

An Analysis and Comparison of Different Off-shore Manufacturing Operations with Implications and Recommendations for Human Resources Managers

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Introduction

In today's global business landscape, few topics are as contentious and controversial as off-shore manufacturing. While arguments for and against offshoring are widespread, one thing is clear: for better or for worse, globalization is here to stay, and with it, global manufacturing (Altman, 2006). Not all foreign manufacturing is created equally, however, and it is imperative for human resources managers to understand how to effectively establish off-shore manufacturing. When making decisions about how to approach offshoring, a good strategy is to evaluate what others have done in the past. To this end, two Chinese manufacturing operations with many differences can help to evaluate globalization strategies: Foxconn, a global contract manufacturer, and Behringer, a private manufacturing division.

Foxconn

For many people, Foxconn (see Appendix A, image 1) is emblematic of globalized manufacturing - and for good reason. Foxconn operates twelve factories in China, along with factories in Australia, Brazil, India, Japan, Mexico, Hungary and Turkey, to name just a few (Lau, 2010). As a contract manufacturer, Foxconn's core business is

assembling electronics for other companies - companies like Apple, Nokia, Google, Amazon and more (Zielenziger, 2012).

For the companies that contract to Foxconn, there are numerous advantages. While cost certainly factors into the equation, perhaps the greatest assets of contract manufacturers are their size and agility. There's a story told of former Apple CEO Steve Jobs, a notorious perfectionist, that illustrates the benefits of agility. In 2007, a little over a month before the first iPhone was to be released, Jobs convened with his senior team. Jobs had realized, while personally testing a prototype, that the plastic screen was prone to scratching when carried in a person's pocket with any other items, such as keys. This was an unacceptable design flaw in Job's eyes - the plastic screen had to go. Jobs is quoted as saying "I want a glass screen, and I want it perfect in six weeks." A major American glass manufacturer, Corning, could provide the glass, but meeting the aggressive deadline would prove difficult. Even before any contracts were awarded, one company began building factories and arranging for engineers and materials for Apple to use. Apple hired the company, Foxconn, and the engineers got to work finding a solution (Blodget, 2012). As soon as the first batch of screens was ready, Foxconn was able to rouse eight thousand workers in the middle of the night, who immediately began twelve hour shifts adding the new screens to iPhones. For an American factory, scaling from zero to eight thousand workers in the middle of the night is unthinkable.

What is great for Apple and other technology companies is not always great for the working class on both sides of the world, however. Moving manufacturing positions to Asia cost many Americans their jobs, a move Apple contends is justified. As an Apple

executive put it, “The U.S. has stopped producing people with the skills we need” (Duhigg & Bradsher, 2012). The veracity of this statement may be debated; it is important to look at life for the new workers.

For the Chinese workers at Foxconn, there are several drawbacks inherent in Foxconn’s processes. For workers, the elasticity companies like Apple require translates to virtually non-existent job security. Workers who are hired by the thousands to work on projects are also fired by the thousands, and in a country with a greater population than the European Union and all of North America combined, workers are easily replaceable, and images of Foxconn job fairs are comparable to depression-era bank runs (See Appendix A, image 2) (Central Intelligence Agency, 2014).

Poor job security is not the only problem employees might face. In 2010, new employees were paid a minimum wage of 900 Yuan - the equivalent of 130 USD - per month. Food and lodging, along with recreational and entertainment facilities, are provided for employees (see Appendix A, images 3 and 4), but often so is excessive, compulsory overtime (“Suicides at Foxconn,” 2010).

Many speculate that the wages are connected to a streak of employee suicides. By June, 2010, ten Foxconn employees had committed suicide that year - a number that sparked international outrage and closer inspection of Foxconn’s practices. Wages do not tell the whole story, though - working conditions must also be considered.

Workers at Foxconn’s Chinese facility tell a common story - one more psychological than economic. An assembly-line worker, speaking anonymously, said that “conditions at Foxconn make his life seem meaningless. He says conversation on

the production line is forbidden, bathroom breaks are kept to 10 minutes every two hours, and workers get yelled at frequently.” Xiao Qi, an educated employee working in Foxconn’s product development division who earns more than double what line workers make, is quoted as saying, “I do the same thing every day. I have no future.” He reports having considered suicide (Wong et al., 2010).

As far as production quality goes, hard statistics are difficult to come by. There have been rumors that Apple returned millions of bad iPhones to Foxconn, and some technology bloggers suggest that Foxconn may be at fault for a higher than usual failure rate on the Playstation 4 (Usher, 2014; Worstall, 2013).

In summary, Foxconn has grown into the largest public company by sales in the electronics industry (and 122nd overall) by optimizing every aspect of the production process to benefit the companies it works for (Forbes, 2000). Unfortunately, in order to perfect a certain aspect of production, sacrifices must be made in other areas. For Foxconn, the employees bear the brunt of the compromises.

Behringer City

Some companies take a different approach to offshore manufacturing. One such company is Behringer. Behringer is an audio technology company - manufacturing mixers, keyboards, amplifiers, and the like. The company was founded in Germany 1989 by Uli Behringer and operates on the principle of “Double the Features at Half the Price,” striving to put professionally featured yet extremely affordable audio equipment into consumers’ hands (Behringer, 2014). In the early 1990s, Behringer used Chinese subcontractors to produce their equipment, a move that led to a reputation of providing

shoddy, throwaway gear purchased by people that did not know better (“Audiotechonology Magazine presents”).

