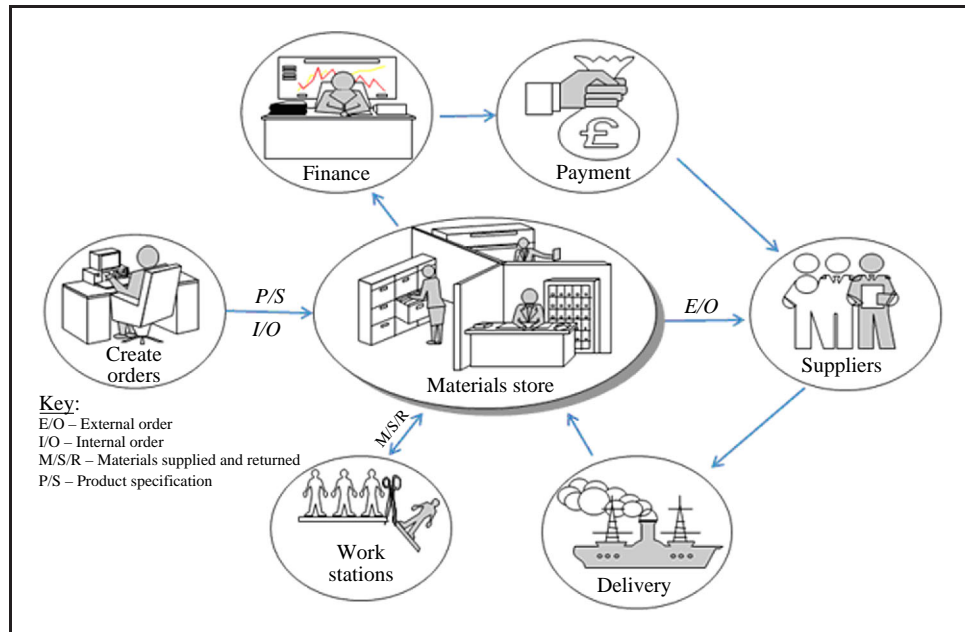
The Materials store has two people working full time within it. Ian Huang works with external suppliers and John Chang manages the internal materials supply to all the work stations (Figure 1). Casual hourly paid workers are drafted into help unloading large quantities of delivery or with freighting. When an internal order is received with a copy of product specification, Ian checks stocks and contacts suppliers for additional supplies if necessary. When an external order is placed for materials and accessories Ian informs the finance.

When there are sufficient materials and accessories in stock to start a production, John generates a batch ticket on his computer and prints it out on a set of four cards coloured in pink, blue, yellow and white.

These are used to track work-in-progress by different departments. The yellow card is passed on to Ian at the store for up-dating the stock records. The blue card is sent to the General Admin office where it is retained for reference in case of a quality problem. The pink card goes with the fabric materials taken from the materials store through the production cycle and the white card goes with the accessory parts issued from the store. Both the pink and white cards go through to the end of the production cycle. Figure 2. Material handling summaries the general material handling process at BoL. Supervisors at various work stations put their signatures on either the pink or the white card after jobs are completed to a satisfactory standard in the areas for which they are responsible.

During the off-peak season the system of tracking work-in-progress using these paper based cards generally works well but at peak production times they add to the workload of the supervisors. Inevitably, mistakes are often made. To save time during peak production

Figure 2 Material handling



seasons, a few supervisors have been found to put their signatures on the cards before jobs are completed, resulting in oversight on quality.

Stock evaluation

At the materials store, stock records are kept on Ian's computer and are manually up-dated when:

- there is a delivery;
- materials and accessories are issued to the work stations; and
- unused materials are returned to the store.

Dealing with over 2,000 entries in stock records, this system is time consuming to maintain and information it generates is often inaccurate and becomes available too late. Because of this, Ian's absence often results in out-dated stock records causing production delays as John cannot access the stock record system without his permission. Moreover, the separation of stock record up-dating (Ian's responsibility) from material handling (John's responsibility) has created a lot of duplicated work. It has been suggested that this procedure should be computerised and linked to a barcode reading system fitted at every work station to facilitate the tracking of work-in-progress.

However, the idea is firmly rejected by Alfie who got his school friend to set up the system for free when the company was first established. His reason being:

I just cannot justify spending a large sum of money replacing something that is in perfect working order. All it takes is for Ian and John to talk to each more often.

