



Excessive Overtime in Chinese Supplier Factories

Causes, Impacts, and
Recommendations for Action

Verité
Research Paper
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About Verité

Verité is an independent, not-for-profit social auditing, research, and training organization based in Amherst, Massachusetts, USA. Verité's mission is to ensure that people worldwide work under safe, fair and legal conditions.

Verité's work includes:

- factory audits for compliance with international standards and corporate codes of conduct;
- research into key questions related to workplace human rights in global supply chains;
- evaluations of supply chain and human rights-related risk for multinational corporations and investors; and
- capacity building for governments, businesses and non-governmental organizations to improve implementation of labor protections.

Since 1995, Verité has conducted over 1,250 comprehensive factory evaluations for multinational corporations and local suppliers in 65 countries; numerous factory-based management training and worker-education programs in Asia, Latin America and the Middle East; and research for socially concerned investors worldwide.

In 2002 and 2003, Verité conducted 142 footwear and apparel factory audits in China as well as management and worker-training programs for both Chinese factories and corporate clients.

Verité is funded through a combination of fee-for-service programs, grants from foundations and government agencies, and donations from individuals.

In addition to this report, Verité currently has several other research reports available, including:

- **Verité Country Labor Assessment Series:** currently available reports include Argentina, Brazil, Cambodia, China, Hungary, India, Israel, Malaysia, Mexico, Philippines, Poland, South Korea, Taiwan, Turkey and Vietnam.
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 - Chinese Labor Law and Core Code of Conduct Issues: A detailed comparison
 - Debt-Bonded Contract Labor: Problems and Solutions

For more information about Verité, please visit our website or contact us at:

www.verite.org,

verite@verite.org

+413 253 9227

44 Belchertown Road

Amherst, MA 01002

USA

About this report

Verité Research Reports aim to illuminate key issues related to labor rights in international sourcing, and to provide recommendations for action by a variety of stakeholders to improve working conditions.

This report was produced under the supervision of Dan Viederman, Executive Director; Qing Zhang, China Program Director; Yao Wenjuan, China Reports Coordinator; and Erin Klett, Research Program Manager.

Research was conducted by factory monitoring specialists in Verité's China Program, including; Ding Fuyun, Verite Mobile Training Program Director (South China); Ye Zaichun, Verité auditor (Guangdong); Shi Ying, Verité auditor (Shanghai); Gao Pinguan, Verité auditor (Fujian); and Sun Minghua, Verité auditor (North China).

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- Eileen Fisher, Inc.
- The Timberland Company
- Sears, Roebuck and Co.
- The Warehouse Ltd.

The report will be available in Chinese during the autumn of 2004.

Executive Summary

Excessive overtime - defined as work hours that exceed legal limits or the 60-work hours per week standard in most corporate Codes of Conduct - is a widespread and persistent problem in the Chinese export industry. Over 93% of 142 Chinese factories audited by Verité for international brands during 2002 and 2003 employed excessive overtime.

Project Background

In late 2003, Verité joined with seven corporate partners to illuminate this problem in greater detail. This study explored the use of overtime from the perspectives of workers and factory managers in 41 export factories in southern China. A total of 768 worker interviews and 44 interviews with factory management personnel at the 41 export factories were conducted, with the following objectives:

- Provide a picture of overtime use in supplier factories in China, including the reasons according to management that overtime is employed.
- Examine the physical, psychological, economic and social effects of overtime on workers.
- Identify, in conjunction with brands and factory managers, possible measures to reduce excessive overtime.

The study also aims to contribute to the on-going discussion about the effectiveness and appropriateness of the 60-hour per week work hour limit contained in most multinational company codes of conduct.

Findings

The key findings from this research on worker and management perceptions of overtime in Chinese export factories are:

- **Overtime in excess of 20 hours per week, the standard for multinational corporate codes of conduct, is frequent and widespread in Chinese export factories. Overtime in excess of the Chinese legal maximum of 36 hours per month is also common.**
- **Workers report that they need to work overtime for financial reasons. These financial reasons stem in part from illegal pay practices that mean workers are not compensated for all the time that they work.**
- **There is little understanding of the physical and psychological impacts of excessive overtime on Chinese workers, and few resources devoted to this topic.**
- **Neither workers nor managers report that they prefer work weeks that exceed 60 hours:**
 - **From a financial perspective, workers report needing to work 2 to 3 hours per day of overtime.**
 - **Workers report the preference to limit overtime to two hours per day for health and social reasons.**
 - **Managers report a preference for running three hours of overtime per day.**
- **Managers report that running excessive overtime shifts carries undesirable financial penalties and inefficiencies.**

- **Factory managers express a strong willingness to develop mechanisms to avoid the use of excessive overtime.**

The Verité study helps clarify the picture of factory work hours in southern China. Workers interviewed in this study reported long working hours, in peak and non-peak periods. Factory management corroborated these reports of significant overtime hours, particularly during peak production periods.

The results of the study indicate that workers are working these significant overtime hours primarily for financial reasons, but also because they perceive these overtime hours to be required or expected by the factory. Their expressed preference is for fewer hours than they frequently work, despite their financial obligations, with a consensus that a maximum of 60 hours (regular plus overtime combined) a week represented a reasonable limit.

Excessive hours come at a clear cost to workers, who report increased fatigue and exhaustion, sadness and depression correlated with long work hours. Common ailments attributed to excessive overtime are eye strain and back pains. Regional Chinese medical and legal professionals surveyed in the Verité study provided anecdotal evidence of more severe health effects of overtime, including the hospitalization of workers due to prolonged exposure to toxic chemicals. Such reports echo the considerable research on the health effects of long work hours conducted in the US, Germany and other industrialized countries.

While workers reported no significant increased risk of accidents either for themselves or for their fellow workers as a result of increased overtime, the significant and long-term health effects among all workers may be greater than they suspect and remain to be investigated. Studies from industrialized countries show positive correlations between long work hours and injury rates as well as ill health.

Finally, the results of the Verité study also indicate that management perceives the most fruitful avenues for reducing production emergencies - which bring with them the need for overtime - lie in improving the order process and speeding up communications between buyer and factory.

Structure of the Report

This report is structured in four sections. First, the report presents the background to the Verité study and the problem of excessive overtime in Chinese supplier factories. Second, the report outlines the results of the worker interviews. This section focuses on the reasons that excessive overtime is persistent, the physical and psychological stress of long working hours, and the desired levels of overtime from the worker perspective. The third section relates perspectives on overtime from factory management. Following the first three sections is a Conclusion that summarizes Verité's findings.

Recommendations

The fourth section is more speculative and forward-looking. It provides recommendations to resolve the problem of excessive overtime that should be considered by a range of stakeholders. This section proposes a tentative agenda for action, one that needs further refinement and discussion among interested parties. Using this report as a starting point, Verité intends to engage public, private, and non-profit partners to enhance the list of actions and move towards implementation.

Key recommendations include the following, which are described in more detail in Section 4 below:

For western companies that outsource to China:

- Ensure that workers in supplier factories receive all compensation due to them under Chinese law with regard to regular hours, overtime premiums and benefits.
- Improve factory-buyer communication, and increase support to factory management to ensure compliance with overtime and occupational safety and health standards.
- Provide technical assistance and training to factories on production planning that can help reduce the need to employ overtime.
- Create internal planning mechanisms that decrease the need for overtime, including reduction in frequent and late changes in design specifications.
- Build long-term relationships with suppliers and reward them for compliance improvements.
- Ensure that performance reviews for employees charged with supply chain management and compliance include positive recognition of factories selected on the basis of code compliance.

For Chinese factories that produce for the export market:

- Invest in compliance with occupational safety and health standards, including training for workers on extra safety precautions to be taken during overtime shifts
- Ensure that workers know that overtime is voluntary, and that supervisors support voluntary decision-making on the part of workers.
- Eliminate all illegal punitive measures like salary deductions, work point demerits and 'absences' due to missed overtime that contribute to making overtime involuntary.
- In the absence of independent trade unions, establish worker-controlled and/or -driven safety committees at the workplace.

For Chinese government agencies:

- Build capacity and capability among labor inspectorates to monitor factory compliance with legal requirements.
- Establish clear time limits for the use of the Comprehensive Work Hour Calculation system that protect workers from excessive overtime hours.

For the All-China Federation of Trade Unions, and/or other worker-representative bodies:

- Ensure that workers in supplier factories receive all compensation due to them under the law with regard to regular hours, overtime premiums and benefits.
- Work with factory managers to ensure proper training on the extra safety precautions that should be taken during overtime shifts.