In 1997, Uli Behringer relocated to China to personally oversee production. In the years that followed, he came to the conclusion that contract manufacturers were not a viable option - quality control was a constant problem. To meet the standards of quality Uli Behringer desired, the company needed to be in direct control of manufacturing. Contract manufacturers were ultimately in business for themselves, causing a conflict of interest with Behringer. Private manufacturing would have no such conflict. Thus, “Behringer City” (or “Music Group City,” the parent company) was born (Behringer, 2014).

The first facility was established in 2002 (Behringer, 2014). Behringer City features many of the same features as Foxconn: factories are nearby, workers sleep in dormitories, recreational and medical facilities are available, and more (“Behringer City opens in China,” 2006).

Behringer City is not only designed for production, but also contains research and development and quality assurance. Notably, products at Behringer are not just tested for functionality, but also for feel - employees are designated to twist knobs and pull faders to make sure that products are tactilely pleasing. While Behringer still is not the first name in quality, this attention to detail is making them a serious contender in the music equipment industry. Quality is something the company takes seriously, even going so far as to provide a three year warranty on all their products (“Limited Warranty,” 2015).

Over the years, Behringer City has evolved, grown, and even moved. At each step, efficiency has improved, and the skilled workforce has been retained, avoiding inefficiencies from employee turnover (Admin, 2006).

Behringer City is not just about profits and efficiency. To Uli Behringer, people matter too. He tells a story of meeting with his mentor in Germany when his business was still just an idea:

“[My mentor’s] name was Otto Pahnke. We would walk around his factory and I noticed that he knew 2,000 employees by name. Everyone adored him as he truly cared for his people” (2014).

In addition to the amenities provided to employees, they have access to “MUSIC Group University,” an E-Learning platform offering classes in languages, professional development, and general knowledge topics to employees. As Uli Behringer put it, “There is nothing better than creating an infrastructure where people can succeed and then pumping 100,000 Volts of motivation into them” (2014).

When Recording Magazine went on a tour of Behringer City in 2009, what they saw was consistent with the views espoused by Uli. While they admit much of the work is far from intellectually stimulating, that is to be expected from any assembly line job. They also witnessed smiles, extremely clean workspaces, and a relaxed atmosphere. The most telling moment came later that night at a dinner party, at which the entire company was in attendance and they (a group of journalists and dealers) were the guests of honor. Their group was met with an applause, camera flashes, and employees crowding in to shake their hands. All this was nothing compared to the welcome

received by Uli Behringer, which the journalist compared to “Sun Zhongshan himself [having] risen from the grave to retake control of China.” The night’s entertainment was almost exclusively provided by Behringer employees, and ranged from singing and dancing, to martial arts demonstrations and more (“Postcards from China,” 2009).

As a private company, quality statistics are hard to verify, but Behringer utilizes Total Quality Management (TQM) and tests products at every stage of production to minimize failure rates (“Behringer City opens in China,” 2006). Quality is essential to Behringer, both in fulfilling its mission to customers and maintaining its brand image.

Recommendations

Foxconn and Behringer have much in common: They are both large electronics production companies operating in China with thousands of employees housed in massive, village-like campuses. But they also have many differences, and a human resources professional looking for ways to engage in successful off-shore manufacturing can learn much from them. The primary lessons are to use in house production as much as possible, invest in your workforce, and build company and product loyalty.

First, use in house production as much as possible. Contract manufacturers by definition have their own interests in mind, and those interests are not always aligned with the contracting company's interests. By managing privately owned facilities overseas, the conflict of interest is removed, and quality control and logistics become simpler. To human resource managers concerned about the liability of owning factories overseas, the added liability comes with added control over factory outcomes and is symbolic of taking full responsibility for the company's products.

Second, invest in the workforce. Foxconn's attempts at reducing costs and giving employees poor compensation had devastating consequences, and resulted in a human relations and public relations nightmare for the companies using their services. Furthermore, giving employees validation, education, and possibility for advancement - as seen at Behringer City - leads to a happier and more productive workforce (Revesencio, 2015).

Third, build loyalty among the workforce. Foxconn's business model makes it a sort of manufacturing mercenary, so neither the manufacturer nor the workers have any allegiance to the companies hiring them or the products they are making. Behringer, on the other hand, cultivates a culture of quality and self-improvement, and is dedicated to providing quality products at bargain prices, a culture all employees directly contribute to. Furthermore, employees are extremely devoted to the company's management and owners, making workers more satisfied and decreasing turnover.

In conclusion, offshore manufacturing must be carefully considered by human resource managers, as global awareness and familiarity with precedent can make the difference between a public relations fiasco and a stunning success. In the words of Uli Behringer, "If you don't totally understand the Chinese culture you won't succeed," a lesson that applies to any international venture.

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Appendix A: Photo Journal

Photos used under fair use for academic purposes (http://libguides.usc.edu/fair_use)

Image 1: Foxconn City (Paul Mozur | The Wall Street Journal)



Image 2: A 2010 Foxconn Job Fair. (Donald Chan | Reuters)



Image 3: A Foxconn Bookstore (Thomas Lee | Wired)



Image 4: An unused swimming pool (Thomas Lee | Wired)



Image 5: Behringer City