Products and production

Product portfolio

As of January 2011, BoL produce three ranges of bags, namely, ladies fashion handbags, unisex fashion backpacks and trendy lightweight cases for laptop and netbook computers, for six major retail chain stores in the USA. Each range has between ten and 20 different designs, some or all of which have to be re-styled four times a year. BoL has never carried

out any analysis on the relative profitability between different product ranges. As far as the management is concerned, all that matters is that each year the sales revenue covers all the costs. Besides, they cannot really push sales on one design over the others anyway.

To coincide with the launch of seasonal clothing, each seasonal range has to be dispatched six weeks in advance by sea-freight or three weeks in advance by air-freight which is ten times more expensive than sea-freight. Before the current world recession started, BoL was able to schedule much of its production in advance so that 90 per cent of their products could be dispatched by sea-freight. However, in the past couple of years 45 per cent of their products have to be air-freighted to the USA due to production delays caused by shortage of accessory supplies and migrant workers.

Organisation of production

Production activities within BoL are organised into four departments, namely, cutting, part-stitching, accessory-fitting and final assembly (Figure 1). Each department has a number of homogenous work stations depending on the size of order for a particular season. To facilitate production scheduling, semi-finished products are arranged in bundles of a dozen items each.

Production life cycle

All product designs or design variations are specified by the customers and all products must be labelled with the name of the relevant US retailer. Orders from different customers for the same products are not permitted because each US retail chain demands product exclusivity.

Over 90 per cent of product designs do not last beyond one season without modifications. As a result, the average life-cycle of a given product at BoL is usually between four and six weeks. The fact that BoL uses generic cutting and sewing machines and labour intensive processes makes it relatively easy to switch to a new style of products. The downside is that they depend more heavily on labour intensive operations than their competitors who use a higher degree of automation. Moreover, their dated machinery has also resulted in more downtime for repair.

Sales, marketing and distribution

As BoL do not design and manufacture products under their own name, they do not have a dedicated sales force and commercial advertising is not considered necessary. On average, about 85 per cent sales come from its established regular customers whilst 15 per cent come from occasional or new customers. Since 2005, Ben has been taking his assistant to attend the end of year trade fair organised by the Private Business Association of XMN. For Ben, the annual event is no more than an occasion to meet and thank their regular customers and suppliers for their business loyalty. Two years ago, at George's suggestion, Ben started to use the event to suss out what their main competitors are up to and try to make contacts with potential customers. Since then, they have picked up a few new customers.

Without an export license, all the export formalities for their products are handled by FJ Trade (FJT), an import-export license holder that acts as an intermediary organisation for small private firms like BoL. In May 2000, BoL signed a 15-year contract with FJT with a specially negotiated handling fee of 2.8 per cent of the shipping value with a condition that they did not use any other intermediaries. The arrangement had been working well until the beginning of 2007 when the global economic recession started to hit the US consumers. With many US orders either not placed or cancelled, 65 per cent of FJT's usual customer base was wiped out by the end of July 2008. To make up for the lost income, FJT wanted to re-negotiate their contracts with all their remaining customers by increasing its handling fee from 2.8 to 3.5 per cent. This would mean a significant increase in operating costs for BoL. After several weeks of intense negotiation involving the brothers' entire set of social contacts ("guanxi"), on 27 September 2008 (just days before the week-long National Day public

holiday), they finally agreed a 0.2 per cent increase to 3.0 per cent for the remaining years in their contractual term.

As the economic recession deepened in the USA, the senior management feared that a dramatic decline in orders for 2009 could spell the end of the business they had worked so hard to build up. After returning from the week-long holiday, orders for 2009 started to come in. Although the order sizes from their established customers were not as big as in previous years, much to their surprise and delight, they also received a number of orders from their occasional customers whose long-term suppliers (including three of BoL's direct competitors) were forced to close down due to dramatic decline in orders. It turned out that on the whole the orders they had received for 2009 was only down by 10 per cent.

For BoL, the year 2010 brought about a set of new and lasting challenges that could have a profound impact on their future. Just as the US economy began to recover and orders from established customers started to roll in, the problem of severe labour shortage, coupled with rising wage and material costs worsened.

Accounting and finance

The Finance Department deals with transactions with customers, suppliers and employees payroll. Apart from day-to-day book keeping, it also takes responsibility to assist with the preparation of monthly reports on the company's financial performance.

There is no formal budgetary control at BoL as the scale of production depends on the number and size of orders received. Conscious efforts are made, however, to keep product defects to the minimum by quality control at each work station, and to re-sell waste materials to recycling firms. Because of design right restrictions, all bags that are slightly imperfect are taken apart and sold to recycling firms.

