

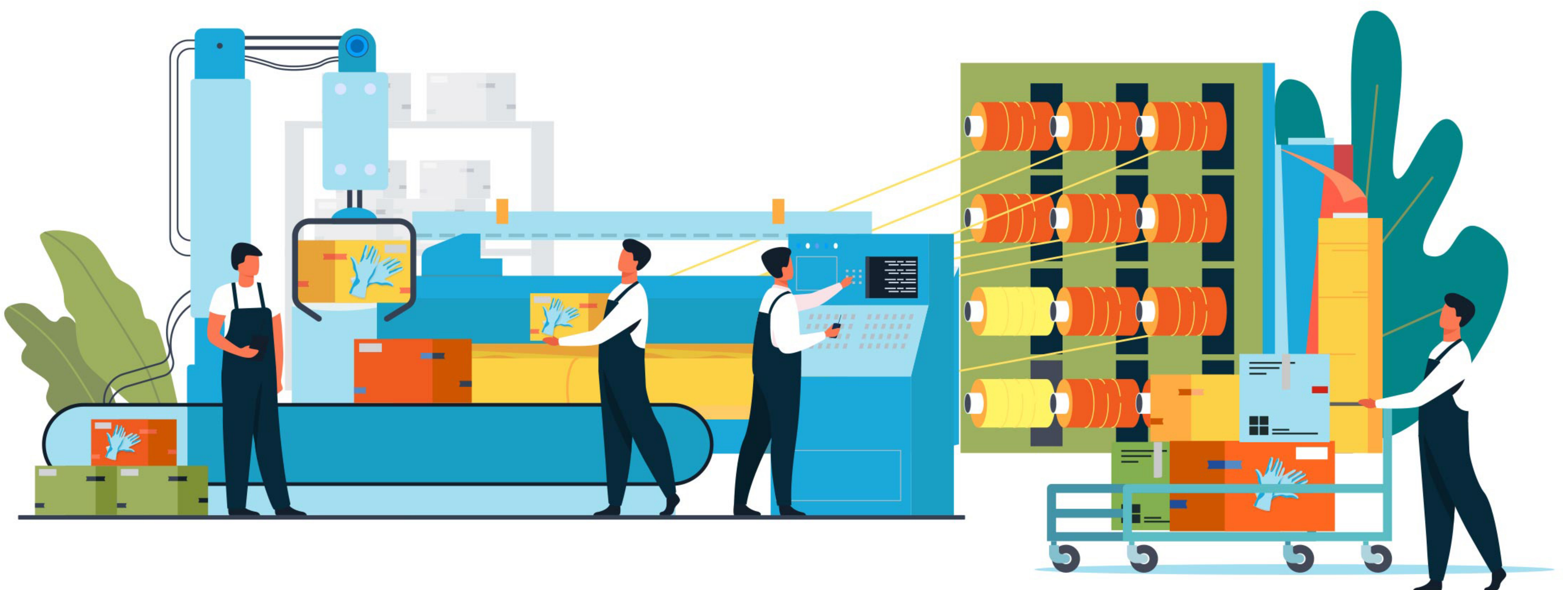
# Improvement of labour and environmental standards in Pakistan's textile industry (TextILES)

## HR & LABOUR STANDARDS AND PRODUCTIVITY

### ARIAN SPORTS PRIVATE LIMITED

#### CONTEXT AND BACKGROUND

Arian Sports was established in 1982, as a family-owned business, by Mr. Shahid Riaz. Currently, Mr. Senan Shahid is the Managing Director (or "MD") of Arian Sports. The company has an employee count of 280 employees, including 30 managerial staff. Arian Sports is producing approximately 300,000 pairs of gloves per year mainly focused on motorcycle, racing and working gloves; the company specializes in manufacturing of leather and textile apparel for motorcyclists.



## CASE SNIPPET

It was 14th December 2021, when a team of researchers visited Arian Sports Private Limited (or “Arian Sports”) in Sialkot to explore the outcomes of Dialogue for Sustainability (or “DfS”) based intervention by GIZ. Mr. Moazzam Waqar, General Manager (or “GM”) Arian Sports was the focal person of the company for this intervention. During the meetings, the Case Study Researchers asked critical questions to assess the pre-DfS intervention problems, interventions proposed post the baseline assessment, implementation strategies and overall outcomes of these interventions. The implementation of the change process by GIZ started from the formulation of Change Management Teams (or “CMTs”) at Arian Sports, consolidations of these CMTs and interventions through the mini-CMTs at the shop-floor levels. These teams worked through results-based management where the outcomes were measured against key performance indicators (or “KPIs”) specific to these interventions. While reflecting upon the DfS based interventions in the light of questions asked by the team, Mr. Moazzam happily reported the positive outcomes of these interventions in terms of focus on human resource development, labour standards improvement, professional culture, improved productivity and working on the chain system.

## IDENTIFICATION OF PROBLEMS

At the baseline stage, GIZ advisors identified several problem areas in terms of both HR and labour standards and productivity practices. These are presented herein.

### HR AND LABOUR STANDARDS

- Lack of a Structured HR Function:** Arian Sports was dominated by a working culture typical of a family-owned enterprise <sup>[1]</sup>, where the HR as a functional department, did not exist formally up until 2013-14, and in its true sense even in 2019 (baseline stage). In addition to a host of other resultant issues, the employees, especially the management was unaware of its job descriptions (or “JDs”) requirements, KPIs and appraisal management. A functional HR department with a detailed HR manual with clear JDs, KPIs, appraisal management, leaves policy, etc. is a standard industry practice and a requirement for such entities.
- Preference for traditional labour sourcing practices (daily wage) and slower pace of shifting to salaried setup:** A few years ago, workers were attracted from other factories on higher wages – based on their Karigari or “skillfulness”, and the major human resource (or “HR”) decisions used to be taken by the Board of Directors (or “BoD”). As a corrective action, about two and half years ago, Arian Sports introduced a hybrid chain-based system where helpers were employed directly, and stitchers were on-boarded on daily wages directly without involvement of any third party. This was started with one chain however; problems such as limited control over attendance, sorting issues and high stitcher turnover persisted. Before 2018, Arian Sports traditionally favoured piece rate (daily wages) workers. Such workers were mostly contracted through a third party with no direct control and consistent exposure to risks of labour unavailability and other supply side constraints hampering production. This is one of the three labour sourcing modes in practice by industrial set-ups in Sialkot, and suggests a lack of ownership amongst workers for the organization in which they are engaged.

<sup>[1]</sup> Commonly referred to as ‘Seth Culture’

As earlier discussed, Arian Sports had started its shift towards a hybrid chain system, however, its benefits were not truly being realized as it was largely being taken on as a pilot initiative fixed to one chain.

- **Attendance and Punctuality Issues:** Manual attendance system was used for attendance purposes and had significant gaps. Average absences were recorded at 10% for piece rate workers and 12% for employees at the baseline stage and the leaves per month were greater than 10% <sup>[2]</sup>. Additionally, punctuality concerns among piece rate workers contracted through third parties were significantly higher, as they could not ensure resource provision despite being contractually obliged to provide the same. Low attendance and persistent punctuality issues also showcase a lack of worker engagement.
- **Higher Employee Turnover:** Prior to DfS intervention, overtime and employee turnover were not being monitored by Arian Sports. The company recorded a high employee turnover of 24% in 2019, comparing to an average of below 10% considered ideal in local manufacturing sector.
- **Low EOBI and Social Security Contribution:** Universal EOBI coverage is a regulatory requirement for every industrial establishment in the country<sup>[3]</sup>. Pre-DfS intervention Arian Sports reported an EOBI contribution and Social Security contribution both of 26%. Social security is applicable for those employees whose monthly remuneration is below PKR 22,000<sup>[4]</sup>.
- **Lack of Gender Diversity and Inclusion:** There was no gender diversity and inclusion policy at Arian Sports at the baseline and all employees

working at Arian Sports were male in 2019<sup>[5]</sup>.