- Ensure that the voluntary nature of overtime is clearly communicated, orally and in writing, by management to workers.
- Monitor worker freedom of choice to work overtime.

For non-governmental organizations concerned with workplace standards:

- Provide education and training on labor standards for workers, like that pioneered by Verité's Mobile Training Program.
- Assist in needs assessments and development of models for better communication between factories and buyer companies.
- Work with local government agencies and worker organizations to increase capacity for monitoring and enforcement of labor standards.
- Research and publicize the discrepancies between actual wage levels, China's legal wage levels, and cost of living.
- Make low-interest loans and other financial mechanisms available to workers, particularly migrant workers, to cover unexpected domestic expenses such as medical emergencies, in order to reduce their need to work overtime.

Section 1: Verité's Research and the Problem of Excessive Overtime in Chinese Supplier Factories

Introduction and Background

Chinese labor law and regulations dictate a workweek of eight hours per day and 40 hours per week. Legally, overtime is limited to three hours per day, but not to exceed 36 hours per month. Workers are entitled to one day off in every seven. Where overtime is worked, it must be compensated with pay premiums.¹ Many multinational corporate codes of conduct provide for a limit of 60 hours worked in a week, though this is technically in violation of legal limits. In Verité's experience, both legal limits and the guidelines outlined in corporate codes of conduct are routinely violated in Chinese supplier factories.

The problem of excessive overtime in Chinese export production has long been the subject of attention and concern. But the problem persists, and there has been little thorough or systematic investigation of the underlying dynamics, nor suggestions for targeted remedies or solutions.

Verité has conducted workplace social audits since 1995 in China. Since 1998 Verité has annually convened Chinese factory owners and managers with governmental officials and non-governmental organization (NGO) specialists in conferences that explore issues and pose solutions for workplace human rights problems. Verité's China factory audits over several years have consistently identified problems with overtime that exceeds both legal limits and the benchmarks set by many brands' Codes of Conduct. Excessive overtime has been found in the great majority of Chinese factories audited. Verité conferences on the topic have revealed dissatisfaction among international brands, Chinese factories and workers with current approaches to the problem of overtime, as well as recognition that new and innovative methods to address the issue are needed.

This continuing debate around excessive overtime prompted Verité to develop a broad-based study on factory work hours in concert with seven corporate partners. This study has undertaken an exploration of the use of overtime and its possible abuse, causes and impacts. The study gathered data from specially-conducted worker and management interviews, as well as from an analysis of Verité audit findings from 2002 and 2003, with the following objectives:

- Provide a picture of overtime use in supplier factories in China, including causes as described by management.
- Examine the physical, psychological, economic and social effects of overtime on workers.
- Identify possible measures to reduce excessive overtime in conjunction with brands and Chinese factory managers.

¹ State Council of the People's Republic of China, Provisions on Employee's Working Hours, 1994; and Labor Law of the People's Republic of China, 1994, Article 41.

The study also aims to contribute to the on-going discussion about the effectiveness and appropriateness of the 60-hours workweek limit contained in most multinational company Codes of Conduct.

The preliminary results of the study were shared and discussed at Verité's October 2003 conference, "*Overtime in China: Addressing Challenges and Working Toward Solutions.*" Representatives of 45 US, Canadian and European companies that outsource production in China addressed the challenges they face in ensuring compliance with overtime limits in China. These perspectives are reflected in this report.

This study and the 2003 Verité Conference aim to quantify the impact of excessive overtime on workers, factories and brands, and to identify paths for future research, discussion, and action. Verité intends that the findings from this study will advance multi-stakeholder dialogues to address the issue of excessive overtime in supplier factories.

Methodology

The study methodology is based on Verité's extensive experience in qualitative interview methods with both workers and factory managers. The study solicits and examines worker and management attitudes toward current overtime levels and offers insight into their ethical and business perspectives on the issue. The study relied on trained interviewers using a structured interview to gather a broad range of information. A large number of interviews conducted over a specific time period provide a picture of overtime as it is employed in Chinese export factories.

The study emphasizes the findings from worker interviews. This is due to the fact that, in Verité's experience, payroll records are unreliable in many Chinese supplier factories. Chinese factories are increasingly practiced at presenting a false picture of working conditions, through falsification of records and coaching of workers.² Confidential offsite interviews conducted by experienced worker interviewers are essential to confirm the facts of labor practices.

Interviews with workers probed for motivations for working overtime, as well as the psychological and health effects of overtime. Interviews with managers examined how overtime is used as a production strategy, including perceptions about its efficiency, productivity, viability and desirability.

Forty export factories in southern China, primarily in the garment, shoe and knitting industries,³ were chosen to participate in the study based upon their location and links to

² For example, in one recent set of factory audits for a major international brand, eight of the ten factories audited had two sets of payroll records. One set was presented to social auditors; the other was used for internal bookkeeping. This duplication was unearthed initially through off-site worker interviews, which identified serious discrepancies between payroll records and worker experiences, leading to a review of secondary documents such as material handling records to confirm the falsified documents.

³ Industries represented in the study include the garment (11 factories), shoe (11 factories), knitting (10 factories), handbag (2 factories), crafts (2 factories), wood products (1 factory), plastics (1

sponsor corporations. The factories are located in Guangdong, Fujian, Jiangsu and Zhejiang provinces.

Drawing on Verité's network of experienced Chinese worker interviewers, interviews were conducted between August 2003 and February 2004 with 768 Chinese workers and 44 management personnel at the selected factories. Worker-interviewees were selected at random from factory records. Interviewers conducted both onsite and off-site worker interviews, all in Chinese. Onsite interviews were conducted with one to one-and-a-half percent of workers in each factory, depending on its size. In small factories at least 10 workers were interviewed; in larger factories, generally 30-40 workers were interviewed. Onsite interviews were conducted individually and in groups. Off-site interviews were generally individual, but also included group interviews. Offsite interviews were designed primarily as supplementary interviews to augment and verify onsite responses. Onsite interviews were also conducted with factory managers, all Chinese, and generally serving as General Manager or Vice-President for Production.

In addition, four interviews were conducted with medical and legal professionals involved with occupational health-and-safety issues in the southern China region.

The aggregate result of the interviews present a clear picture of excessive overtime, but confirm the complicated range of factors that gives rise to the problem.

Verité recognizes that data from worker interviews must be treated with caution. Worker interviewing in an environment of mistrust, like that which prevails in many Chinese supplier factories, can yield a confused picture. Factory managers put direct and indirect pressure on workers to paint a positive picture of working conditions to auditors. Workers are often coached with answers to relay to auditors, and are also told that international brands will reduce orders if they find workplace violations, putting workers' jobs at risk. Verité worker interviewers are experienced at cross-referencing the information received from on- and off-site worker interviews to produce a reliable picture of working conditions.

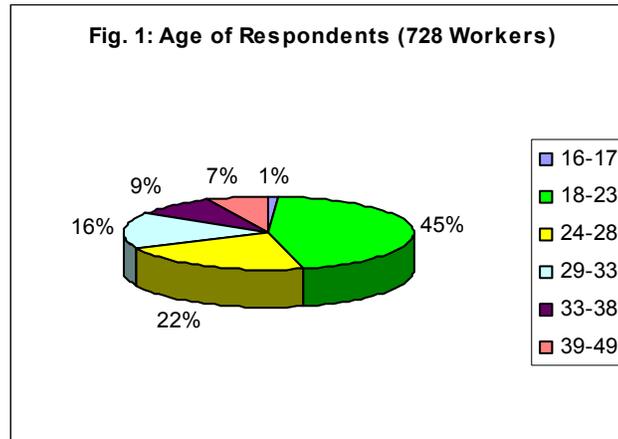
Other potential weaknesses in the methodology employed include the non-random selection of participants and the difficulty of validating self-reported information. Taking into account these potential methodological difficulties, this report provides a conservative analysis of the information gathered.

The production cycle of global sourcing involves myriad actors in many countries worldwide. The interactions among these actors are complex, and the incentives that drive behavior are varied and variable depending on the specific situation. This complexity introduces a level of caution into any analysis of motivations and impacts. Verité encourages others to conduct further research into the specific conclusions identified here. Still, it is hoped that further research will not be used as a pretext to delay action to address the clear problems that exist within the system by which excessive overtime is employed in Chinese factories.

factory), sporting accessories (1 factory), and food industries (1 factory). The sample was not large enough to allow an analysis of potential differences among industries.

