

### Striking a balance: labor disputes in China

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The notion of strikes or management lockouts might generally evoke thoughts of disgruntled dock workers or entrenched unionism in mature markets, not contemporary China. Naturally, such incidents – in part due to their relative infrequency – can attract headlines if stemming from China.

While still mostly a blue-collar issue confined to coastal provinces<sup>1</sup>, it is clear that industrial action (IA) in China has increased in recent years, attributed mostly to labor law reforms in 2008 and worker shortages<sup>2</sup>. However, we at KPMG China see no cause for disproportionate concern.

Our observation is that in contrast to common motive in the West, IA in China has tended towards the defensive: instigators have mostly sought to protect current interests than seek additional gain. A substantial amount of IA in China over the past 3 years has been triggered by the downsizing, closure, relocation, sale or merger of businesses<sup>1</sup>. We also see signs that the state-affiliated All China Federation of Trade Unions (ACFTU) appears to have recently stepped up efforts in dispute mediation at large, private-owned entities.

And given M&As provide fertile ground for rumors (which in China could entail anything from change in canteen meals to cross-cultural clashes via new management), the reality behind the potential for business disruption in China becomes clearer.

Cases in point include the Apollo Tyre deal collapse late last year – resulting in production stoppage, lost revenues and subsequent legal proceedings<sup>3</sup> – and a mass walk out of workers this month linked to Lenovo's acquisition of IBM's server business<sup>4</sup>.

In our view, working for a multinational is attractive to many Chinese nationals. And given greater public awareness of IA in China, initiating an HR framework

from the outset that effectively embraces a China-specific context is imperative in any China M&A deal.

Further, we believe that government's effort in maintaining social order, combined with the advent of social media, has led to a more accommodative stance in terms of balancing worker demands, appeasement and containment – providing added rationale for investors when weighing up HR strategy.

We believe it is crucial that investors in China understand the endemic workplace cultural sensitivities and relationship matrix, which can differ markedly between private/state-owned entities at various organizational levels. Failure to consider local nuance on facets such as employees typically being personally loyal to their bosses can impede people & organization integration.

Similarly, while cost base might not always be preservable, finding the appropriate balance between potential compliance costs or need to improve occupational health and safety, while simultaneously avoiding worker dissatisfaction or deterioration in employee take-home pay, is a key consideration.

Other key measures that we believe pivotal include:

- determining and managing: employee engagement; historical employee/management relationship; workforce composition; hot-button issues; and workplace opinion leaders
- implementing effective communications strategies at the start of M&A liaison to open/maintain transparent dialogue, and to leverage on the proliferation of local social media (Weibo, WeChat etc.)
- preparing relevant strategy or mitigative measures to avoid potential counterparty incentive to use IA as a bargaining tool
- calibrating your agenda (particularly for cases where dispute becomes unavoidable) to consider influential stakeholders such as the ACFTU.

1. Searching for the Union: The workers' movement in China – 2011-2013, (Feb. 2014), *China Labour Bulletin*; 2. Labour market changes, labour disputes and social cohesion in China, (Jan. 2012), *OECD Development Centre*; 3. Apollo Tyres turns its back on China, (Feb. 6, 2014), *Financial Times*; 4. IBM factory strike shows shifting China labor landscape, (Mar. 9, 2014), *Reuters*; Credit: KPMG China's Leo X.D. Ren (Senior Manager, T&R) and Nick Lindsey (Editor, T&R) contributed to "Our view".

**Wei Lin**  
Partner  
Phone: +86 21 2212 3508  
Email: wei.lin@kpmg.com

**Mark Harrison**  
Director  
Phone: +86 21 2212 3620  
Email: mark.harrison@kpmg.com

KPMG China,  
50th Floor, Plaza 66, 1266 Nanjing West Road, Shanghai 200040, China  
Tel +86 (21) 2212 2888 Fax +86 (21) 6288 1889