With the escalation of labor problems being reported in South China, Fuji Xerox of Shenzhen’s ethical procurement program is going all out to help our business partners improve their management. Ties between Fuji Xerox of Shenzhen and local suppliers have strengthened as they work together to achieve mutual growth.
In August 2007, Fuji Xerox held briefings on ethical procurement first in Tokyo and then in Incheon (South Korea), Shanghai, and Shenzhen.

Shing Jie Plastics Products (Shenzhen) Co., Ltd. manufactures machine parts in Shenzhen City. According to its deputy general manager, Chen Shun Cheng, when his firm was having its first labor dispute last year, Fuji Xerox passed on a self-audit questionnaire as well as management guidelines. Until then, the firm had concentrated on improving quality, cost, and delivery time. However, since the Fuji Xerox questionnaire and guidelines were used to address working conditions and dormitory facilities, employees have developed greater self-motivation and begun to support management. Chen feels that if the firm had made these changes a year earlier, the dispute might have been avoided.

“Some of our clients only send out questions,” Chen says. “Fuji Xerox provides full guidelines and feedback that are indicative of the high quality of its enterprise. I wish other electronic equipment firms would follow Fuji Xerox and lighten our burden of responding to questions.” Expectations of Fuji Xerox are evidently high.

## Suppliers Respond Favorably

In August 2007, Fuji Xerox held briefings on ethical procurement first in Tokyo and then in Incheon (South Korea), Shanghai, and Shenzhen.

Shing Jie Plastics Products (Shenzhen) Co., Ltd. manufactures machine parts in Shenzhen City. According to its deputy general manager, Chen Shun Cheng, when his firm was having its first labor dispute last year, Fuji Xerox passed on a self-audit questionnaire as well as management guidelines. Until then, the firm had concentrated on improving quality, cost, and delivery time. However, since the Fuji Xerox questionnaire and guidelines were used to address working conditions and dormitory facilities, employees have developed greater self-motivation and begun to support management. Chen feels that if the firm had made these changes a year earlier, the dispute might have been avoided.

“Some of our clients only send out questions,” Chen says. “Fuji Xerox provides full guidelines and feedback that are indicative of the high quality of its enterprise. I wish other electronic equipment firms would follow Fuji Xerox and lighten our burden of responding to questions.” Expectations of Fuji Xerox are evidently high.

## Frequent Labor Disputes in South China

Dr. Kaiming Liu, who heads the Institute of Contemporary Observation (ICO), a non-profit organization that advises Fuji Xerox of Shenzhen on labor management, is well versed about the labor situation in South China. He has noted a recent rapid rise in labor disputes over wages and treatment of employees in China, and South China in particular, which he ascribes in part to the difficulty experienced by management in keeping up with frequent changes to laws, ordinances, and regulations on issues such as labor contracts, occupational health and safety, and minimum wages. In addition, with more and more of China’s population belonging to the one-child policy generation, cheap labor to supplement and/or replace current staff is becoming scarce.

“Young workers are also masters of the mobile phone,” Liu says. “If they hear that another local company has raised its wages, regardless of the reasons for that move, they often demand that their own factory too institute a wage rise or else they move next door.”

Other current challenges in developing business in China include rising raw material and personnel costs, the reduction or elimination of incentive measures for foreign firms, and a lower export return due to the high yuan.

## Learning First

So far, Fuji Xerox’s ethical procurement has garnered the understanding of local suppliers and proceeded according to plan. This success has been primarily due to the efforts and resourcefulness of staff on the production front-line.

According to Junichi Tada, general manager of Fuji Xerox of Shenzhen’s Procurement Division, the firm’s procurement staff are charged with strengthening Fuji Xerox of Shenzhen’s relationship of trust with their business partners by providing effective support for the challenges that local suppliers face, and with ensuring improvements in the suppliers’ staff motivation, quality, cost, and delivery time.

“We expected suppliers to question whether they really needed to go so far, so we decided that our own procurement staff had to understand exactly what was involved and be convinced why it was necessary,” Tada notes.

The Planning Section manager at Fuji Xerox of Shenzhen’s Procurement Division, Yang Yuanzhong, is in charge of introducing and expanding ethical procurement. She observes that the limited response capacity of Fuji Xerox of Shenzhen’s suppliers has
them groaning under the stack of similar survey demands they have received from their various clients.

“As a result, self-audits and improvement plan follow-ups were requiring more work and more time than we had expected,” Yang comments. “There were also many cases where we intuitively detected what the response data and reality. Racking our brains for a better survey approach, we were certain, then, as the importance of going out regularly to suppliers’ factories and observing the situation firsthand.”

Yang highlights the importance of follow-ups to supplier firms and consideration for the reliability of responses.

On-Site Checks Foster Solidarity and Professionalism

Based on the self-audits and improvement plans proffered by the supplier firms, Fuji Xerox of Shenzhen’s next step has been to undertake on-site checks.