Demographics

Approximately 73% of the workers interviewed in the Verité study were female. Most workers reported a middle-school education. As shown in *Figure 1*, the working population was young. The largest number of respondents came from the 18-to-23 year range (45%), followed by 24-to-28 year olds (22% of respondents).



About 80% of the workers in the Verité study reported that they were migrant workers from other parts of the country who had come to southern and southeast China in order to find work. Dormitories on factory premises house 82% of these migrant workers.

Current Levels of Overtime

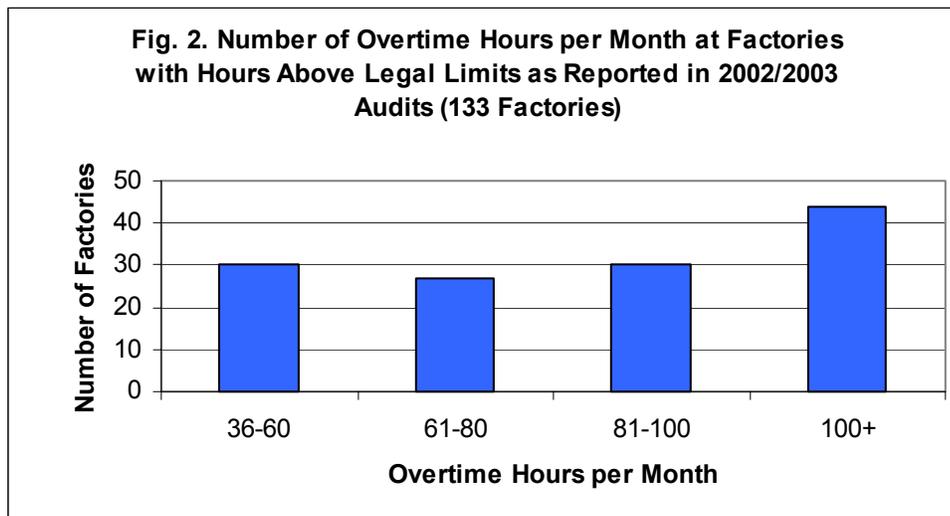
Work hour violations in Chinese supplier factories commonly exceed both Chinese legal limits and the 60-work hour limit per week contained in many corporate codes of conduct.

Both Verité's past audit experience and the results of the current study indicate that overtime in excess of Chinese legal limits and the standard 60-hour workweek limit contained in Codes of Conduct is common. An analysis of Verité audits in 2002 and 2003 suggests that overtime hours at most supplier factories in China are in excess of legal limits.⁴ Of 142

⁴ It is frequently difficult to ascertain working-hour violations definitively in Chinese supplier factories that adopt the Comprehensive Work Hour Calculation System, under which factories may legally exceed the daily, weekly or monthly work hour limits during peak production periods so long as they do not exceed the overall statutory limits for the calculation period. This legal flexibility was designed to allow factories to adjust production according to the fluctuating but intense demands of the export market. However it has introduced significant difficulty in ascertaining compliance with the law. Under the Comprehensive Calculation System, if employees work on normal days off during an approved period, they must be compensated with an equal amount of rest time later in the year or paid at the legal overtime rate, which is 200% of the regular rate. But without conducting a full year's

Chinese footwear and apparel export factories audited in 2002 and 2003, overtime hours at 133 factories (93% of those audited) were reported to exceed legal limits based upon evidence gathered from either worker interviews or from factory production, timecard and/or payroll records. Of the 133 factories with overtime violations in 2002 and 2003, auditors reported that 30 factories (23% of those with violations) had monthly overtime hours of between 37 and 60; 27 factories (20%) had monthly overtime hours between 61 and 80; 30 factories (23%) had monthly overtime hours between 81 and 100; and 44 factories (33%) had monthly overtime hours of more than 100 (*Figure 2*).

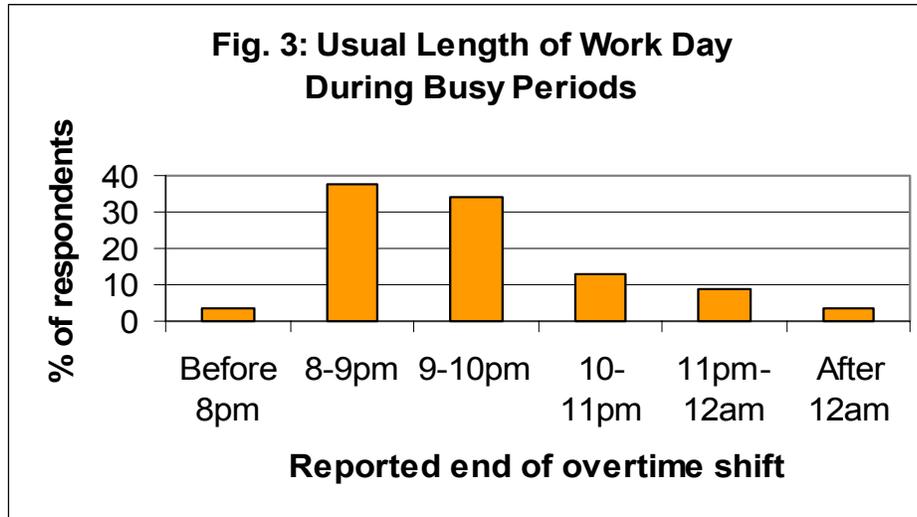
These numbers indicate that 56% of factories employed more than the 80 overtime hours per month allowed under most corporate Codes of Conduct.



The current Verité study also indicates that the majority of workers in export industries regularly work overtime. Fifty-nine percent of workers reported that they usually work until after 9 p.m. during peak production periods. Some workers reported working until midnight or “overnight” in cases of extreme production deadlines (*Figure 3*).

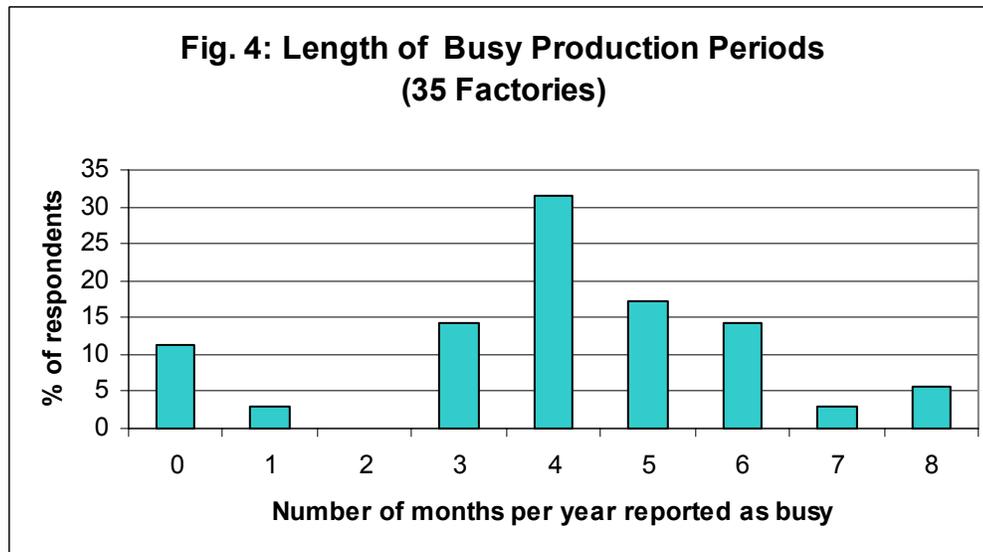
audit of payroll records, it is generally impossible to determine whether or not employees have been granted compensatory days off or premium wages.

Ascertaining overtime violations at factories which have not been granted legal permission to use the Comprehensive Work Hour Calculation System is more straightforward: these factories must abide by the legal limits of three hours per day and 36 hours per month. (See Labor Law of the People’s Republic of China, 1994, Article 39; the Ministry of Labor, Measures of Examination and Approval for the Flexible Working Hour System and the Working Hour System of Comprehensive Calculation Adopted by Enterprises, 1994.)



Management also reported that overtime is common. The hours they report closely match the legal limits. Most managers identified a workday of eight hours plus three overtime hours as average; four factories reported workdays of 12-13 hours. Eighteen factory managers reported that workers have the legally-required one day off in seven, while two said they work seven days in a row.

Production schedules vary during peak and non-peak seasons.⁵ Almost three-fourths of factories (71%) in the Verité study reported busy periods that lasted four months or more. Six percent of factories estimated that busy periods lasted eight months of the year (*Figure 4*). Only 11% of the factory managers reported stable production over the course of the year with no busy periods, while 14% reported busy periods of three months or less. These findings imply that overtime is substantial for long stretches of the year, rather than for a limited time period.