- **Lack of focus on Occupational Health and Safety:** There was no monitoring of health and safety standards, and minor accidents and incidents were high, with no reporting in place to record such occurrences (a key step in learning from practices and implementing safety checks/procedures in place).
- **Medical Coverage:** Employees at Arian Sports were not offered any medical insurance or financial support in case of work-related injury and downtime. This meant that the burden of injury was directly being picked up by the employees themselves and was not in line with best practices.
- **Lack of Appropriate Employee Feedback Forums:** As is typical of many local family-owned and operated businesses, employees did not have access to appropriate forums to voice their concerns around operating practices. No employee engagement/satisfaction surveys were conducted across Arian Sports. This again was not in-line with best practices and was a potential contributor to many of the problems identified above.

## PRODUCTIVITY ISSUES

- **Lack of Productivity KPIs tracking:** At the baseline, it was noted that Arian Sports did not assess any productivity related data with no KPI monitoring contributing to low productivity issues. As an example, order lead time and work in process inventory were not being monitored at all. Furthermore, a crucial metric, namely machine downtime was also not being traced before 2018. Monitoring of order lead time and machine downtime are crucial productivity indicators in the textile sector which need to be monitored regularly for continuous improvement and improving operating efficiency. Arian

[2] As per section 49-B of Factories Act, every employee who has completed a period of 12 months of continuous service shall be allowed 14 consecutive days of paid annual leave during the subsequent 12 months. If all 14 days are not taken, those days will be added to the annual leave allotted to the employee in the succeeding 12-month period.

[3] Source: DG EOBI (<http://www.eobi.gov.pk/>)

[4] Source: Provincial Employees Social Security Ordinance (<https://www.pessi.gop.pk/overview.php>)

[5] As per The Pakistan Business Council – Fifty percent of respondent companies have female employees ranging from 10% to 20% of their workforce (<https://www.pbc.org.pk/wp-content/uploads/Baseline-Survey-on-Gender-Diversity-in-Business-Sector-of-Pakistan.pdf>) (All industry)

Sports management did not also realize the benefits of utilizing the said information for bettering commercial operations thereby indicating capacity gaps.

- **Low Production Efficiency:** Production capacity was recorded at 3.3 pairs per day on a per person basis prior to DfS Intervention, as compared to 5 pairs per day on an average in the industry<sup>[6]</sup>.
- **High Defects per Hundred Units (DHU):** DHU on average were 20 pairs, signifying a high defect rate of 20%. This compared to an industry average of around 12% <sup>[7]</sup> and showcased a massive room for improvement.
- **Lack of Modern Lean Manufacturing Processes/Practices:** Shop-floor organization was not appropriate and there were no tags. As a result, inventory was generally dis-organised. There was a need of placement of racks and stacking of items with proper arrangement, while securing hazardous items. Existing arrangement contributed to high production costs per unit, increased wastages (including pilferage), lower efficiency and higher machine downtime and a stressful environment for staff. lower efficiency and higher machine downtime and a stressful environment for staff. It also contributed to a lack of cooperation between stitchers and helpers, with the former usually punching out at the end of their shift and not assisting helpers in sorting inventory. This practice also contributed to a high work-in-process inventory on shop-floors.
- **Absence of Quality Management System:** Arian Sports did not have a Quality Management System (or "QMS") in place at the baseline therefore, there was no data collection pertaining to quality of products manufactured. Absence of QMS also meant that continuous improvement that is at heart of total quality management was being neglected. In addition,

the employees were not involved in research, development and streamlining of the manufacturing process which resulted in low employee morale. Customer satisfaction also appeared not to be a priority item which is typical of an organization without a structured QMS in place. Additionally, there was no active quality assurance department with focus only on passive quality controls.

## GIZ INVOLVEMENT

Arian Sports was already looking for consultants to get guidance /support in the areas of Human Resource Management (HRM) and Productivity. This is when the senior management at company was told about GIZ's intervention at similar companies in Sialkot involving the DfS methodology. DfS is a process consultation approach and focuses on a dialogue between three tiers of the organization (top management, middle management and shop floor workers). The approach focuses on developing CMTs with representation from all three organization tiers, enabling healthy communication, participative problem solving, & exposure to industry benchmarks and best practices. The approach helped in improving the organizational capacity to improve problem-solving & decision making at all levels. During the CMT workshops, a six-step approach is followed starting from identifying problems to developing action plans while also allocating responsibilities linked to the performance incentives & accountability. These action plans are then taken to mini-CMTs within the organization where the specific teams are responsible for implementing the action plan. This approach has helped organizations improve their standards in terms of human resources, productivity, quality, & environmental sustainability to achieve manufac

turing excellence & enhanced customer satisfaction. Post initial discussions between GIZ and Arian Sports Management, where GIZ inspired Arian Sports showcasing them the recipe for success, the MOU was signed in November 2019. GIZ's DfS based intervention started at Arian Sports in same month & lasted until December 2020. GIZ was working on various projects while facilitating trainings on the shopfloor through DfS based interventions.

## SOLUTION PROPOSED

Following the completion of the baseline study by GIZ's advisors and identification of problems in HR and Labour Standard practices and Productivity identified earlier, Arian Sports was advised to form its own CMT in line with the DfS approach. The intervention followed the standard route as suggested by the change management methodology known as DfS. CMT Teams of Arian Sports were invited to thematic two day CMTs around HR and Labour Standards (including Occupational Health and Safety) and Productivity and Quality. Learning therein helped contextualize the problems faced; however, a more direct intervention support was required. This too was catered for at the mini-CMT levels with HR and Productivity and Quality experts/advisors deputed by GIZ to help come up with or improve implementation of solutions. Value added trainings (or "VATs") by specialist advisors were also provided to help with implementation of interventions and capacitate Arian Sports staff beyond the CMT and mini-CMT members. Some of the specific interventions undertaken at Arian Sports Sialkot have been showcased below.

# IMPLEMENTING SOLUTIONS AND

## CHANGES

There were a number of solutions developed following the DfS approach and the interventions were facilitated by GIZ. Interventions pertinent to HR and labour standards improvement in-turn positively influenced productivity and quality related KPIs as well.

### HR AND LABOUR STANDARDS INTERVENTIONS

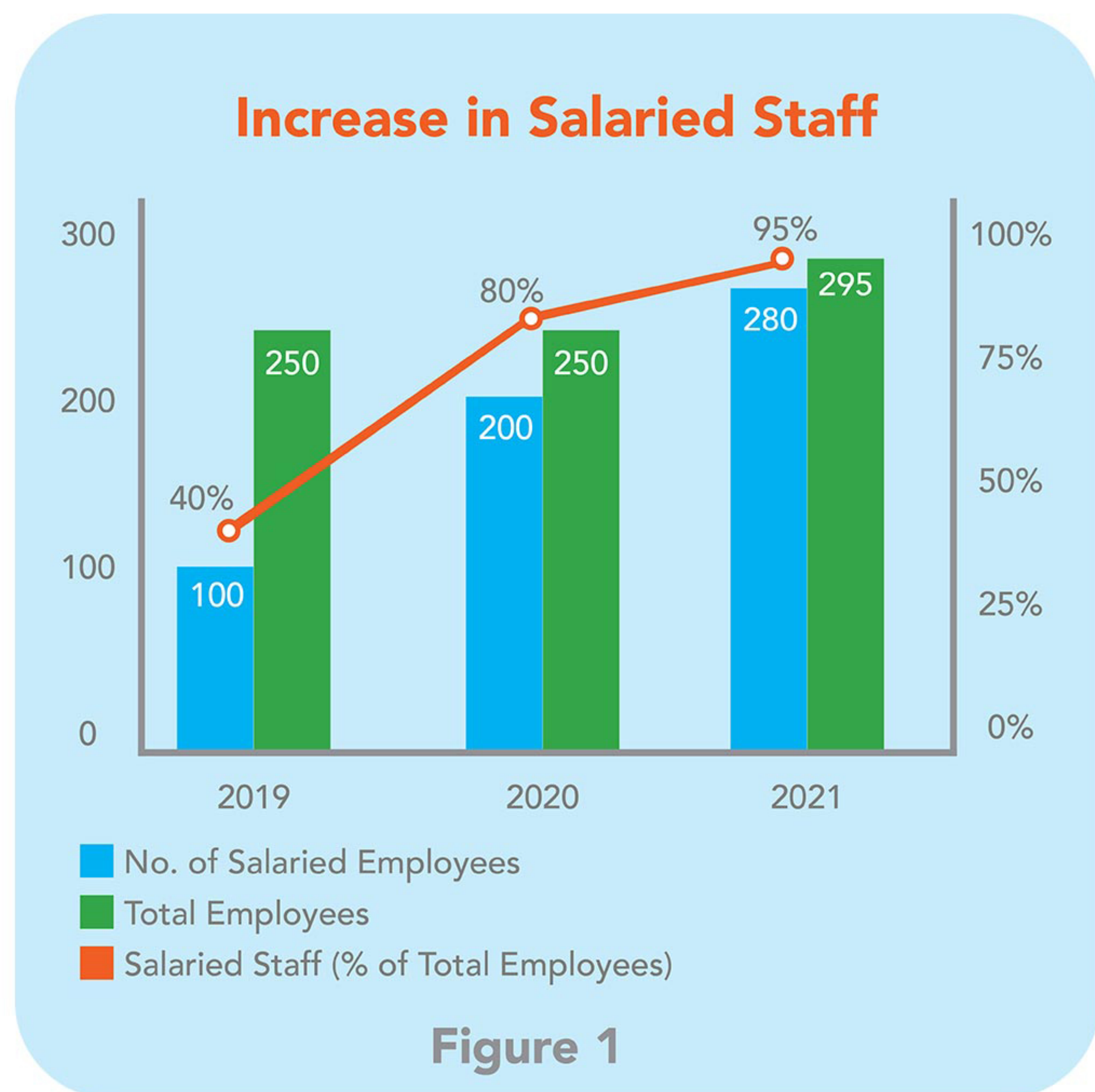
Post DfS interventions there have been a multitude of changes undertaken at Arian Sports pertaining to HR which have been discussed below.