The Finance Department also offers assistance to the staff responsible for costing new products. At BoL, when a product is first specified, its cost need to be estimated on the basis of prevailing material and labour costs – a procedure known as preliminary product costing. It gives a rough idea as to how much the company should charge for it in order to break even. This does not, however, take into account factors such as order sizes (production volumes) and discounts. When BoL provides a quotation for an order, the price is often quoted in US dollar with the prevailing exchange rate. Owing to fluctuations in the exchange rate, oil price and wage rate for piece work, it has become an industry practice that the final price in US dollars will only be valid if it does not deviate from the quoted price by more than 5 per cent.

At BoL, the overall manufacturing cost is calculated by pooling together all the actual costs incurred during the same financial year. Although actual product costing is crucial for any profit-orientated firm to evaluate its financial performance, this remains problematic within BoL. On the one hand, it is generally considered technically impossible to obtain accurate costing information on individual products due to their diverse product ranges and small batch sizes. On the other hand, unless accurate information is available showing how much each product costs there is no way of knowing which products are the most profitable and which are loss makers.

With the assistance of Helen, Cindy has just managed to produce the profit and loss account and balance sheet for the year ending 31 December 2010. This year it has been problematic to pull the figures together. In the process of collating the data, she discovered that Ben had offered a wide range of discount rates to secure orders at the last minute without telling anybody. Tables I and II shows the final results in comparison with those of the past four years. As can be seen, the figures do not provide good reading.

Human resource management

Employee profile

There are 13 management and supervisory staff including the four joint owners, all of whom are native residents of Xiamen, living within 30 minutes driving distance from the factory in XMN.

Table I Profit and loss account (year ending 31 December), 2006-2010

	2006	2007	2008	2009	2010
Sales	7,558,000.00	6,953,360.00	6,744,759.20	6,812,206.79	5,381,643.37
Sales of scrap materials	56,256.00	50,630.40	45,567.36	44,200.34	35,360.27
	7,614,256.00	7,003,990.40	6,790,326.56	6,856,407.13	5,417,003.64
<i>Cost of sales</i>					
Materials	2,250,240.00	2,025,216.00	1,822,694.40	1,768,013.57	1,414,410.85
Direct labour	1,406,400.00	1,307,952.00	1,334,111.04	1,200,699.94	984,573.95
Overheads	3,550,368.00	3,479,360.64	3,548,947.85	3,761,884.72	3,009,507.78
	7,207,008.00	6,812,528.64	6,705,753.29	6,730,598.23	5,408,492.58
Gross profit	407,248.00	191,461.76	84,573.27	125,808.90	8,511.06
less					
Tax	101,812.00	47,865.44	21,143.32	31,452.23	2,127.76
Interest	18,700.00	14,500.00	13,600.00	11,000.00	5,400.00
	120,512.00	62,365.44	34,743.32	42,452.23	7,527.76
Net profit	286,736.00	129,096.32	49,829.95	83,356.68	983.29

Note: Unit: Yuan

Table II Balance sheet (year ending 31 December), 2006-2010

	2006	2007	2008	2009	2010
Fixed assets	809,810.00	688,338.50	605,737.88	563,336.23	535,169.42
<i>Current assets</i>					
Stocks	1,755,187.20	1,579,668.48	1,421,701.63	1,379,050.58	1,103,240.47
Debtors	1,493,720.00	1,142,580.00	851,790.00	1,078,050.00	765,200.00
Cash	12,440.00	14,370.00	59,460.00	475,680.00	129,610.00
	3,261,347.20	2,736,618.48	2,332,951.63	2,932,780.58	1,998,050.47
<i>Current liabilities</i>					
Creditors	-1,329,410.00	-1,256,840.00	-936,970.00	-2,188,440.00	-1,224,320.00
Net assets	2,741,747.20	2,168,116.98	2,001,719.51	1,307,676.81	1,308,899.88
Short-term loan	374,000.00	241,666.67	302,222.22	314,285.71	108,000.00
Profit and loss account	286,736.00	129,096.32	49,829.95	83,356.68	983.29
Total capital employed	3,402,483.20	2,538,879.97	2,353,771.68	1,705,319.20	1,417,883.18

Note: Unit: Yuan

Owing to the seasonality of the work BoL undertake and the fluctuation in the availability of unskilled workforce, the number of shopfloor workers ranges from 100 at off-peak times to 400 at peak times. There are very few shopfloor workers who have worked for BoL for longer than a year whilst some may turn up for a week and never be seen again after the first weekend. All the shopfloor workers are paid at the end of each month on piece work basis.