⁵ Peak production periods are generally driven by changes in apparel seasons in consuming countries, as well as Christmas and other high-volume shopping periods.

Outside of peak production periods, 78% of the workers in the Verité study reported that they normally work more than five days a week; 11% of them reported that they usually work seven days a week.

Section 2: Incentives and Impact: Data From Workers' Perceptions

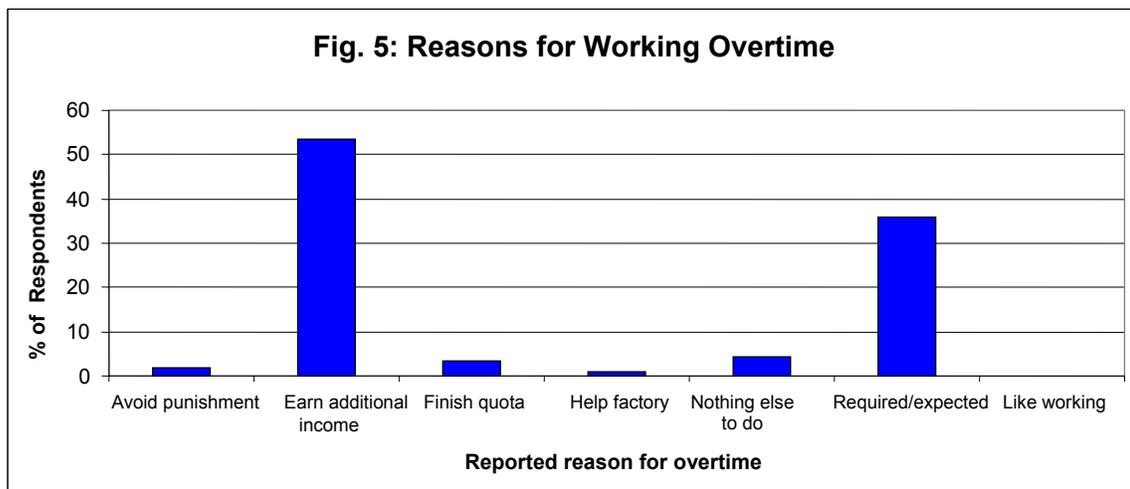
Why Work So Much?

Workers' relationship to overtime is complex. While financial premiums related to overtime are a key factor in workers' willingness to work longer hours, their regular wages are often illegally low, overtime payments are often unpaid, and there is little if any enforcement of legal overtime requirements by Chinese government authorities.

Though workers did not generally report being forced to work overtime, such a requirement does at times occur. Furthermore, workers can face penalties for falling short of their work quota. The combination of financial pressures arising from underpayment of wages, and coercion related to factory rules or quota requirements, can function like forced overtime.

Financial considerations are primary in workers' decisions to work overtime, but must be considered in the context of underpayment of legal wage rates for regular and overtime hours.

The primary reason that workers work overtime is financial. As *Figure 5* indicates, most (53%) workers reported that extra income is their primary motivation for overtime work. In workers' own perceptions, overtime income was overwhelmingly considered "important," "very important" or "essential" (73% of workers rated it using those terms). Only one-fifth of workers called it a "comfort" and 6%, a "luxury." While these terms are open to interpretation, workers clearly value heavily the impact of overtime income.



This willingness to work overtime for extra income has its roots in the reliance of China's export production system on migrant labor, and is exacerbated by the widespread failure to

pay legal overtime rates at factories in China.⁶ Pressures on migrant workers to support their extended families as well as themselves, combined with the vulnerabilities of these migrants, mean that these workers are especially at risk of labor violations.

The workers who migrate to southern and southeastern China for work from poorer, generally rural areas of China face discriminatory working conditions and often bear unique financial burdens. Under-employment in inland, rural provinces and the geographic concentration of Chinese manufacturing in the coastal areas together drive the internal migration that supplies workers to export-oriented factories. Migrant workers face conditions that exacerbate their need for the additional pay that overtime brings. Migrants are generally ineligible for medical and unemployment insurance and retirement assistance. The household registration permits (*hukou*) that legally allow migrants' residence in coastal areas are granted temporarily through the workplace. The loss of a particular job could therefore mean a return to the home province, and the loss of access to good-paying jobs in general.

Chinese studies have shown the importance of remittances home as a motivating force for migrant workers. In one investigation of 363 first-time migrant workers, two-thirds of them identified "the family needs money" as their most important motivation for leaving home to seek work.⁷ Two studies indicate that migrant workers remit around RMB250 per month to their home provinces. This amount constituted approximately one-third of the family's net income.⁸

Failure to pay legal overtime rates exacerbates the problems faced by migrant labor populations as well as other workers. Of the 142 Chinese factories audited by Verité in 2002 and 2003, auditors reported that overtime wages were illegally low at 102 factories (72% of those audited) based upon evidence gathered from either worker interviews or from factory production, timecard and/or payroll records. In most cases, auditors reported that workers were paid the regular rate regardless of whether they were working during regular or overtime hours. In some cases, auditors reported that workers were paid a simple overtime premium for all overtime hours regardless of whether they were working on a regular workday, legal or customary day off, or legal holiday. About 20% of factory managers interviewed during the current Verité study reported that they did not pay legal overtime rates.

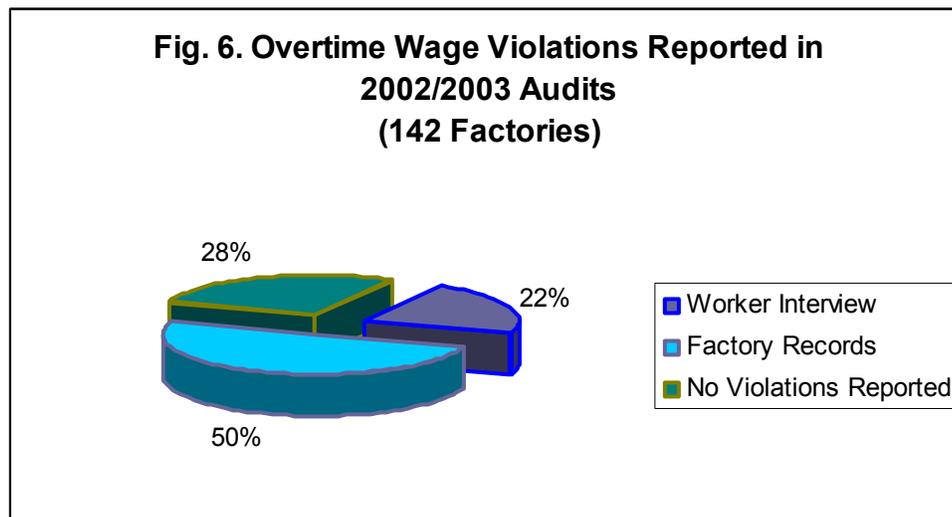
Worker awareness of pay rates, including the minimum wage and required overtime premiums, is low. Approximately 40 percent of the workers interviewed in this study said that they were not aware of the legal overtime rates, nor did not know if they had been paid according to legal overtime premiums. Around 12 percent of workers interviewed expressed certainty that they had not been paid their legally-due overtime premiums.

⁶ China's legal code calls for overtime to be paid at 150% of the basic hourly rate for extra work hours on a normal workday; 200% of the basic hourly rate for extra work hours on a customary or legal day off; and 300% for extra work hours on a legal holiday (Labor Law of the People's Republic of China, 1994). In addition, the 1994 Interim Provisions on the Payment of Wages specifically provides that piece-rate workers must be paid at the same premium rates based on their regular piece wage after quotas are met (Ministry of Labor: Interim Provisions on Payment of Wages, 1994).

⁷ Tan Shen. "A Gender Analysis of Migration Decision Making Among Rural Laborers". <http://www.china.com.cn/chinese/zhuanti/mingong/347063.htm>, 2003

⁸ Ibid., and Bai Nansheng and He Yupen. 2003. Rural Labor's Migration and Return: A General Description. http://www.cpirc.org.cn/yjwx/yjwx_detail_1.asp?id=1897

Many factories also fail to pay legal minimum wages during regular work hours. Of 142 Chinese factories audited in 2002 and 2003, auditors reported that regular wages of at least some workers were illegally low at 64 factories (45% of those audited) based on either worker reports or on factory production, timecard and/or payroll records. Most often, auditors reported that it was piece-rate workers (especially new and relatively-unskilled piece-rate workers) whose pay fell below legal minimum wages. The majority of workers interviewed were piece-rate workers.