- **Setting up of a proper Human Resource Function:** One of the key interventions was the setting up of a formal HR department headed by an HR Manager. Prior to the DfS intervention, HR was being handled directly through the MD's office and BoD. The interventions formalized JDs throughout the organization for managerial cadres with clarity on responsibilities, expected behaviours, compensation and benefits, etc. Similarly, a performance appraisal system was developed with KPIs, to measure performance objectively. This was a key step by Arian Sports towards achieving social sustainability of operations.
- **Introduction and fast-tracking of Salaried Structure:** Management at Arian Sports realized the merits of fast-tracking the shift to salaried set-up from piece rate workers. The hybrid approach has now given way to a salaried set-up in 2.5 chains. The results shared by Arian Sports for October 2020 showcase that there has been notable improvement witnessed in the salaried chains as compared to those still operating on piece rate basis (**Table 1**).

Table 1: Improvement in KPIs

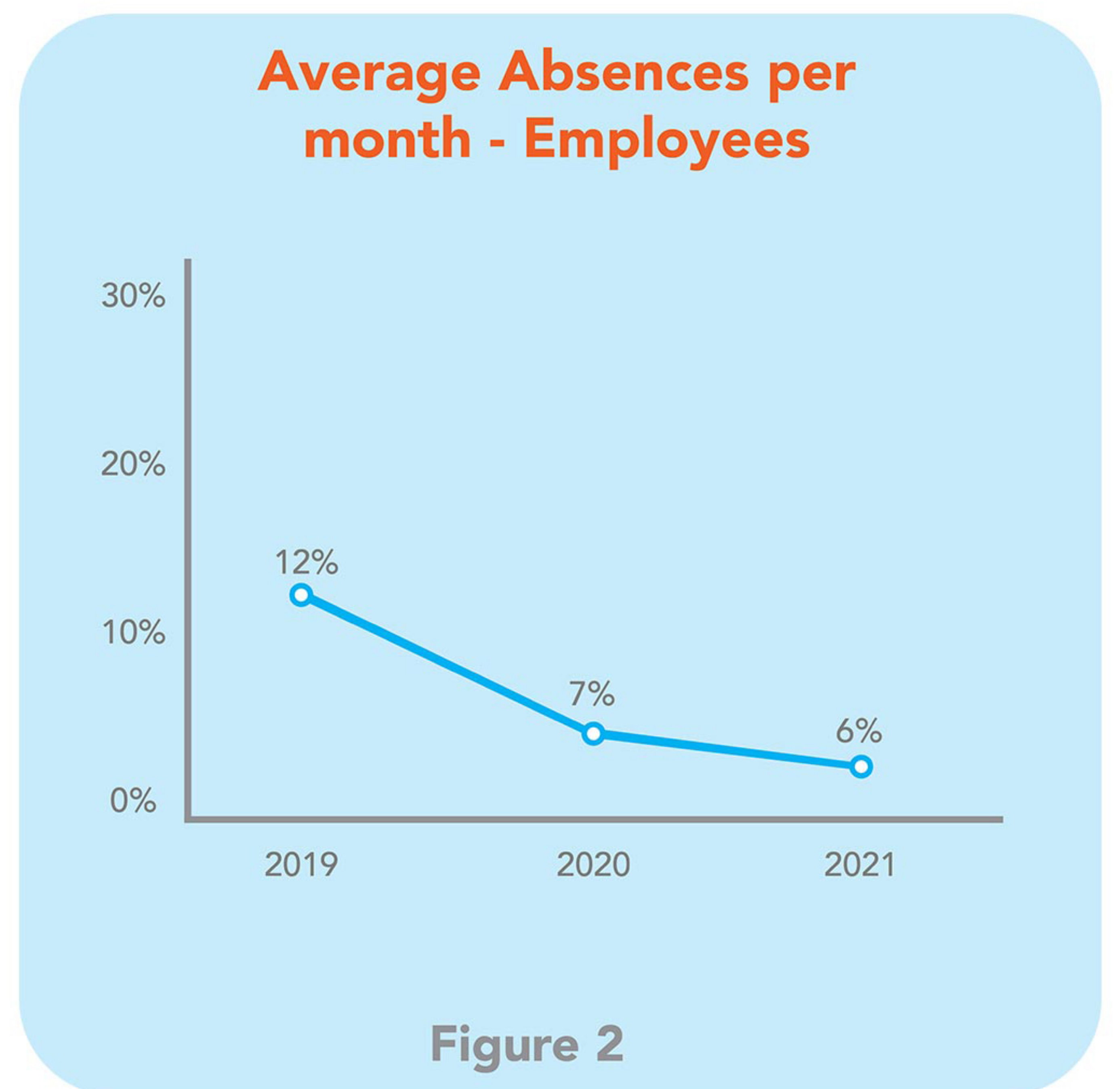
KPI	Improvement
Cost of Production	Reduction of 21%
Productivity	Improvement of 55%
WIP Level	Reduction of 88%
Lead Time	Reduction of 90%

The percentage of salaried staff as a proportion of the total staff at the company has increased from 40% prior to DfS intervention to 80% in 2020 post the intervention, that has subsequently, increased to 95% in 2021 (Figure 1). Continuing with this approach, the management at Arian Sports plans to shift completely to salaried set-up.



