



Surviving the recession need for national strategy to boost productivity

RAJESH CHHABARA is a Singapore-based author and consultant on corporate social responsibility issues. He has authored a highly acclaimed book 'Social Accountability: A Practical Guide to Implement Code of Conduct'. He is director of CSRWorks Consulting, Singapore. He has over 15 years of experience and has helped hundreds of factories in Asia to improve compliance standards.

Global recession and credit crunch have hit the retail supply chain everywhere as retailers cut back orders, seek lower price points and demand longer credit periods. But garment manufacturers in India seem to be getting more hurt than their Asian competitors. In fact, Bangladesh continues to register unprecedented growth defying the global slowdown. This indicates that there are reasons other than recession for the deteriorating performance of Indian exports.

Increased cost of production on account of labour, infrastructure, energy, bank interest and lower duty drawback incentives are commonly cited as the main reasons by industry leaders for the diminishing competitiveness of India. They are lobbying with politicians for subsidies, easier credit and flexible labour laws. Politicians would perhaps like to help out the industry knowing that the sector employs a staggering 35 million people. Industry leaders have said that 1.5 million workers could lose their jobs by April if the trend continues.

Last year, the textile industry contributed 4% to India's Gross Domestic Product and accounted for 13.5% of total exports. Therefore, it's important that India develops a national strategy to boost the sector to maintain its competitiveness. While the government can play a role by offering incentives, such incentives are of little use and less sustainable. For example, any increase in duty drawback rates would lead to a corresponding decrease in price offered by buyers. In other words, such incentives will actually subsidise the buyer. Tax subsidies also do not provide any incentive to manufacturers to improve efficiencies.

Low productivity resulting from inefficiencies and waste is actually the main reason behind plunging competitiveness of the Indian manufacturers. Lack of foresight and strategy is the other key reason. While the recession is likely retreat in two or three years and credit supply will eventually resume, the competitiveness of the Indian garment industry, even in the medium term, remains a question mark, unless, of course, Indian manufacturers bring about drastic changes in how they go about their business.

Some of the major issues the manufacturers need to deal with are:

Productivity: Indian factories are plagued by low and inconsistent productivity compared to other Asian producers. A whole range of competencies, including management and supervisory skills and technology and systems, is missing in most factories. Production methods are antiquated and machinery is outdated. Experts say that it is possible to improve in Indian factories by 50-70% productivity by right interventions. Industrial engineering, work flow process, lean manufacturing and training can take productivity to new levels.

Cost of production: Cost of production remains high on account of lower efficiencies, poor management, quality problems, waste and defects. Introducing planning, systems, technology and training can result in dramatic cost savings.

Value creation: Make a planned shift to high value added products rather than struggling to compete with cheaper competitors. Those who wish to continue at the low value end, they need to match the highest productivity levels in order to be competitive.

Value addition: Develop globally competitive competencies in design and product development. This would require investment in state of the art design studios and hiring of internationally acclaimed designers and professionals and developing a sound understanding of consumer tastes in the target markets.

Human resource development: The Indian garment industry has by and large failed to attract the best talent at all levels. Investment in training and development is rare. Labour practices remain rudimentary. The industry needs to totally revamp its human resource management.

Diversify markets and customers: Heavy dependence on one market or a customer or a small group of customers is bad risk management. Indian manufacturers should spread the risk by diversifying markets and customers. Apart from the conventional markets of the US and Europe, the potential of other lucrative markets such as Japan, Russia, Brazil, Africa and even China should be seriously explored. In fact, lack of marketing skills is a common deficiency among Indian manufacturers which needs to be addressed.

Energy saving: Energy costs are significant in textile and garment manufacturing. Investing in energy saving technologies can reduce costs significantly.

Environment and sustainability: Managing impact on environment, water conservation, reducing waste and developing an image and brand for eco-friendly textile and clothing can be a significant differentiator as global warming concerns grow. These measures will also reduce cost.

Corporate responsibility and governance: The industry has often shown its resistance to the compliance demands of buyers. A negative attitude towards compliance has prevented the industry from going beyond minimal compliance and embracing corporate responsibility. Corporate responsibility, if deployed strategically, has a huge potential for reducing costs and improving operational efficiencies.

While asking the government for more sops is not bad in itself, long term solutions to the industry's problems lie in its own hands. Recession may have presented a good opportunity to restructure and re-strategise the industry ●