Never-Below-the Horizon Airline

A Comprehensive Analysis of Outsourcing A Call Center In China

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Needs of Call Center
- High Performance Culture
- Low Labor Costs
- Educated/Trained Workforce
Overview of China

Labor Standards-Advantages

- Programs in-place sponsored by government and union
  - Retrain and re-employ workers from state-owned industries
  - Pre-employment training
  - On-the-job training upgrading of skills
- State Owned Enterprises Provisions
  - Provide temporary income support, unemployment insurance, and minimum living standard
  - All workers have three years to be re-trained at employment centers
  - Workers can be a source for call center
    - Will not have to be trained or require very little training
    - Work with China Institute of Industrial Relations in Beijing prior to establishing call center


Labor Standards-Advantages

- China's department of labor has been focusing on amendments to allow for improved working conditions. Those amendments include:
  - Helping workers and would be workers to gain the necessary skills
  - Providing humane and safe working conditions
  - The labor department will help prevent and settle disputes
  - Department of labor to form partnership to become a consistent and cooperative organization

**Labor Standards-Disadvantages**

- Unions are controlled by the government
  - Company will have to follow government labor relations, thus allowing for union/management strategies will require government support
  - Workers that attempt to strike or organize outside of the government will be put in prison and at times, tortured.
  - Government doesn’t enforce companies that pay below minimum wage standards set by the government

**Labor Standards-Disadvantages**

- Difficult to make changes because of the government’s involvement in labor
  - The government typically sides heavily with the employers, thus the workers suffer as a result
  - Employee relations practices are different from the US, cooperation and high performance culture not promoted in the workplace

**Economic Factors-Advantages**

- China’s 16th National Congress agreed to modernize China:
  - Upgrade technology
  - Bring in overseas investment
  - $8 Billion approved by National Development and Reform Commission
  - Provides tax breaks and credits
- GDP (2004): $1.05 trillion (exchange rate based).
- Per capita GDP (2004): $1,200 (exchange rate based).
- GDP real growth rate (2004 est.): 9.5%.

**Budget**

- Revenues: $265.8 billion
- Expenditures: $300.2 billion, including capital

**Currency Policy**

- Undervalued currency is often argued as being a major contributor to China’s cost advantage.
- Yuan is pegged to U.S. dollar v. free float.
- China has accumulated $385 billion of currency reserves, including $105 billion alone in 2003.

Economic Factors - Disadvantages

The government has struggled to:

- Sustain adequate jobs growth for tens of millions of workers laid off from state-owned enterprises, migrants, and new entrants to the workforce
- Reduce corruption and other economic crimes
- Keep afloat the large state-owned enterprises, many of which had been shielded from competition by subsidies and had been losing the ability to pay full wages and pensions


Labor Market

- Wage flexibility has been increased gradually
- More flexible labor market strategy
- A labor contracting system was introduced in the mid-1980s
- SOEs gained the right to lay off permanent workers.


Labor Costs - Advantages

Access to Low-Cost Labor

- Low labor costs are driven by China’s almost inexhaustible labor supply, with nearly 1.3 billion inhabitants.
- Nearly 700 million Chinese live in western China.
- Standard Chinese labor rate is roughly $0.70 per hour, or about 1/36th of U.S. labor rates.
- High unemployment, large pool of candidates ready to work.

**Labor Costs-Disadvantages**

- Demand for Chinese labor on the rise, wages are likely to increase
- Technological advances are making some workers increasingly obsolete
- Language barriers and cultural differences can cause problems
- The quality of work may be inferior
- Sending managers to oversee Chinese workers can be costly
  - High turnover rates


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**Education-Advantages**

- High commitment to education
  - 90.0% Literacy Rate (2002)
- Higher Education Expands Rapidly
  - 1552 Universities in 2003, up from 1396 in 2002
  - 3.7 Million engineering, 1.8 Million studying Management
  - Increased enrollment in Graduate Studies (651,260, up from 500,980)
  - Many of these students have studied abroad
- English being taught at a young age
  - New English textbooks encourage pupils to experiment with dialogue instead of simply memorizing words and phrases

Sources: EIU ViewsWire. New York: Feb 1, 2005. pg. n/a
CIA World Factbook: China accessed by Internet 4/16/05
Education - Disadvantages

- Education Disparities
  - Between the majority Han and minorities, males and females, and between rural and urban
  - Results in "bifurcated educational system"
    - Small sector of key schools for the "elite" and a large sector of the regular schools for the "masses"
- Expensive to teach English
  - New methods of teaching English incur new costs
- Education is beset by funding shortages
  - State has had to call on the private sector to help expand educational provision


Culture - Advantages

- Principles of Confucianism
- Flexibility
- Value learning and knowledge
- Source Of Trust
- Conception of Self

Sources:
Rossiter, N., Vedala, S., "How to manage and leverage your organization's knowledge in China", CBIIL & A Board of the European House-Member of Chambers of Commerce in China, October 2004 http://www.sinomedia.net/eurobiz/v200410/euro22.html

Cultural Obstacles

- Profit may be perceived as Western exploitation
- Decision Making
- Lack of Managerial Autonomy
- Attitude toward success and failure
- Risk Takers vs. Networking and Hierarchy
- Gender Roles

Sources:
http://www.lehmanlaw.com/chinastats/default.htm#31
Political Factors - Advantages

- The government's efforts to promote rule of law and a pro-business climate are significant and ongoing.
- China has taken steps to bring its human rights practices into conformity with international norms.
- Member of the World Trade Organization.

Political Factors - Disadvantages

- Government's Corruption
- The existence of import quotas
- Chinese leadership lacks vision
- Still issues regarding the human rights

Recommendation

- High Performance
  - Partnership with the government to identify available workforce and government sponsored training.
  - Humane working conditions
  - Govt to help settle labor disputes
- Low Labor Costs
- Educated/Trained Workforce
  - High literacy rate
  - High unemployment, access to trained employees