- **Introduction of Attendance Management System:** DfS intervention helped Arian realize the importance of investing in a biometric attendance management system in a bid to address its attendance and punctuality issues. This system has helped reduce average absences

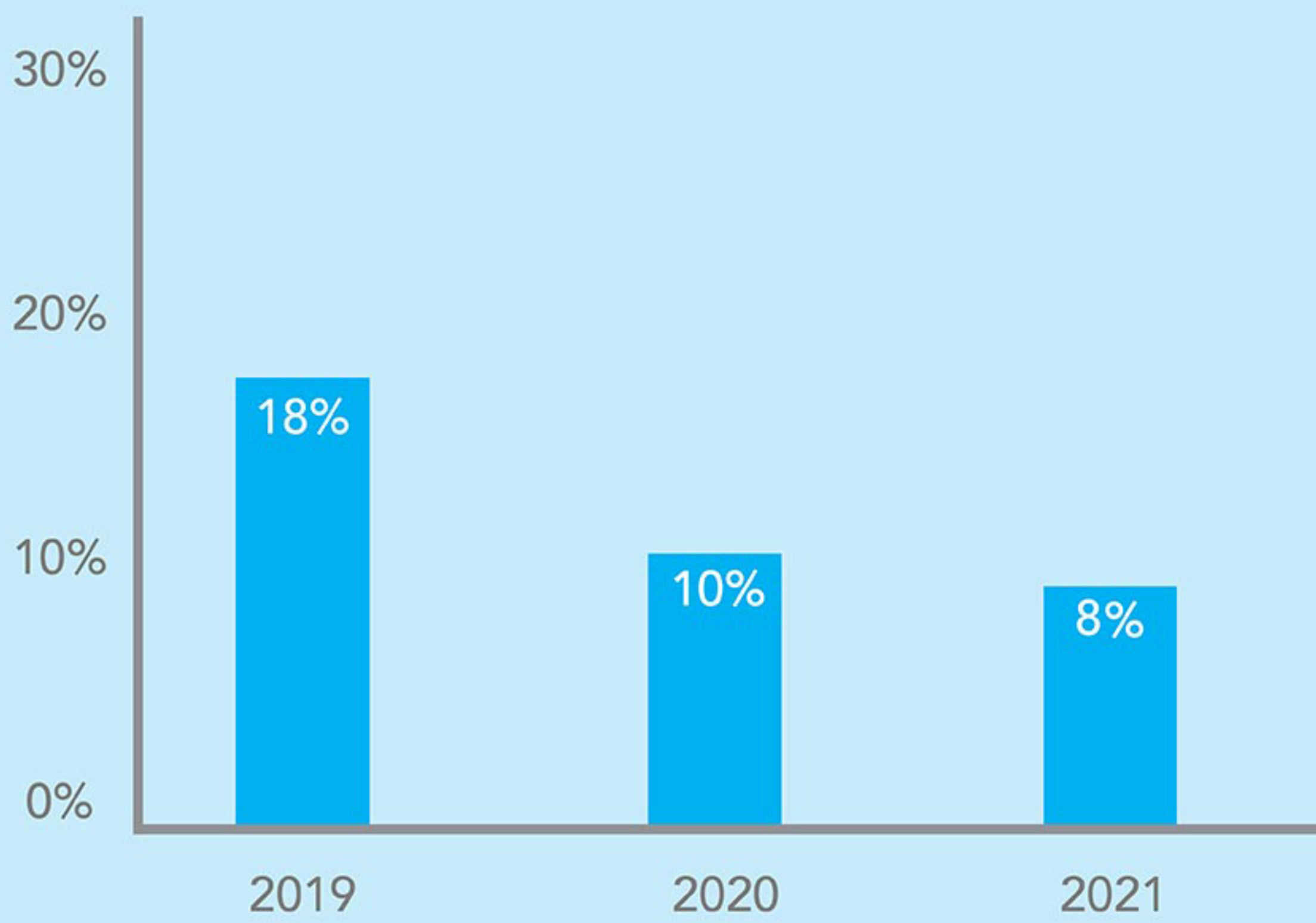
per month for piece rate workers from 10% to 3% at the end of the DfS intervention. Similarly average absences for employees reduced from 12% to 7%. As per latest data from 2021, this has further reduced to 6% (Figure 2). Additional measures aimed at improving attendance included a zero absence bonus of PKR 1,500 per month per employee (2020) and now stands at PKR 2,000 per month, which has also contributed to increased attendance. This has also contributed to an overtime reduction per day at Arian Sports from 3 hours for employees and 1 hour for piece rate workers prior to DfS intervention to 0 hours for employees and piece rate workers by end of DfS intervention.



- **Reduction in Employee Turnover:** A direct result of HR and Labour Standards improvement initiatives in light of DfS intervention taken at Arian Sports was the significant reduction in employee turnover. The employee turnover (annual) reduced from 18% in 2019 to 10% in 2020 which has been maintained at 8% in 2021 (Figure 3), below the level accepted for such set-ups in Pakistan. Similarly, absenteeism reduced from 29% in 2019 to 6% in 2021

(as specified above), resulting in an improvement in punctuality, employee morale and engagement.

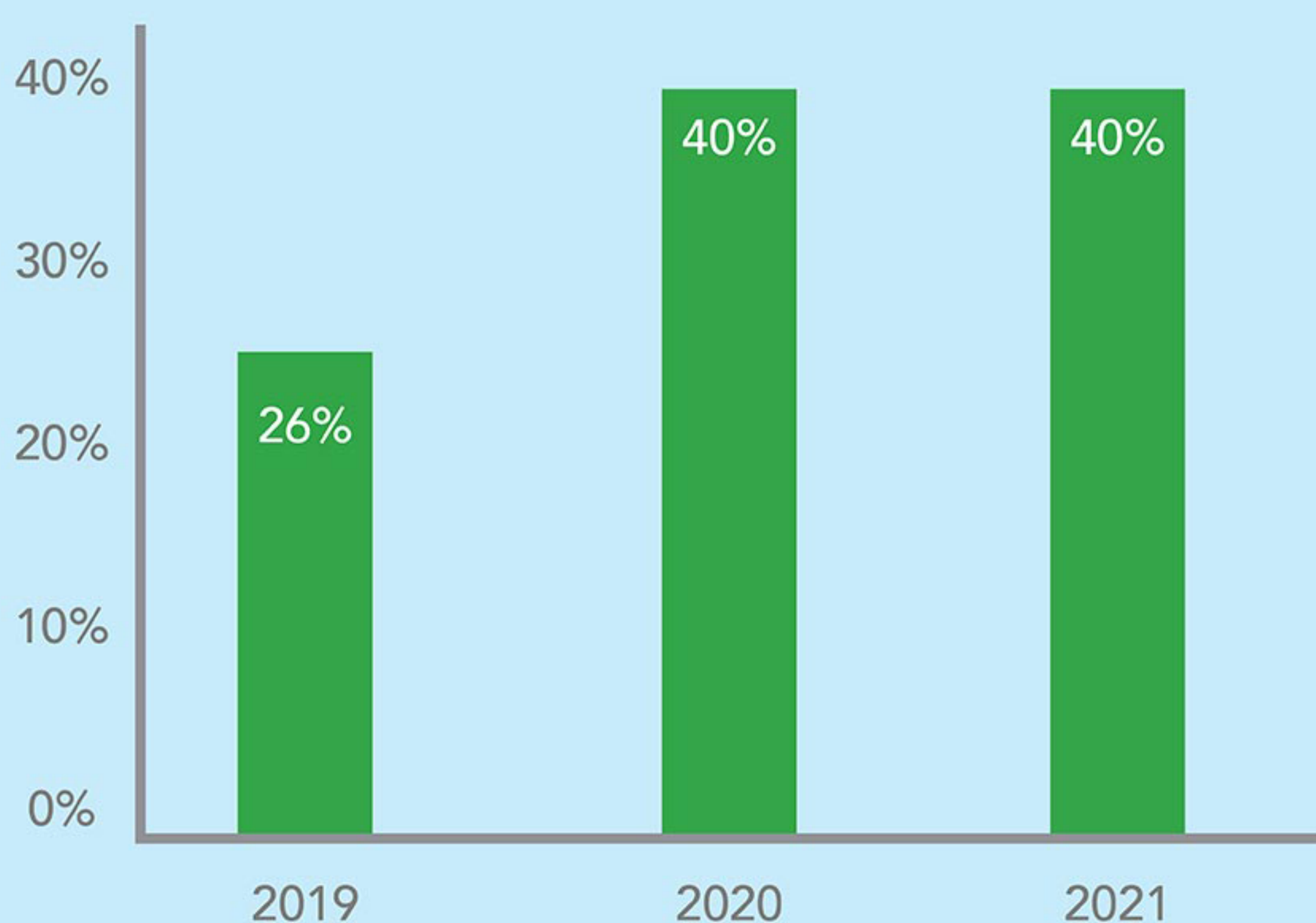
**Employee Turnover - Annual Rate**



**Figure 3**

- **Increase in EOBI and Social Security Contribution:** DfS intervention helped Arian Sports realize the importance of compliance with local regulations and labour laws. EOBI coverage and social security contribution increased from 26% to 40% by the end of this intervention. This level has been maintained as per latest data shared by the company (**Figure 4**).