Finally, legal minimum wage rates are often too low to cover basic needs. Yet for the majority of the factories studied the minimum wage is used to set workers' base wage. According to Chinese law, the minimum wage in China should be a living wage, since it takes as its foundation the basic living requirements of workers in the region.⁹ However in practice, minimum wage levels are far below average regional wage levels and can be inadequate to cover basic needs. For example, Verité research indicates that in Guangdong province, the minimum wage is only 24% of the average wage level for the province. This is in violation of the national directive requiring that the minimum wage of a locality should be set within 40% to 60% of the average wage in that locality.¹⁰

In the context of discriminatory treatment of migrant workers and inadequate compliance with legal wage and overtime rates, it is not surprising that workers consider overtime wages to be essential. Enforcing minimum wage payments and overtime premiums, closing loopholes related to piece rates, and adjusting minimum wages so that they more closely reflect actual living costs would all have the effect of increasing worker pay. Reforming the *hukou* system so that workers' residence permit is not tied to a specific job would help free them from the discriminatory practices faced by migrants. In general, workers' need to work overtime hours could decrease as their standard pay increases. So while workers (and especially migrant workers) clearly articulate the willingness to work overtime, it is difficult to separate that *willingness* from the *need* to overcome their low standard wages.

⁹ Labor Law of the People's Republic of China, 1994, Article 49.

¹⁰ The Ministry of Labor: Regulations Concerning Minimum Wages in Enterprises, 1993. The Ministry of Labor and Social Security: Regulation of Minimum Wages, 2004.

Workers perceive that overtime is required or expected by management.

The second major driving force for overtime work is factory requirements or expectations. Four-fifths of those workers who did not cite extra income as their primary motive cited factory rules and/or expectations as their primary reason for working overtime. *Figure 5* indicates that 36% of workers said that they work overtime because the factory requires or expects it; another 5% said that they work overtime to avoid punishment or to finish their quota. While these workers did not report overtime to be forced or compulsory, they still expressed having limited choice in the matter. Verité's audit experience indicates that it is becoming increasingly common for an evening overtime shift to be part of the regular factory routine. In many cases workers must obtain special permission to be absent from overtime, otherwise they forfeit wages or attendance bonuses.¹¹

When asked directly for their assessment of the amount of overtime, the vast majority of workers reported that they are satisfied with the amount of overtime in their factories. One-tenth of respondents said that there was too little overtime, while only 8% said there was too much overtime.

The Stress of Overtime

Long work hours have a negative impact on the physical health and psychological well-being of workers. Excessive overtime can affect health directly, as a stressor that leads to fatigue and stress-related illnesses, and indirectly, by increasing time exposed to work hazards such as chemicals, noise, and repetitive motion. Studies have indicated that the short-term effects of extensive overtime work include acute injuries/accidents, fatigue, sleeping problems, and higher blood pressure. Long-term effects include musculoskeletal disorders, disability retirement, and cardiovascular disease (heart attacks and strokes).¹²

¹¹ The use of fines as a disciplinary measure has been found to be common in factories audited by Verité. Auditors report that the fines levied for tardiness or absence at work are typically higher in value than the actual work time missed.

¹² Some specific findings are:

Several studies indicate that employees sleep less when they work 50 hours or more per week and that lack of sleep can lead to increased blood pressure and risk of heart disease.

A 1994 study of U.S. newspaper employees found that the odds of contracting a musculoskeletal disorder of the hand or wrist were 150% higher with eight or more hours of work than in the first six hours of work.

The risk of disability retirement was found to be 2.75 times higher among Finnish men working over 60 hours a week in a longevity study from 1984 to 1993.

A study by the Mt. Sinai School of Medicine found that for each 10 hours of overtime at a North American manufacturing company, the company received 1.6 more heart disease claims and 3.8 more hypertension claims per year per 1000 hourly employees.

References:

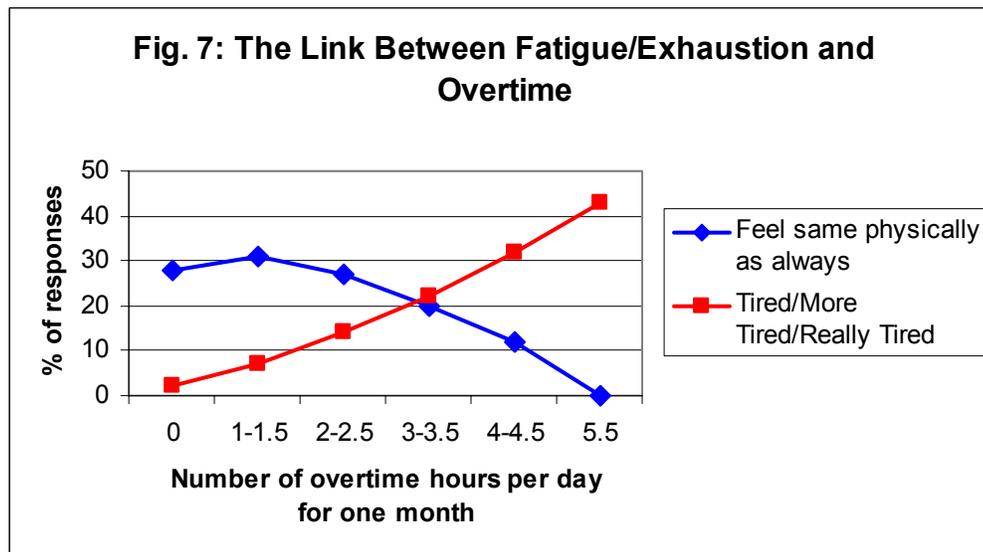
1. Van der Hulst et al. *Scandinavia Journal of Work and Environmental Health* 2003, 29(3): 171-88; and Harma M. *Scandinavia Journal of Work and Environmental Health* 2003, 29(3): 167-9; Hayashi T, Kobayashi Y, Yamaoka K, and Yano E. *Journal of Occupational and Environmental Medicine* 1996, 38: 1007-11; and Liu Y, Tanaka H. *Journal of Occupational and Environmental Medicine* 2002, 59: 447-451. All references cited by Paul Landsbergis in "Health Effects of Extended Work Hours," Presentation at Verité-sponsored conference on "Overtime in China: Addressing Challenges and

Workers interviewed by Verité perceive a link between the hours they work and their physical and emotional states. While they do not consider themselves at greater risk of injury or accident during overtime hours, they do report greater stress and discomfort, as well as psychological impacts, from long working hours.

There is little known research on the link between overtime hours and worker health in China. Yet there is sufficient evidence from international studies and this report that action to reduce overtime in the face of worker health concerns should not be postponed.

Workers perceive a relationship between overtime and physical well-being, but do not report greater instance of injury during overtime hours.

In worker interviews in the current study, Verité probed for perceived relationships between extended overtime and health. Workers correlated overtime worked with fatigue and exhaustion (*Figure 7*). The data indicate that workers perceive increased exhaustion after having worked between 2 ½ and 3 ½ hours per day for one month. Eighteen percent of respondents reported eye strain, 8% reported back problems and 9% reported feelings of sadness or depression. One-quarter of the respondents attributed their medical problems to long working hours.



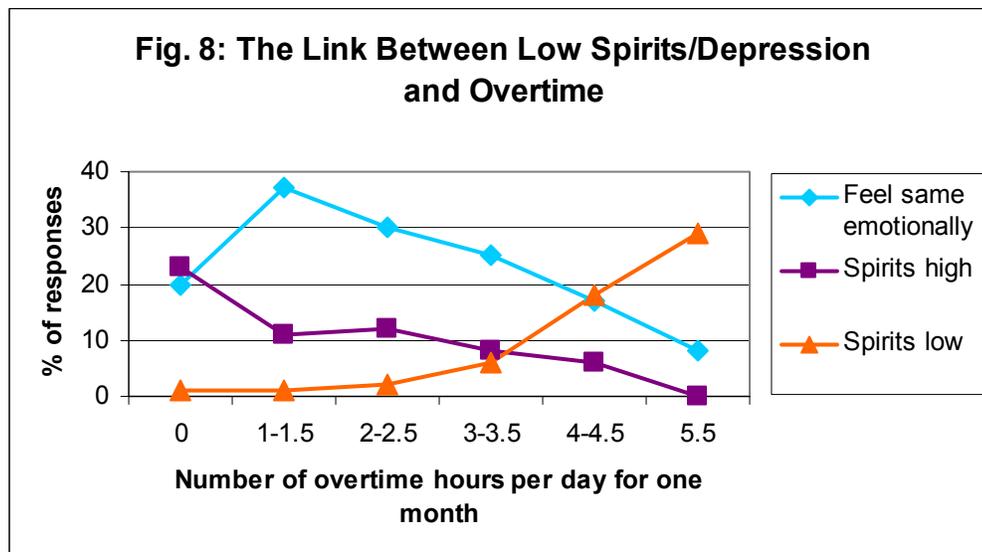
Working Toward Solutions,” New York, October 24, 2003. Landsbergis’ presentation available at www.verite.org/...