Nearly, all of the shopfloor workers are female migrant workers aged between 18 and 25 from inland provinces of Anhui, Hunan, Jiangxi and Sichuan. Most of them initially came to XMN on recommendation of friends and relatives who came here in search of good fortune at the early stage of its development. The exceptions are the four members of the Yang's family – the parents and their two sons, who lost their traditional oyster farming business to the industrial development. The parents work in the canteen whilst the two sons work as porters moving heavy stuff round the factory floor.

Apart from maternity and occasional sick leave, turnover amongst the management and supervisory staff is close to zero. The same, however, cannot be said about shopfloor workers. They tend to flow between factories at XMN in search of the most competitive rate of pay. The Spring Festival (Chinese New Year) period is when nearly all of them return home to be reunited with their families. Until 2008, most of them did return after the Spring Festival to XMN but not necessarily to the same firm. For BoL the first week after everybody returns from

their Chinese New Year break, the whole management and supervisory team has to spend an entire week recruiting and training new workers.

The uncharacteristically cold and icy weather conditions around the Spring Festival in 2008 effectively paralysed much of the transport network in Southern China. Although Fujian itself was not badly affected its rail, road and air connections with the provinces of Anhui, Hunan, Jiangxi and Sichuan were virtually cut off for at least two weeks around the Chinese New Year period. Many of BoL's workers who were determined and managed to go home took a lot longer to get there. Most of them decided to stay put after the holiday because of many foreign companies were setting up factories close to where they lived.

The year 2008 was the beginning of what many described as "yong gong huang" (severe labour shortage). The impact of this was not as keenly felt by many labour intensive employers during much of 2009 due to weak global demands for Chinese made goods. From late 2009 to much of 2010 when exports of Chinese goods resumed momentum, the problem worsened as manufacturing firms in coastal cities of Fujian and Guangdong struggled to compete for a declining pool of migrant labour force. The problem was further compounded in May 2010 when a string of suicides at Foxconn captured the attention of the media worldwide. To keep production facilities up and running many firms had to opt for increasing wages by 5 to 10 per cent, and some even up to 20 per cent.

Firms producing exclusively for exports, like BoL, have been further hit by the rising oil price and steady appreciation of the value of Reminbi (RMB) against the US dollar, which have limited their scope of hiking up their prices. The inability to recover their full manufacturing costs wiped out a large number of low-tech manufacturing firms in Guangdong and Fujian during 2009 and 2010.

Union representation

Like many small to medium sized private firms in China, there is no union representation at BoL due to the rapid turnover of workforce.

General working environment

The factory is clean and equipped with most of the common facilities, such as workers dormitory, toilets and electric fans for the summer. In line with the general practice in much of southern China, there is no heating for the winter months. There is also a sizeable canteen where meals are served three times a day at cost. However, at peak production time as much as half of the space in the canteen is taken up by finished products waiting to be despatched. When this happens, factory workers need to take their turns to have their meal.

Whilst most shopfloor operatives are satisfied with production facilities, many have complained about noise, poor lighting in the sewing area, high level of humidity and poor ventilation in the summer. All the electric fans do is to recycle already very hot air within the factory. Although opening windows does increase air circulation, it also lets in all sorts of sub-tropical insects, such as flies and mosquitoes.

More recently, there have been several complaints from some of the girls about the behaviour of the Yang brothers, saying they were more interested in chatting up the girls than doing their job. This is not the first time the management received complaints about the Yang brothers but for historical reasons there is not much Ben and Alfie can do about them other than talking tough with them.

Current situation

It is now 25 January 2011. Since the beginning of 2011, BoL's deteriorating financial situation has turned from bad to worse. Details are outlined below.

Declining volume of production

Despite BoL's reluctant increase of factory prices by 10 per cent, the total volume of orders from the USA for 2010 was only slightly down from their best year in 2006 because they were

able to pick up additional orders due to unexpected closure of some of their competing firms. However, their problems were not so much about securing orders but in delivering them. In fact they had to begin turning down orders from July 2010 due to the severe labour shortage. Even with a wage increase of 15 per cent, they still have not managed to recruit enough workers and thus have been running production at quarter of its full capacity since September 2010. The continuing labour shortage also means that they have not been able to complete their production for dispatch by sea-freight. The use of air-freight has further eroded their bottom line.

The situation is set to get worse for the years ahead due to:

- the US Government continuing to put pressure on the Chinese Government to strengthen the value of yuan and to do it fast;
- the continuing rise in oil price; and
- the long-term decline of migrant workers available in XMN.

Over-stretched management resources

The loose and relaxed management structure whereby decisions are made by consensus is not coping well with all the changes that are taking place around them.