**EOBI and Social Security Coverage**



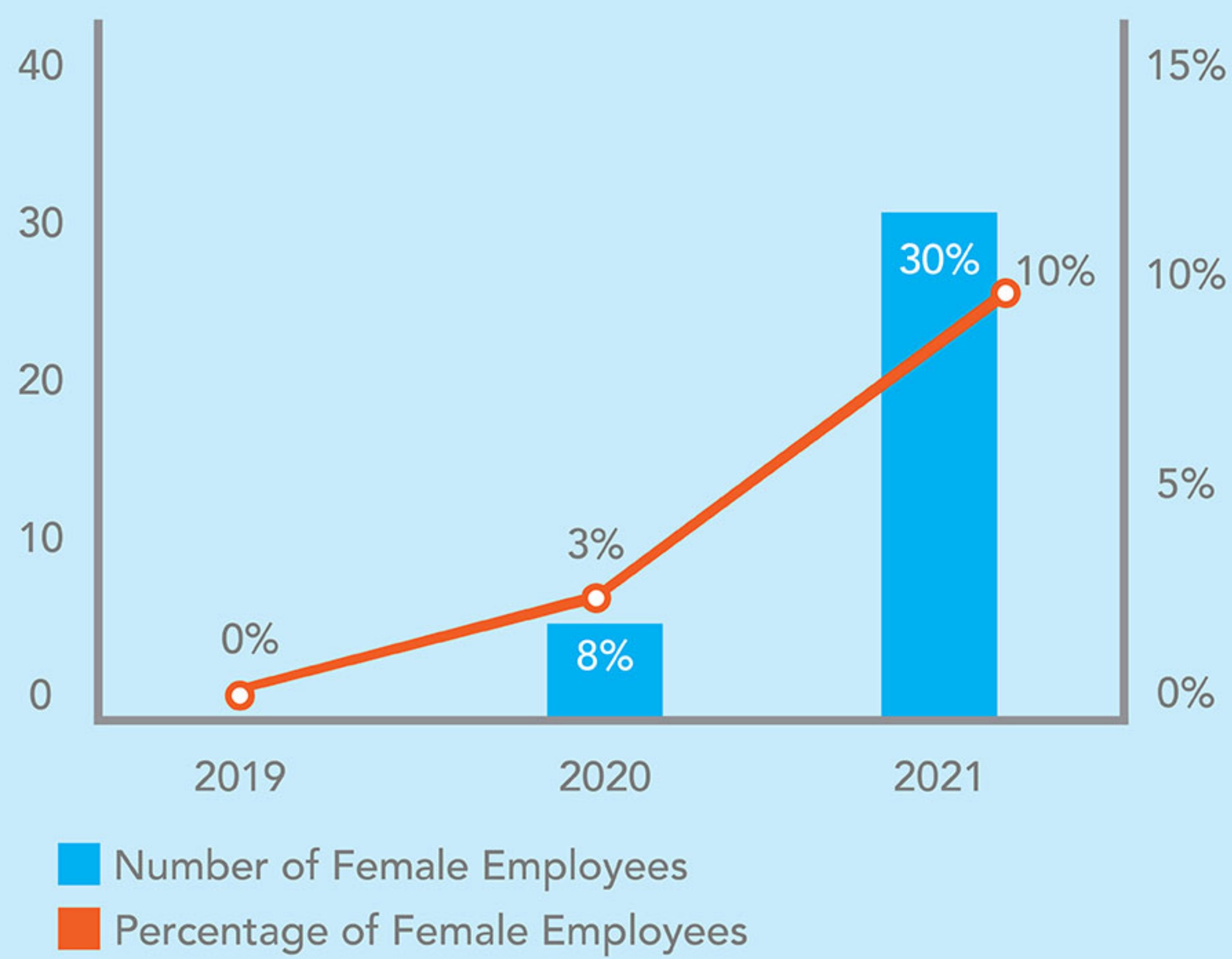
**Figure 4**

- **Improvements in Gender Diversity and Inclusion:** One of the key DfS related learning by Arian Sports was an internal realization to have a Diversity and Inclusion Policy and become an organization that celebrates differences of gender, ethnicity, race, religion, caste, creed, etc. An excerpt from this policy is presented herein:

Arian Sports (pvt.) embraces and support our employee’s differences in age, ethnicity, gender, gender identity or expression, language differences, nationality or national origin, family or marital status, physical, mental and development abilities, race, religion or belief, skin colour, social or economic class, education, work and behavioural styles, political affiliation, military service, caste, and other characteristics that make our employees unique.

A direct outcome of this policy is the increase in number of females at Arian Sports. The number of female employees increased from 0(0%) to 8(8%) by the end of intervention which has subsequently increased to 30(10%) as of 2021 (**Figure 5**).

### Female Employees



**Figure 5**

- Monitoring of Occupational Health and Safety KPIs:** Following a value-added training provided by a specialist advisor on OHS, a Health and Safety Committee has been formed. This committee has representation from HR, stitching line and operations with the objective of facilitating cooperation between departments, managers, and workers to identify, address, and resolve health and safety concerns. The committee also regularly reviews and updates the Hazard Identification and Risk Assessment Document. Arian Sports is now actively monitoring incidents and accidents on its shop-floors. In case of an injury, it is also providing financial support to the affected. A first-aid kit has also been arranged in the office, and employees are provided any first-aid support in case of any injuries.
- Improved Employee Engagement through Effective and Empowered Communication:** Post the intervention, Arian Sports realized the importance of an effective dialogue as an enabler of change. One of the mechanisms introduced internally to keep a pulse of the staff's feedback around various elements of

their work and relationship with their employer was the introduction of a 'Suggestion and Complaints Box'. This box was placed outside HR Manager's office, with each employee's suggestions being noted and grievances being addressed on a monthly basis. The HR Manager is tasked with opening the box and addressing them through his access of relevant forums. Additionally, the company also focused on displaying SOPs and company policies for employees and workers across its premises for better visibility.



### PRODUCTIVITY IMPROVEMENT RELATED INTERVENTIONS

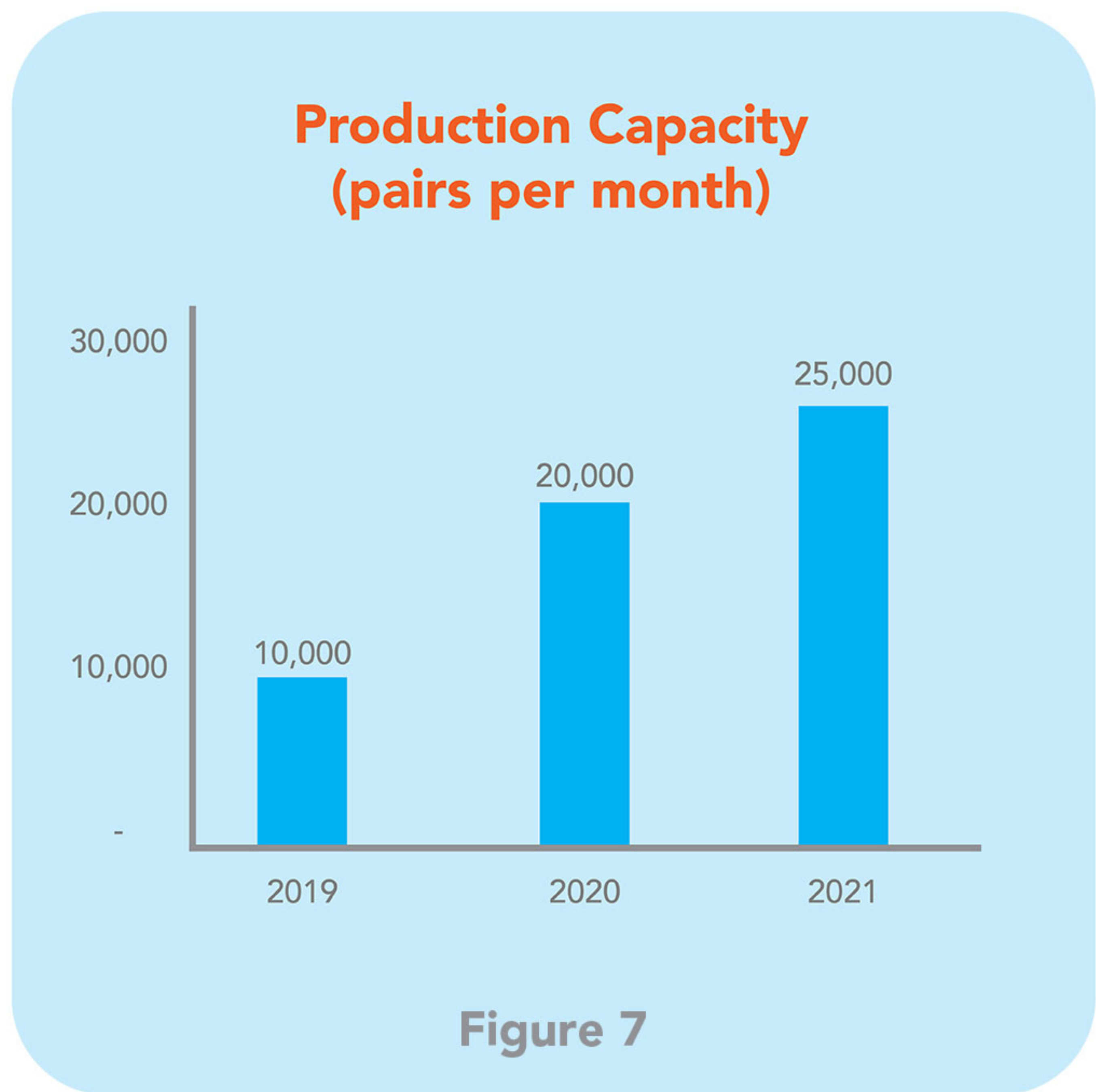
The DfS intervention has also helped Arian Sports with addressing several productivity related concerns and improving commercial operations. Some of these are discussed below.