2. Bernard, Sauter, Fine, Peterson, & Hales. *Scandinavia Journal of Work and Environmental Health* 1994, 20: 417-26; as cited by Landsbergis (2003).

3. Krause, N. et al. *Scandinavia Journal of Work and Environmental Health* 1997, 23: 403-13; as cited by Landsbergis (2003).

4. Paul Landsbergis, “Health Effects of Extended Work Hours,” Presentation at Verité-sponsored conference on “Overtime in China: Addressing Challenges and Working Toward Solutions,” New York, October 24, 2003.

Similarly, as the number of overtime hours rises, reports of emotional stability decrease and reports of low spirits and depression or sadness increase (*Figure 8*). After 3 ½ hours of overtime each day for a month, workers reported an increased incidence of “low spirits.”



While the correlation between extended work hours and long-term health effects may be subtle and may take years to become manifest (particularly among younger workers), the results above suggest that health effects of excessive overtime are perceived by a significant percentage of workers now.

Chinese health professionals cite evidence of potential grave health effects from excessive overtime.

Verité’s interviews with medical and legal professionals at regional institutions in southern China yielded anecdotal evidence that long working hours and prolonged exposure to toxic chemicals have had immediate and grave effects upon workers’ health, resulting in hospitalization and even, in a few cases, possibly contributing to death. Reports include:

- nerve damage among shoe and electronics workers overexposed to n-hexane
- sickness, vomiting and jaundice among garment workers overexposed to dimethylformamide
- miscarriage among pregnant workers exposed to benzene
- numbness and paralysis in the hands and feet of shoe-factory workers overexposed to glues
- high blood pressure among those working excessive work hours
- the sudden deaths of two workers at a shoe factory during a period of 14- and 15-hour working days.¹³

¹³ Ms. Huang Shumei and Mr. Chen Jiabin, private correspondence, September 2004.

Workers did not report increased injury or accident rate during overtime hours.

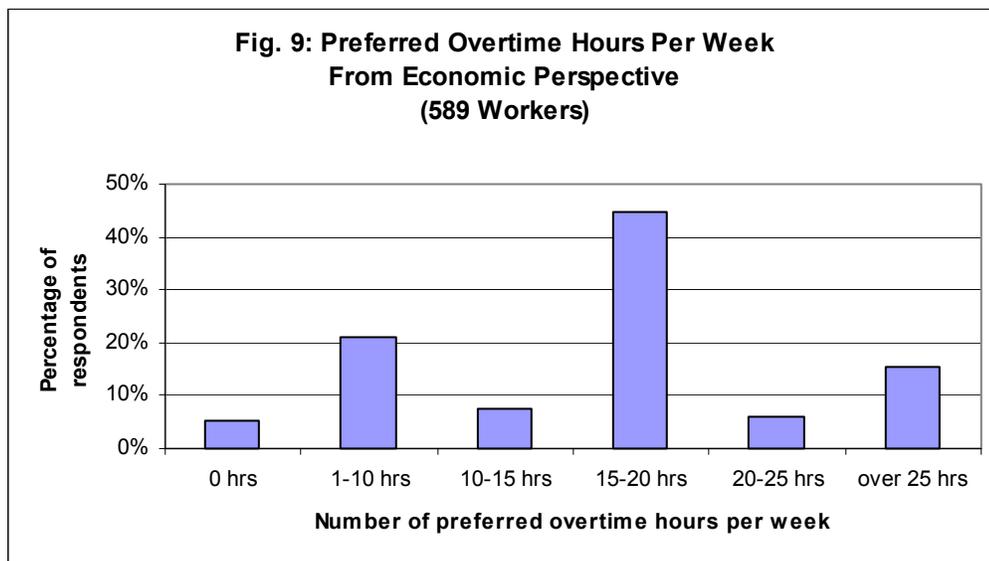
Workers did not report an increased injury or accident rate from working overtime. Only 3% of workers interviewed reported having an accident at work, and 97% of workers did not believe that their chances of injury increase as their working hours increase. This apparent contradiction could in part be due to the relatively safe nature of the apparel, footwear and knitting industries, as well as the fact that the health impact of longer-term exposure to chemicals may not be apparent to the workers.

How Much Overtime Do Workers Want?

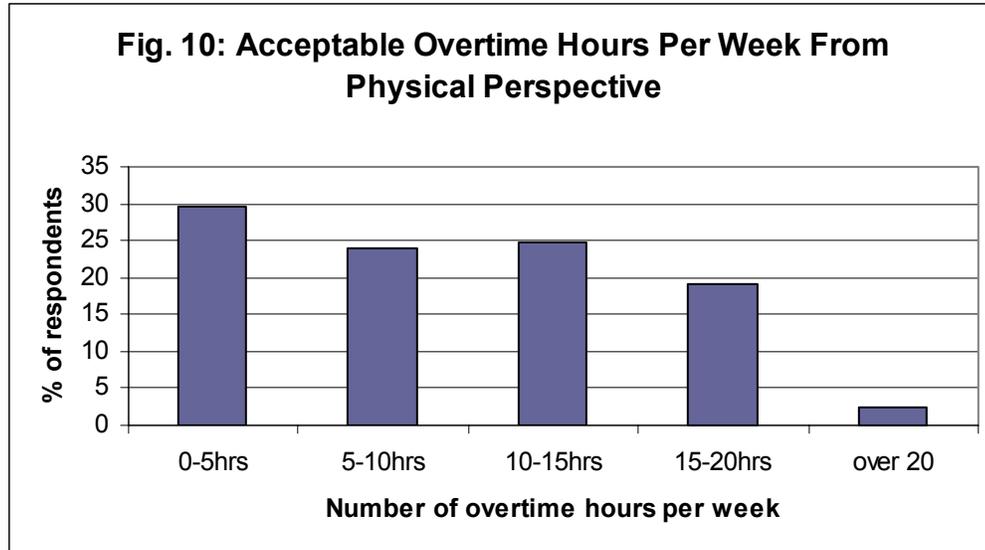
The Verité study asked workers to consider how many hours of overtime they would consider preferable from the financial, health and social perspectives.

The majority of workers report wanting 20 or fewer hours of overtime per week.

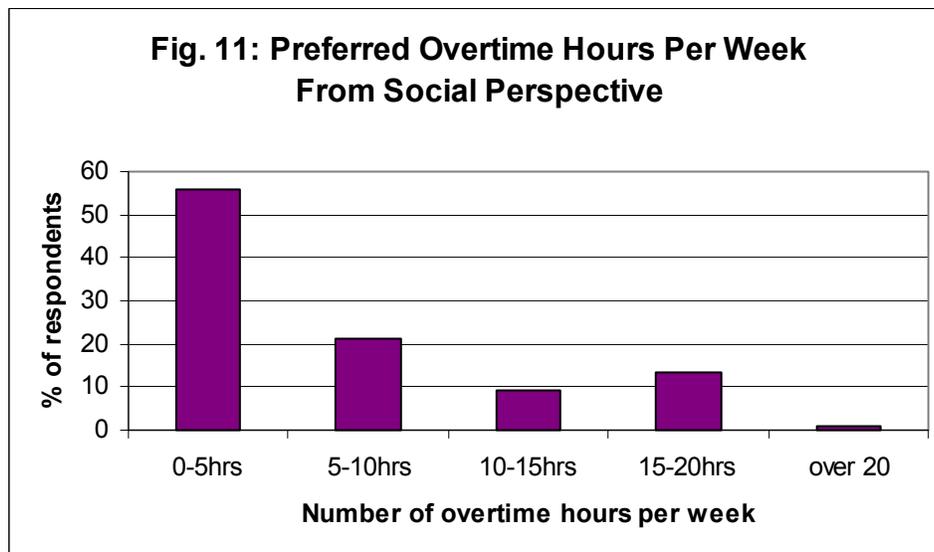
From a financial perspective, workers' reported desire for overtime is strong, but for the majority does not extend beyond the 60-hours workweek limit contained in most Codes of Conduct. Approximately 78% of respondents reported preferring to work fewer than 20 overtime hours per week when financial considerations were the principal factor in their decision-making (*Figure 9*).



