

Examining Factory Operations—Impactt/HKPC Productivity Program Findings

In 2003, we partnered with the UK-based consultancy Impactt Limited and the Hong Kong Productivity Council (HKPC) to pilot a productivity program to determine if initiatives focused on improving factory operations and productivity would also lead to better working conditions.

Over a nine-month period, Impactt and HKPC worked with five Gap Inc.-approved factories in China to evaluate their existing practices and correct managerial and operational problems, ranging from poor communication to inefficient production processes. The results, which became available in August 2004 and are summarized in the table on the following page, exceeded our expectations.

In the four factories where management was committed to the project, there appeared to be a clear correlation between productivity and better compliance. In the fifth, where no improvements were seen, factory management did not implement the suggested changes, despite encouragement from its parent corporation.

The most committed participant, Factory A, not only generated significant annual savings in its operations by using raw materials more efficiently, but also reduced worker turnover by more than 50 percent. Because workers were paid a piece rate, improved productivity led to a 50 percent increase in their total monthly pay. Other factories experienced increases in hourly and monthly pay, as well as reduced cycled times, more efficient fabric use and lower reject rates. For a full summary of the results, please see the chart on the following page.

Based on these results, two of the participating factories continue to work with an industrial engineer from the project, with our Vendor Compliance Officers (VCOs) serving as facilitators. Another participant hired a full-time employee to manage a similar internal productivity program. Additionally, four new Chinese factories signed up for a similar project in 2005, and the results have been very encouraging. We are currently looking for ways to apply the findings from this initiative to other regions of our supply chain.

SUMMARY OF IMPACTT PROGRAM RESULTS

FACTORY INFO.		SCOPE	PRODUCTIVITY		COMPLIANCE	
Factory	Location	Primary Areas of Focus	Efficiency	Worker Turnover	Overtime	Wages
A	Southern China	<ul style="list-style-type: none"> Redefine role of sewing supervisors to focus on workers' wages and operational efficiency as well as output and quality Better tracking of material 	<ul style="list-style-type: none"> 99% decrease in number of missing units 	<ul style="list-style-type: none"> Decreased from 15% to 6.7% 	<ul style="list-style-type: none"> 35% reduction per month 	<ul style="list-style-type: none"> 50% average increase in monthly total pay
B	Southern China	<ul style="list-style-type: none"> Reduce production inefficiencies Better tracking of material 	<ul style="list-style-type: none"> 20% increase in sewing line efficiency 44% reduction in leftover fabric 21% reduction in need for fabric replacement 	<ul style="list-style-type: none"> Not measured 	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> 14.3% average increase in monthly total pay
C	Northern China	<ul style="list-style-type: none"> Improve productivity in two sewing lines Provide training for sewing supervisors 	<ul style="list-style-type: none"> 1.5% increase in first sewing line efficiency¹ 37% increase in second sewing line efficiency Need for re-work decreased from 11% to 6.2% 	<ul style="list-style-type: none"> Small increase due to reduction in wages, which was linked to fewer overtime hours Factory established appraisal system for supervisors to assess quality and determine training needs 	<ul style="list-style-type: none"> Reduced by an average of 87 hours in the sewing section and 53 hours in the cutting section per month 	<ul style="list-style-type: none"> 10% approximate decrease in monthly total pay due to reduction in overtime²
D	Southern China	<ul style="list-style-type: none"> Manage production for sewing groups Reduce cycle time for basic operations 	<ul style="list-style-type: none"> 7%-42% improvement in cycle times, depending on operation 20% reduction in reject rates 	<ul style="list-style-type: none"> Not measured 	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> 4.4% average increase in monthly total pay³
E ⁴	Southern China	<ul style="list-style-type: none"> Manage production for sewing groups Improve tracking of material 	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> Increased in the two sewing lines assessed 	<ul style="list-style-type: none"> No change 	<ul style="list-style-type: none"> No change

1 Although productivity improved 53 percent in the first four months in this sewing line, it fell drastically in the fifth month due to more complex orders being produced.

2 Management did increase piece rates by about 10 percent, but the increase did not fully compensate for the decrease in overtime hours. Impactt recommended that the factory continue working to improve its productivity to ensure that workers would be able to earn the same wages in fewer hours.

3 During one of the project months, a new style was introduced that was unfamiliar to workers and productivity declined. Without this change, the average wage increase would have been significantly higher.

4 In its final report, HKPC stated "the commitment from the factory was not strong during the course of the project. The project team [in the factory] was rather passive and created the feeling that there was not [a] genuine need to drive the project in the factory."