- Implementation and Capacity Development on 6S:** In a bid to improve productivity, 6S, a lean manufacturing technique aimed at optimizing workplace environment and efficiency of work performance was implemented across shopfloors at Arian Sports. CMT members were first convinced of the merits the approach



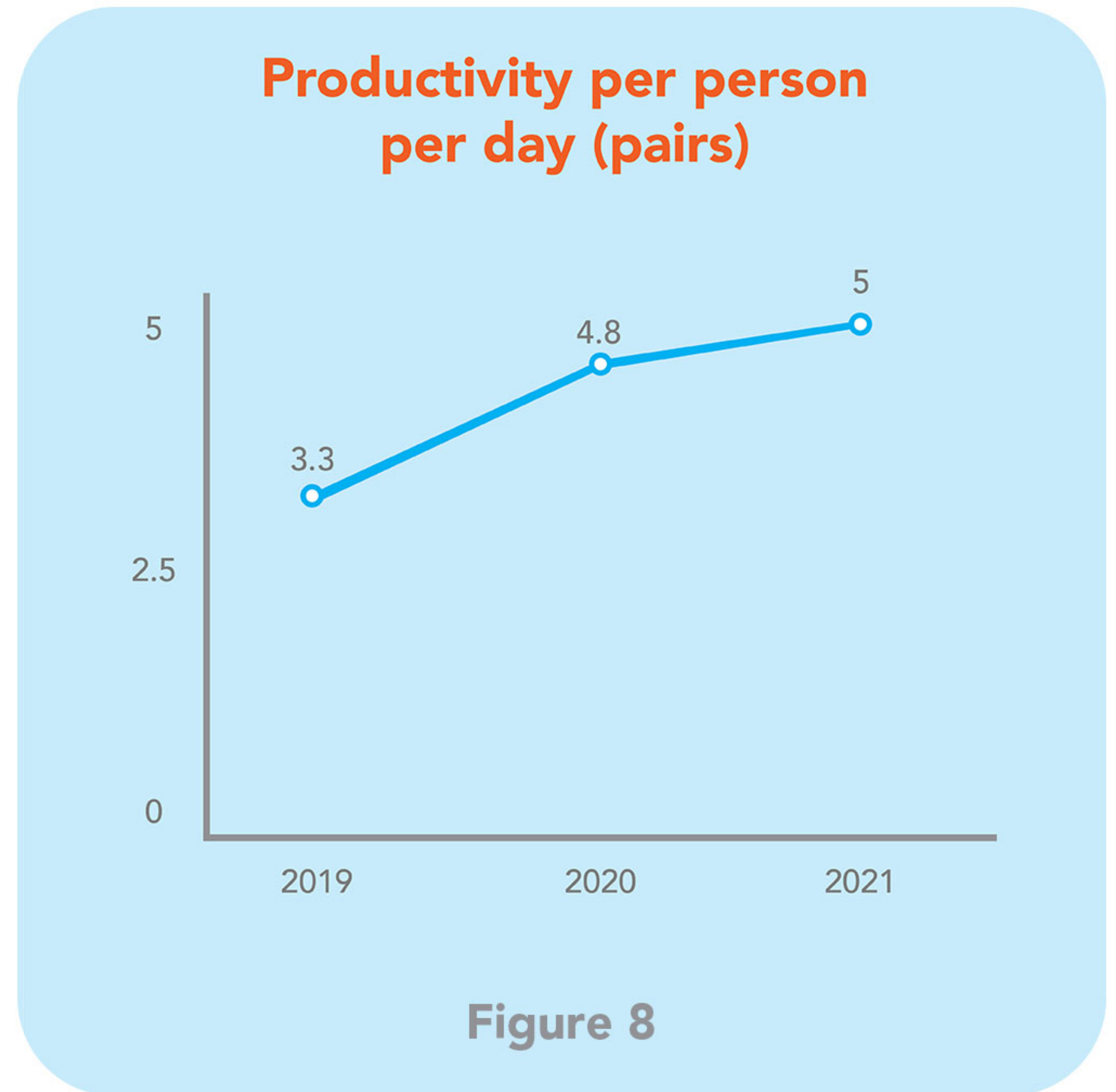
offered. A clear and visible change witnessed post 6S implementation was tagging and sorting of racks of the inventory and the approach helped streamline shop-floor organization. Mini-CMTs and VATs helped with the implementation on the shopfloor, and these were later replicated organization wide as benefits of the approach were tangible. Some of the quantitative improvements witnessed at

- **Arian Sports post 6S implementation include:** Improvement in annual production capacity from 10,000 pairs per month at baseline to 20,000 pairs per month post closure of DfS intervention. This has subsequently increased to 25,000 pairs per month in 2021 (2.5 times the baseline number) **(Figure 7).**