Workers expressed similar views when physical well-being was the principal factor in their decision-making (*Figure 10*). Only a small percentage considered more than 20 hours a week preferable.



Most workers expressed an awareness of the negative effect of overtime on their family life and social relationships. *Figure 11* shows that concern for family and social relationships is strongly linked with a preference for no or very limited overtime. More than half of the workers in the Verité study would choose to work fewer than five overtime hours per week when concern for family and social relationships was the principal factor guiding their decision-making.



Section 3: Management Perspectives on Overtime

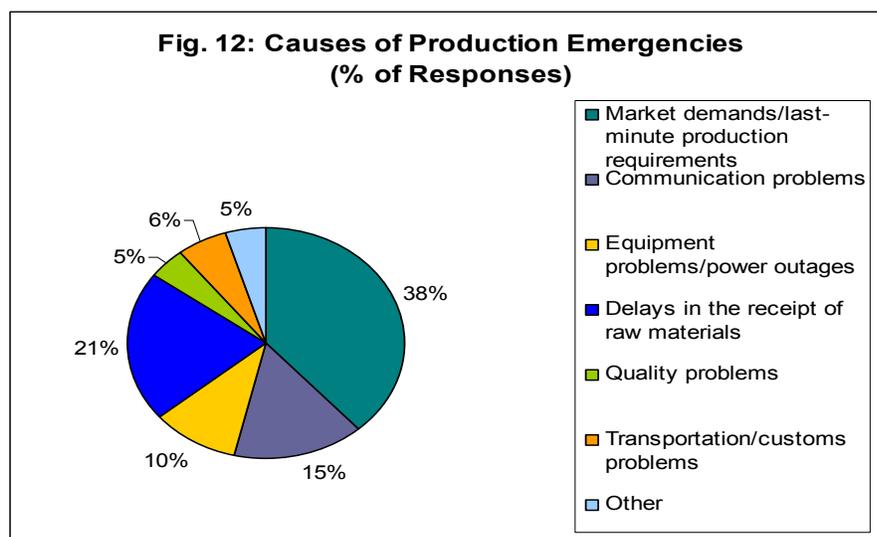
Factory managers reported that overtime is one of the most viable strategies available to them as they balance the demands of meeting the quality and design standards and delivery schedules of buyers, maintain and compete for orders, balance production capacity, and respond to other unforeseen challenges such as power outages or raw-materials bottlenecks.

Market demands and last minute production requirements top the list of the causes of production emergencies.

Figure 12 shows management's assessment of the causes of production emergencies with which they must deal, including:

- Market demands and last-minute production requirements, requests or changes from buyers
- Communication problems such as delays in the approval of samples
- Equipment problems and power outages
- Delays or quality problems in the receipt of raw materials
- Internal quality-control problems
- Transportation and customs problems

Any of these problems has the potential to cause a factory to be unable to meet its production requirements, the consequences of which managers understand to include short-term financial losses due to penalties (20% of responses) and the additional costs of shipping by air (30%). Less tangible consequences listed by respondents included the loss of trust or credibility (22% of responses) and long-term loss of market share due to cancellation or decreases in orders (20%).



Overtime is perceived by managers as the “least bad” strategy for handling production emergencies.

Most factory managers reported that they prefer to avoid situations that stretch the factory’s production capabilities. Two main strategies used for meeting production challenges are prior planning (30% of responses) and turning down orders (23%). But while half of factory managers said that they sometimes turn down orders (especially those with schedules they deem too tight), most believe that in so doing, they run the risk of losing future orders (66% of responses).

If they cannot avoid high production pressure, factory managers reported having only a few workable strategies for responding, and using overtime is their preferred solution. About one-quarter of managers said that they would add overtime shifts. Other strategies were less preferred, including hiring temporary workers (9%), subcontracting some of the work to other factories (8%), and adding a second shift (6%).

When asked about alternatives to overtime, factory managers reported significant financial drawbacks to pursuing other options:

- hiring new temporary or permanent workers costs additional money, poses training problems as new workers are usually unskilled, and often results in quality-control issues;
- buying new equipment significantly increases expenses; and
- diverting resources from other areas and production lines often causes significant disruptions.

Thus, managers most often chose overtime because it is perceived as the best- or least-worst option from the relatively few available.

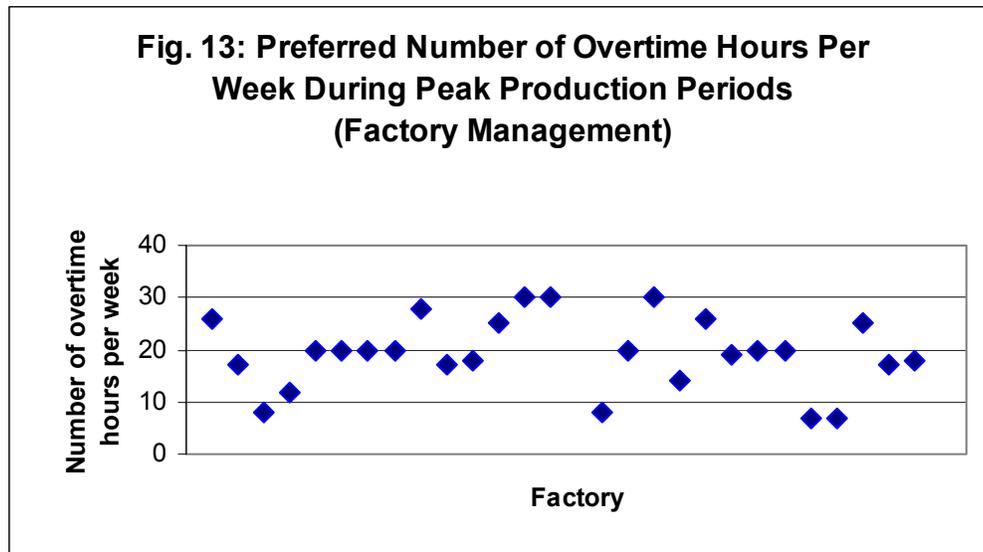
Factory managers report production inefficiencies with overtime use.

While overtime is the most frequently used method to respond to production pressures, factory managers and workers both reported business costs associated with running overtime shifts. Managers reported that excessive overtime can result in lowered productivity, management stress, quality-control issues, and equipment maintenance problems. Some workers also reported decreased productivity with overtime.

- Overall, 50% of respondents reported losing money by running overtime shifts, while the other 50% reported they were able to cover the cost.
- A minority (40%) of factory manager respondents reported that they see no difference in productivity between regular shifts and overtime; while 60% said that productivity decreases under excessive overtime. (Thirty six percent of workers similarly reported that they did not work as quickly and that their work suffered in quality during periods with long overtime hours.)

The majority of factory managers do not report wanting more than 20 overtime hours per week.

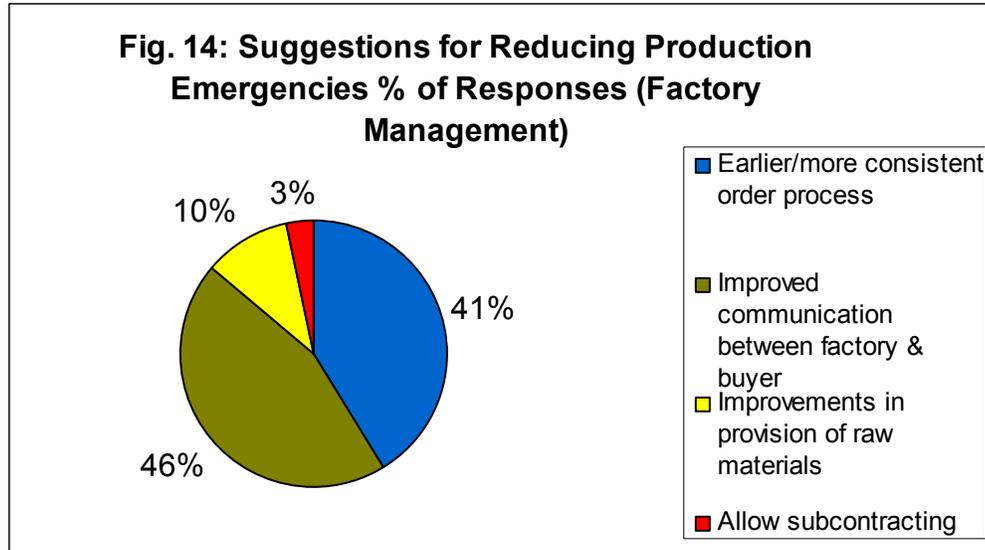
Preferred levels of overtime for handling production emergencies during peak production periods, from management's point of view, are shown in *Figure 13*.¹⁴ Respondents on average said that they preferred to employ 19 overtime hours per week to handle production emergencies during peak periods. This is in line with the limits in most Codes of Conduct, and it is possible that the respondents were influenced by their knowledge of the codes.