As far as Ben is concerned, he has done really well against all the odds to generate orders from the USA although he has had to offer more discounts to secure some of them. It is up to Alfie to ensure that he and his team pull out all the stops to maximise production capacity.

Alfie is keenly aware that the factory has not been operating at full capacity mainly due to labour shortage. He has been venting his frustration at Dorothy for not passing enough workers at the point of recruitment.

Dorothy, on the other hand, has been complaining that most of the candidates who turn up for job interviews these days have not even completed their primary school education. Not only do not they understand the local Min'nan dialect, most do not even understand simple questions asked in Mandarin (Putonghua). There is no way they can perform production tasks to the stringent US quality standards. As far as she is concerned, the only way to attract decent standard workforce is to make their wage rate more competitive by increasing their basic piece rate by another 25 per cent when they may start to attract some local people. So, the ball is entirely at Cindy's court.

Cindy knows the company's financial situation only too well. The company may be able to attract better qualified workforce by offering higher wages but the increased cost will simply push the company into the red. After the recent 15 per cent pay rise the company is just about to balance its book for 2010.

She is aware that the company cannot afford to pay the usual "end of year bonus" to any management and supervisory staff before it closes for the Chinese New Year 2011. That might just be the last straw to drive away some of the longest serving supervisory staff who have been working for the company since day one. She has overheard some of them saying they were looking at other options as "the company is in deep trouble and may not last beyond the first half of 2011".

An unexpected phone call

On 31 January 2011 at 06:30, both Alfie and Ben received an urgent phone call from Adam asking to meet with them and Becky as a matter of urgency about their fathers' health.

Feeling guilty of not having been in touch lately, Alfie and Ben rushed to Adam's apartment and learnt that their father started to suffer from severe stomach pain from about 16:30 yesterday and had not been able to eat or drink since then. Apparently, this happened many times in the past six weeks but every time the father insisted not to tell Alfie and Ben as he intuitively knew that BoL was going through a tough time.

As soon as Becky arrived, the four siblings came to a consensus with their mother that they should take their father to the hospital without delay. However, Mr Zhang refused insisting that it was just his stomach ulcer that was playing up and there was no point in wasting money. Instead, he said he felt a little hungry and sent his wife to buy some fresh soya bean milk.

Whilst his wife was gone Mr Zhang asked his four children to sit round his bed and told them how much he had missed seeing them together and that he was really looking forward to all of them coming home for the New Year's Eve reunion dinner with their respective child. He also told them that his health had not been good and he might not have long to live and to him there was nothing more important than seeing everybody in the family happy and getting on with each other.

After pausing for a moment or two, Mr Zhang suddenly turned serious and said to his children that they must stick together no matter what. It was only when he had their reassurances that Mr Zhang showed a satisfied smile on his face.

Within a few minutes of his wife returning home, Mr Zhang's state of health took a turn for the worse and was rushed to the hospital.

A bleak Chinese new year

The troubles brewing in the company are driving the families apart. Tensions between Alfie and Ben are running so high that they have been avoiding each other outside work for the past six weeks. They have not even visited their elderly parents at the same time. They have been contemplating not going to their parents for their traditional New Year's Eve family reunion dinner this year. However, with Mr Zhang's life now hanging on the balance, they are beginning to ponder what is more important in life, family or business.

Deep down Cindy knows that the company is heading for bankruptcy unless there is a radical shakeup in how the company is run. But she does not dare mention this to Alfie who, she knows, is already under a lot of pressure and the atmosphere at home is so bad these days that their only son prefers to stay at school. She has previously promised their 17-year-old son an iPad for the Chinese New Year but without the year-end bonus she would have to dip into her personal savings which might be needed to meet the costs of supporting their new-found middle-class life style, running the newly built 200 square metre villa and sending their son to study in the USA for his undergraduate degree next year when he finishes his high school.

Similarly, Dorothy has not had a good night sleep for many months. She feels that she is expected to manage an impossible situation all on her own. She wishes they did not have to depend so much on a floating workforce that they have no control over. She has attempted to speak to Ben about her worries but he does not appear interested. She has been contemplating on giving it all up but does not have the courage to do so. After all, she and Ben still have a long way to go to support their son until he is fully independent.

Dorothy and Cindy do not always see eye-to-eye at work but they get on well socially as they knew each other before they were each married into the family. They usually go together for a foot massage session every other Sunday. Because of the growing tensions at work they have not done so for the past three months.

Ben is frustrated at the situation in that he has had to make excuses to some of his long standing US customers as BoL cannot accept any more orders even if the prices were doubled. He blames Alfie and Dorothy for not getting their acts together for the good of the company.

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