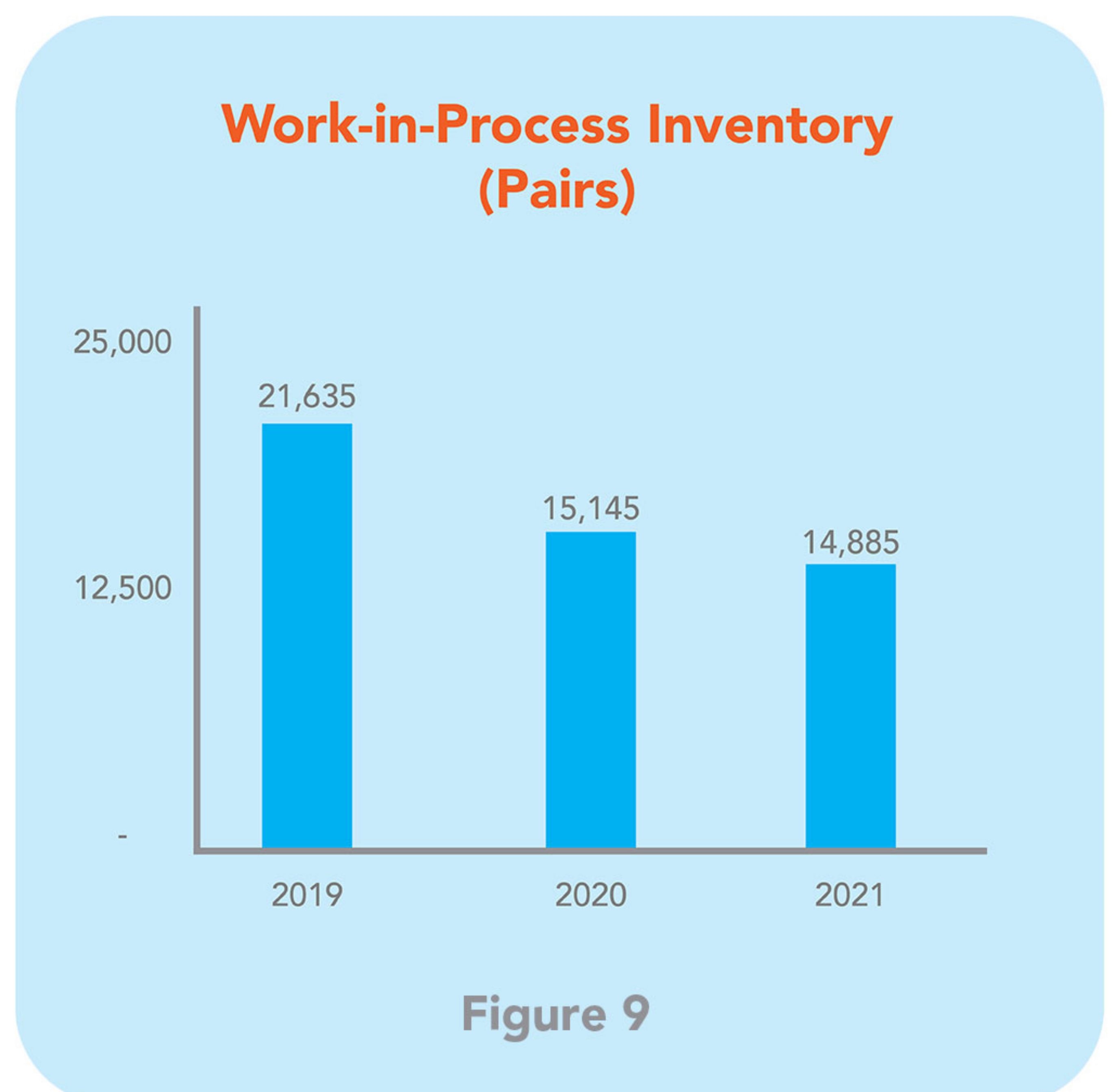
**Figure 7**

- Increase in productivity per person per day from 3.3 pairs prior to intervention to 4.8 pairs, which has increased to 5 pairs per person (a 52% increase from baseline) in 2021 **(Figure 8).**



**Figure 8**

- Significant reductions in order lead time which has come down from between 65.6 days to 26.9 days post implementation. As per 2021 data, the order lead time persists at 26.9 days.
- Reduction in work-in-process inventory that has decreased from 21,635 pairs at baseline stage to 15,145 pairs post intervention. There has been a further reduction in work-in-process inventory to 14,885 pairs as of 2021 (an improvement of 31% from the baseline) **(Figure 9).**



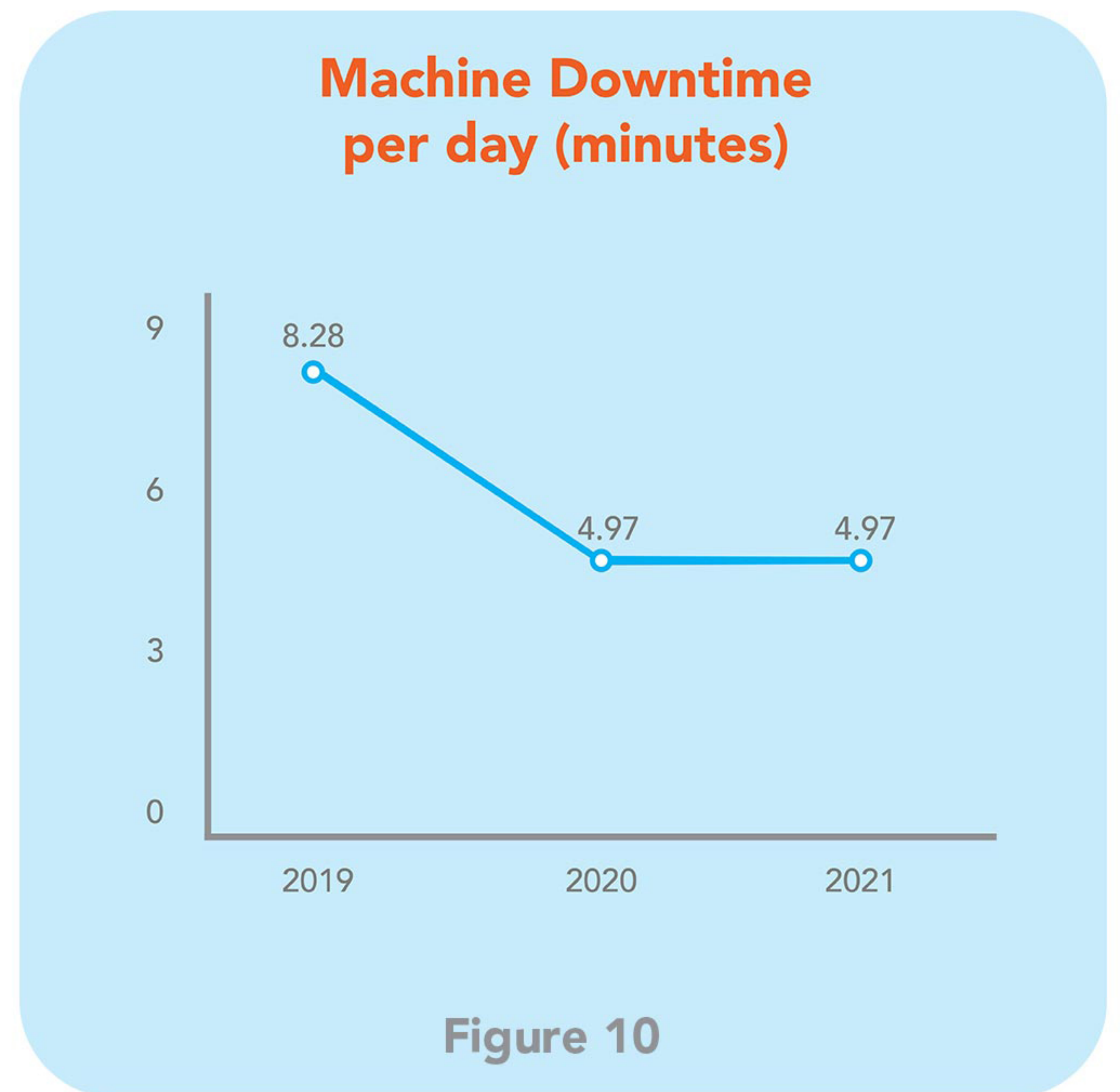
**Figure 9**

- An indirect consequence of the 6S implementation was the increase in production lines from 3 to 4 and improved space utilization with nearly 1,500 sq. ft. of area freed up for better utilization.

Whilst, 6S has been implemented there remains a room for further improvement and as a DfS enabled industrial partner the company is committed to resolving existing bottlenecks and becoming a leaner industrial unit.

- **SAM Calculations and Improved Line Balancing:** Capacity development of employees enabled them to revise standard allowed minute (or "SAM") calculations. "Standard allowed minute (SAM) or standard minute value (or "SMV") is used to measure the task or work content of a garment"<sup>[8]</sup>. SAM is considered a critical line efficiency measurement matrix. SAM is used for capacity planning of factory, estimate cut-and-make costing of a garment and measure total production efficiency. Revised SAM calculations led to improvement in line balancing, which also contributed to a decrease in work-in-process inventory as specified above.
- **Preventive Machine Maintenance:** Action plans developed by CMT members helped identify and ultimately address machine maintenance associated problems through better preventative machine maintenance practices. This helped in significantly reducing machine downtime per day from 8 minutes and 17 seconds on average to 4 minutes and 58 seconds (a 40% improvement from the baseline) at implementation closure. We understand that machine downtime has been maintained at this level as of 2021 (**Figure 10**). The decline in machine downtime is also a major contributor alongside 6S implementation to an increase in productivity per person as discussed above. The reduction in machine downtime also aided in reducing overtime from 3 hours to 2 hours at

closure of implementation which has further reduced to 1 hour (a decrease of 67% from baseline) as of 2021.