Factory managers call for better communication with buyers on orders and approvals as a strategy for reducing overtime levels.

Managers reported that the most fruitful avenue for reducing the number and severity of production emergencies, and consequently reducing the need for overtime, lies in improving the communication between buyers and factories. When surveyed on suggestions for reducing the number of production emergencies (*Figure 14*), 87% of the responses in the Verité study addressed the order and approval process: expediting the sample-approval process and improving communication between buyer and factory (46%), and placing orders earlier and reducing the number of last-minute changes (41%). Increased buyer involvement and improvements in the procurement and delivery of raw materials (10% of responses) and subcontracting (3%) were also suggested.

¹⁴ For the purposes of this chart, monthly figures provided by management in some cases were converted to weekly figures by dividing them by 4.3, the number of weeks in a month.



Conclusions

Excessive overtime is widespread in Chinese supplier factories. This is in part because both workers and factory managers use overtime to fill key inadequacies in the complex system of production for the export market.

Workers' have inadequate freedom to choose not to work overtime, due to their *insufficient* regular wages, the *lack of enforcement* of legal minimum wages and overtime rates, and the general *absence* in China of a workplace advocate or representative. Overtime wages are essential to help cover basic needs for the worker and the worker's family. Workers also feel vulnerable to pressure from the factory that, they perceive, requires them to work overtime. Particularly for migrant workers, who often rely on the factory for residence permits and housing, this vulnerability is acute. In China the absence of an independent trade union or workplace advocate exacerbates this vulnerability.

For factory managers, overtime is a reliable response to the pressure of producing for a rapidly changing and competitive international market. Managers perceive themselves caught in a bind created by international brands that leave factories too little time to meet production deadlines. Certainly, factory managers themselves are responsible for employing overtime in an illegal or unethical manner. Factories that choose to employ overtime as the least expensive way to meet production emergencies are responsible for the relatively common underpayment of legally-mandated wages, and in some cases for coercing workers to work long hours.

But in searching for solutions to excessive overtime, it is important to recognize that the relationship between brands and factories offers a key point of leverage. Managers expressed a need for better communication in order to be better able to plan production. Brand representatives at the October 2003 Verité Overtime Conference confirmed that they are at times to blame for last minute changes which can create great stress for factories and excessive overtime for workers.

Ultimately, the complexity of the global production system puts heavy burdens on factory production line workers. This study confirms that overtime is a persistent and widespread problem. Excessive overtime poses threats to workers' physical and psychological health and deprives workers of time with their families, and yet fails to compensate them because of systemic flaws in the enforcement of existing laws and corporate Codes of Conduct.

This study has not addressed the central role of the Chinese government, at national, provincial and local levels, in implementing necessary improvements to the system by which overtime is employed. Verité's aim has been to illuminate the impacts on workers and the roles played by factory managers. Improved enforcement of Chinese labor laws is a singularly important step that could be taken to improve the conditions of Chinese workers. In the following section we discuss some of the recommendations that were developed by participants during the Verité Overtime Conference, including steps that should be taken by the Chinese government.

Section 4: Recommendations

Verité's fall 2003 Conference on *Overtime in China: Addressing Challenges and Working Toward Solutions* involved presentations and round-table discussions on the problem of excessive overtime in Chinese factories. The concluding discussion among brand, factory, NGO and Verité representatives provided an opportunity to identify key recommendations by which to address the issue.

These recommendations are presented here to spur further thinking about the ways in which the range of stakeholders can support reduced overtime and improved conditions in Chinese factories.

For western companies that outsource to China

- Ensure that workers in supplier factories receive all compensation due to them under Chinese law with regard to regular hours, overtime premiums and benefits.
- Ensure that company Codes of Conduct are consistent with the minimum wage requirements laid out in International Labor Organization Convention 131, "Minimum Wage Fixing, with Special Reference to Developing Countries."¹⁵
- Where a supplier factory has received approval for flexible production schedules under the Comprehensive Work Hour Calculation System, ensure that workers work no more than a 60-hour workweek.
- Improve factory-buyer communication, and increase support at the factory level for compliance with overtime and occupational safety and health standards.
- Provide technical assistance and training to factories on production planning that can help reduce the need to employ overtime.
- Recognizing that frequent and late changes in design specifications create pressure at the factory level, companies should create mechanisms that 'internalize' the costs of overtime, including
 - Raising designers' awareness (through training or other mechanisms) of the full production cycle, including the impacts on workers and manufacturing timelines of extended design schedules.
 - Establishing hard deadlines for designers and installing mechanisms to ensure that deadlines are met including financial penalties.
 - Absorbing the factory's cost of maintaining the 60-hours workweek hard-cap (by, for example, paying air freight or additional workers)

¹⁵ ILO Convention 131 dictates that "The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include: (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment."

- Create internal planning mechanisms that decrease the need for overtime
 - Decrease the time needed for sample approval.
 - Improve forecasting of demand fluctuations, including leveling of seasonal demand.
 - Establish better communication within and between stages in the product development and manufacturing process.
- Add explicit language in Code of Conduct preambles that recognizes the need for companies to take responsibility for ways in which company sourcing practices exacerbate working conditions
- Select suppliers from the outset with the goal of building long-term relationships with them and rewarding them for compliance improvements
- Ensure that performance reviews for employees charged with supply chain management and compliance include positive recognition of factories selected on the basis of code compliance.

For Chinese factories that produce for the export market

- Increase support at the factory level for compliance with overtime and occupational safety and health standards.
- Invest in compliance with occupational safety and health standards, including training for workers on extra safety precautions to be taken during overtime shifts
- Fully inform workers the possible negative impacts on their health that excessive overtime may have.
- Clearly communicate orally and in writing to workers that overtime is voluntary, and ensure that supervisors have incentives to support voluntary decision-making on the part of workers.
- Create human resources systems to ensure that workers have an individual choice whether to work overtime.
- Eliminate all illegal punitive measures like salary deductions, work point demerits and 'absences' due to missed overtime that contribute to making overtime involuntary.
- In the absence of independent trade unions, establish worker-controlled and/or -driven safety committees at the workplace.

For Chinese government agencies

- Ensure that workers in supplier factories receive all compensation due to them under the law with regard to regular hours, overtime premiums and benefits.
- Update minimum wages to ensure that they cover the cost of living, in accordance with the tenets of ILO Convention 131.

- Build capacity and capability among labor inspectorates to monitor factory compliance with legal requirements.
- Establish clear time limits for the use of the Comprehensive Work Hour Calculation system that protect workers from excessive overtime hours.
- Establish a system recognizing factories that adhere to legal wages, work hour limits (regular and overtime) and overtime wage premiums. Certificates may be issued or names of compliant factories may be published to 'pressure' compliant factories to maintain good standing.

For the All-China Federation of Trade Unions, and/or other worker-representative bodies

- Ensure that workers in supplier factories receive all compensation due to them under the law with regard to regular hours, overtime premiums and benefits.
- Work with factory managers to ensure proper training on the extra safety precautions that should be taken during overtime shifts.
- Ensure that management has clearly communicated, orally and in writing, to workers, that overtime is voluntary (incorporating appropriate legal citations).
- Monitor worker choice to work overtime; work with factory managers to create mechanisms for ensuring that workers have a choice.

For non-governmental organizations concerned with workplace standards

- Focus on ensuring that workers in supplier factories receive all compensation due to them under the law with regard to regular hours, overtime premiums and benefits.
- Provide education and training on labor standards for workers, like that pioneered by Verité's Mobile Training Program.
- Assist in needs assessments and development of models for better communication between factories and buyer companies.
- Work with local government agencies to increase capacity for monitoring and enforcement.
- Research and publicize the discrepancies between actual wage levels, China's legal wage levels, and cost of living.
- Make low-interest loans and other financial mechanisms available to workers, particularly migrant workers, to cover unexpected domestic expenses such as medical emergencies, in order to reduce their need to work overtime.