



# Case Studies



Factory Improvement Programme

## Dialogue and Competitiveness Improving Communication and Boosting Profits

Factory D Exports is a relatively new and well maintained factory, owned by a family-run company. The factory is located in an Export Processing Zone, in a rural area. It produces a range of ladies wear products for the US and UK markets.

In 2001, it produced around 20,000 dozen pieces. At the time of the programme commencement, the factory employed around 320 staff. Unusually, between 30 – 40% of staff are male. The company has quite an extensive welfare programme, for example, through a land purchase and loan scheme to help longer-term employees with house construction.

### BUSINESS RATIONALE FOR FIP

While the company is confident of continuing orders post-MFA, productivity is a concern. The factory tends to do many small orders for the higher end fashion market. The flexibility attracts higher prices; however, difficulties in getting up to speed as styles switch regularly lowers overall productivity.

The company was encouraged to join the programme by its buying agent. In doing so, managers stated their priority was to benchmark themselves against industry competitors, and enhance productivity, quality and HR practices. The main area in which the factory needed improvement was on planning and systems. For example, although the HR record was quite positive, practices were not systemised, middle management appeared quite weak and there were no formal structures for management-employee communication.

### FIP IMPLEMENTATION

This factory had introduced most of the FIP recommendations. The reason for this is explained largely by the commitment of the Factory Manager, who attended all seminars, and the establishment of a steering committee and sub-committees which supported him in implementing changes rapidly. Key changes resulting from FIP, which continue to be observed include:

- Major investment in the construction of new building to house the stores, finishing department and an auditorium for employee training. This is designed to cut inefficiencies resulting from the cramped arrangements in the existing building.
- Changes in planning, targets & data recording systems, through introducing pre-production meetings; more realistic target setting; improving scope, display & analysis of statistical data (e.g. on quality). Team competitions, an increase in bonus payments and display of team performance (through a traffic light system and wall charts) were introduced to incentivise staff.
- Better communication and employee involvement on quality and productivity issues. Lines were reformulated into the team concept, with responsibility for quality checking transferred from the supervisor to the team leader and operators. Teams now meet daily to discuss production and any employee concerns. Weekly meetings are held amongst middle management to assess performance and set targets.
- 100% adoption of proposed social dialogue mechanisms, which included an Employee Council, Social Dialogue Council, Health & Safety Committee and grievance procedures.
- More systemised HR practices. This includes documented procedures to increase fairness in recruitment/promotion, the introduction of a new employee handbook and planning (e.g. skills survey) for supervisor development and career paths.
- Standard amendments on health and safety, such as improvements to chemical storage, introduction of pressure mats for standing workers and more machine guards.

### WORKER FEEDBACK ON FIP

The workers interviewed appeared generally satisfied with new dialogue structures, which they stated had improved management-employee communication. The Employee Council is made up of 7 elected worker members and its purpose is to discuss collective problems and raise these with management. The Social Dialogue Council is a joint management-worker committee. The issues raised in both councils are similar (e.g. welfare activities, transport arrangements, pay), although the SD council is also used by managers as a vehicle to gain buy-in for proposed new systems. Through these new dialogue structures, management had agreed to a number of worker requests for pay increases (e.g. bonus for multi-skilled workers, increase in holiday pay rates, pay hike to meet cost of living increases).

### IMPACT ON BUSINESS PERFORMANCE

The senior managers interviewed described the programme as 'a real eye-opener for us' in terms of the new management systems it introduced. The views of one local buying agent appeared to endorse this. The agent commented that quality had improved, previously haphazard methods of working became more organised and deliveries were more prompt. Although the agent – which sourced for a UK catalogue - wanted the factory to take more orders, this had not happened because the factory would not accept the low prices offered.

Managers were also positive about the value of improved worker-management communication. For example, the Factory Manager used the SD Council to get employee support for a plan for new scarves and masks. In his words, 'initially they think we are trying to harass them, but then they realise the importance ... and now they wear it.'

The programme also appeared to support a longer-term improvement in operations. The factory is

aiming to go for the ISO 9001 and 5S quality standards within the next year and management believed the FIP teachings will help with this. And plans are underway to increase employee training and development.

Managers did, however, also make clear that productivity had not increased. They attributed this to the fast turnover of new and complex styles, for relatively small orders, which make it harder to hit and maintain efficiency targets. Such orders are in general more labour intensive (e.g. where the garment requires hand embroidery). The statistical ratings\* provide evidence of improvements in quality and labour turnover, but no long-term positive change on absenteeism and efficiency.

- Average in-line defect rates fell from an average of 17.4% at the programme start to 7.6% by its end. This improvement has been sustained: defect rates averaged 4.9% in 2004. The figures on end-line defects broadly mirrored this pattern.
- Over the same time period, labour turnover fell from 7.8%, to 3.5% and then to 2.7%
- Absenteeism at this factory is quite low. Rates fell over the programme's duration (from 3.5 to 1.8%), but have since crept back up to their original levels (3.6%).
- Cost per minute remained steady around \$0.07 over the two years, whilst the man-to-machine ratio increased from a steady 2.1 during the programmes duration, to 2.5 a year afterwards (due to upmarket products requiring hand embroidery).
- Cutting department and sew-pack efficiency ratings are around 90%. Ratings fell very marginally during the programme, but are now restored to original levels.

\* The data is given are averages for 3 time periods: June – August 2002; June – August 2003; and January – August 2004. Data from September – December 2003 was not provided for this factory.