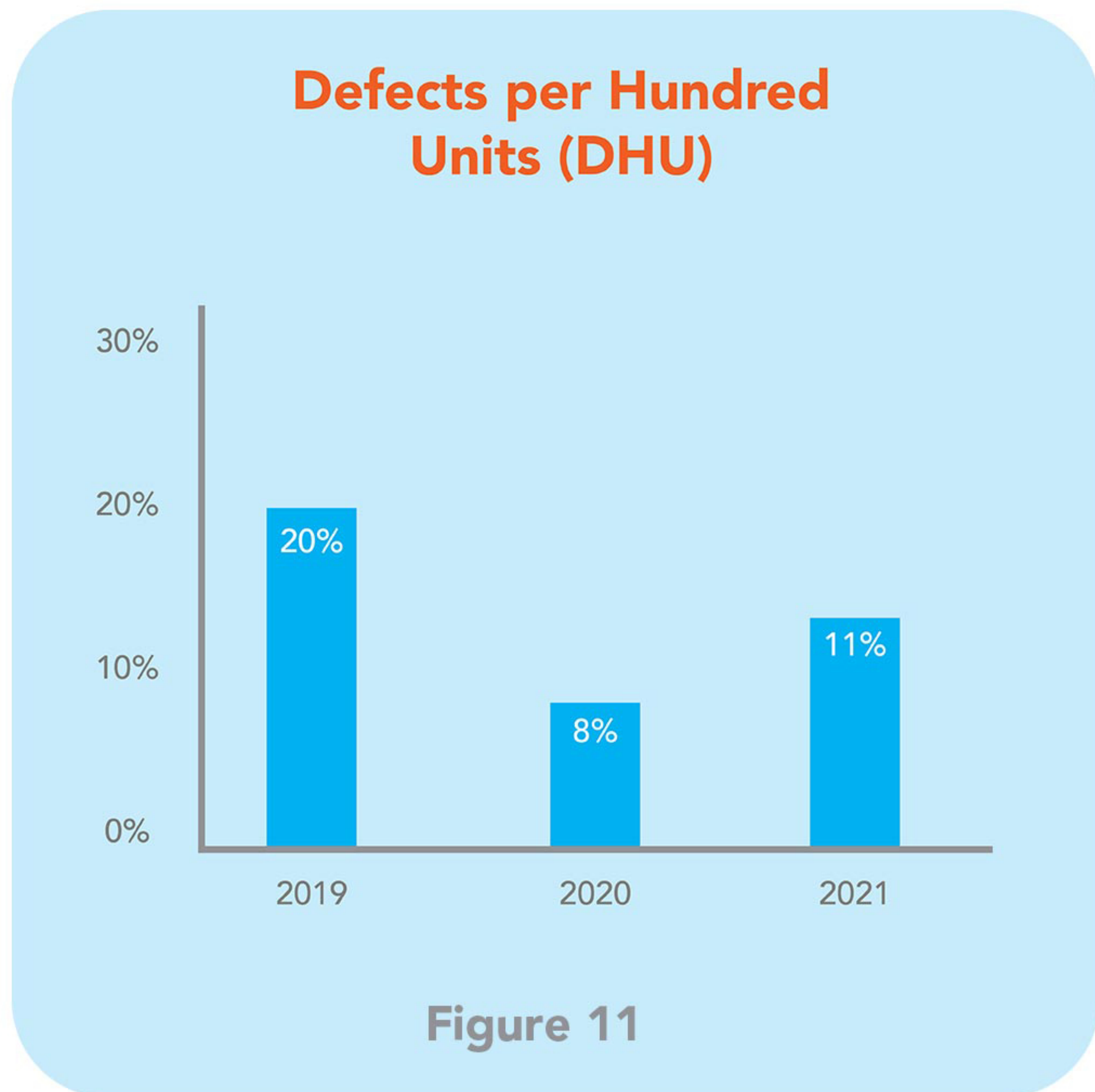


**Figure 10**

- **Improving Line Efficiency through Better Data Management:** Arian Sports realized the importance of collecting and analysing productivity pertinent data including non-productive time (or "NPT") in light of DfS intervention. NPT alongside machine downtime aided in significantly improving productivity per person as these matrices helped highlight invisible inefficiencies in production processes and helped improve resource utilization.
- **QMS Implementation and Training:** One of the action plans developed and presented by Arian Sports CMT members during the second CMT pertained to implementation of QMS to minimize DHUs and improve quality. QMS training sessions were conducted by a consultant as part of the VATs, which helped in setting up a formal quality assurance department, a move towards active quality controls. Guidelines on acceptable quality related parameters were developed and data recorded and

[8] Source: Statistical Analysis of Standard Allowed Minute on Sewing Efficiency in Apparel Industry, Alubel et. al (Accessible at: [http://www.autexrj.com/cms/zalaczone\\_pliki/1\\_4\\_2020.pdf](http://www.autexrj.com/cms/zalaczone_pliki/1_4_2020.pdf))

monitored on an on-going basis for continuous improvement. One of the key quality related KPIs is DHU which declined from 20 pairs (20%) to 8 pairs (8%) by end of n DfS intervention. **(Figure 11)**



## INDIRECT RESULTS OF DfS APPROACH ON ARIAN SPORTS

HR and labour standards improvements brought about through the implementation of DfS helped Arian Sports increase productivity and resultantly increase aggregate employment. A total of 78 employees were added to the company’s official head count and were directly attributed to the intervention. Arian Sports reported 14 women were amongst these new employees. Interestingly, 35% of these new employees belonged to the 15-24 year old category. For the indicator ‘the majority of employment relationships (>50% of the employment created) are longer than 6 months’,

Arian Sports met the requisite threshold.

## FUTURE PROSPECTS AND CHALLENGES

Arian Sports case presents an example of a successful DfS implementation, which enjoyed buy-in from all tiers of the organization. The DfS mantra of improving internal communications, problem solving skills and capacity development through provision of relevant trainings seems to have been implemented in its true letter and spirit. As a result there seems to be a realization of putting in the requisite work to enable change management. As an example, the GM of Arian Sports specified:

“Taking certifications without implementing the change in its true essence is not enough. Arian is committed that although certifications are important from customers point of view, implementing the changes required to fully comply with the guidelines provided in the certification is a priority. There have been numerous examples including Baldia Factory in Karachi and Rana Plaza in Bangladesh, where certifications had been obtained from international companies without any groundwork that resulted in mass human fatalities as well as suspension of commercial operations.”

Whilst the company has to address several challenges to its social and economic sustainability, the learnings enabled by the dialogue-based approach puts Arian Sports in good stead to deal with them. Arian’s management interviewed highlighted several steps that it intends to take in order to continue on the path for improvement and these include:

- Introduction of automation in processes mainly across stitching and cutting functions
- Utilization of computer aided design (CAD) based patterns to reduce material wastage
- Building in house capacity for outsourced processes
- Data digitization to become a smart factory (in line with Industry 4.0 concept)

## INDIVIDUAL SUCCESS STORY

Moazzam Waqar's personal story is an inspiring outcome of GIZ's DfS intervention at an individual level. While answering the question of the impact of DfS intervention at the personal level, Moazzam shared that there was a marked change in his organizational role. This was down to the fact that his JD was formally developed as part of the DfS intervention around HR and formalization of the HR function. He also changed his managerial style due to his exposure and learning facilitated by DfS. Specifically; he felt that his problem-solving and decision making witnessed a marked improvement. He understood the merit of a dialogue as an important communication medium which allowed listening to and discussing different points of view and a healthy debate on the same as a logical and involving problem solving approach. It also helped him improve his conflict management and negotiation skills. He also highlighted that the implementation of 6S framework helped him in streamlining and arranging his personal things (at office and at his house). Learning from HR and labour standards helped Moazzam realize the importance of people and relationships in life. He started spending quality time with his family and friends even during relatively short work breaks such as the lunch hours and giving more time to the family over weekends and holidays.