The on-site check team comprises not only the general manager and buyers from the Procurement Division, but also Human Resources, Environment, General Affairs, Legal Affairs, and CSR staff. The team has a carefully-determined approach: (1) The general manager of the Procurement Division explains to the supplier firm that the check is being conducted for the supplier’s benefit; (2) the supplier’s general manager, deputy general manager, and other executives are asked to participate; (3) rather than completely trusting the self-audit results, team members witness with their own eyes and ears the actual circumstances at the factory lines and dormitories. Yang notes that it used to be the buyers’ job to visit suppliers, but with the introduction of ethical procurement, staff from other divisions have also started coming along, forcing buyers to make greater efforts to develop a close understanding of the supplier’s situation.

“Our goal is to have all of our buyers understand exactly why we consider ethical procurement to be important and what is required of them as Fuji Xerox representatives,” Yang continues. “We are looking forward to fostering really strong buyers.”

Pursuing this point, Mika Liu, manager in the CSR Promotion Section, feels that participation by not only the general manager and buyers from the Procurement Division, but also representatives from various other divisions, has had an extremely favorable impact on staff development.

“Because the participating staff come to understand the leading-edge nature of our efforts, and because the suppliers are appreciative of them coming out and engaging in a sympathetic dialogue, they become more enthusiastic about their jobs and feel a greater sense of belonging to the firm, while also developing a better understanding of management.” Liu notes. “Realization of the value of other divisions’ work has improved interdivisional communication.”

“In short, working together as a team to address suppliers’ problems is enhancing the staff’s professionalism and interdivisional cohesion.”

Unexpectedly Positive Supplier Response

“When we first received and looked over the Fuji Xerox self-audit questionnaire, the company was thrown into an uproar, because we thought that we had to be able to put a check mark next to all the items or lose Fuji Xerox’s account,” recalls Naonori Najima, managing director of Amami Spring Co., Ltd., who has been involved in machine parts manufacturing in Shenzhen for more than 20 years now. “But a closer look at the questionnaire revealed that every item was something vital to the success of our operation, and we were grateful that they had laid it out for us in such details. The on-site check after we had submitted our response was also a valuable experience. The Chinese staff at Fuji Xerox of Shenzhen might be young, but they have really mastered their areas. Specialists from areas such as human resources and environment gave precise answers as to what the problems were and how we could resolve them.”

Reflecting on the limited resources of Amami Spring as a smaller firm, Najima has high hopes of a continued partnership with Fuji Xerox on concrete ways of balancing quality, cost, and delivery time with CSR.
Because manufacturing plants are expected to develop new technologies even as they work on further cost reductions, they face a number of hurdles in finding a balance between ensuring profit and ethical procurement. This means that even where supplier firm executives are called upon to follow ethical procurement guidelines, their factories might lack the necessary resources to pursue checks and corrections. To address this problem, once supplier management has been persuaded of the need for ethical procurement, supplier factories also have to be provided with the necessary practical steps and tools for the checks and corrections. Moreover, because increasing penetration of the CSR concept will inevitably prompt more specialized social expectations of firms, these expectations must be met by securing and training human resources who can spot and respond to new trends. Nobuyuki Makita, who has guided Fuji Xerox of Shenzhen’s introduction of ethical procurement as general manager of the Procurement Division and is now general manager of the Production Center, believes that ethical procurement must be a sustained effort. “Ethical procurement pursued only at the factory level often falters, and it’s easy to lose touch with global trends,” Makita notes. “That is why timely support from headquarters and the Corporate Procurement Division is so critical.” For both the headquarters and the factory floor, it is not about documents and directions—it is about real improvement.

ICO Executive Director, Dr. Kaiming Liu, lauds Fuji Xerox’s decision to place ethical procurement at the heart of its management strategy and the commitment it has demonstrated. “I was involved in the education program for the on-site check team, and both the level of education and the extent of preparations were unparalleled,” Dr. Liu notes. “Even Western companies do not go this far. If more staff can be brought to understand the significance of ethical procurement and Fuji Xerox of Shenzhen continues to discuss specific improvement measures with its suppliers, I believe we can expect a positive impact on the business performance of both parties and on society in South China in general.” “As suppliers become familiar with the process, the check team will have to learn to spot superficial responses and the falsification of internal documents by unscrupulous suppliers when they go out on their visits,” Dr. Liu notes as some of the challenges ahead. “Fuji Xerox of Shenzhen also has to determine a response in the event that suppliers do not make improvements despite repeated warnings. In addition, the firm should look at strengthening cooperation with external auditing experts.” Fuji Xerox’s president, Tadahito Yamamoto, first called for the introduction of ethical procurement two years ago when he was executive vice president in charge of development and production. Looking at the program to date, he notes that from the perspective of customers and shareholders, Fuji Xerox and its suppliers use the same processes. “If we don’t have the commitment and the capacity to pursue together a sustained course of improvement, we’re not going to achieve the product quality or the cost improvements to survive in market competition,” Yamamoto says. “Ethical procurement is not something special—it’s essentially about product quality. Fuji Xerox will continue to make a sustained push in this area.” Fuji Xerox’s far-reaching scheme is premised on the idea that better working conditions in supplier firms will improve the quality of Fuji Xerox products. While the scheme is still barely off the ground, those involved have been encouraged by the response. The Fuji Xerox team will continue to work to produce clearer and more defined results from this bold initiative.