

GOLD SEAL GARMENT FACTORY, LTD.

Motivating Labor in a Jordanian Garment Factory¹

TEACHING NOTES

Case Description

This case describes the story of Mr. Anil Sharma, the General Manager of Gold Seal Garment Factory, a medium-sized garment manufacturer located in Jordan's Al-Hassan Industrial Zone. Mr. Sharma recently came back from a meeting with his supervisors at the head office in Dubai, UAE, where he was told that in order to save his factory from scale reduction or even a potential shut-down, he must increase productivity to offset the substantial drop in orders and external pressure on prices that have plagued the Jordanian garment sector in recent months.

Due to the labor-intensive nature of the industry and the high impact of labor productivity on production levels, Mr. Sharma decided to implement an incentive program to motivate workers and improve their performance. High levels of absenteeism and turnover, particularly among Jordanian workers, and the high cost of employing foreign workers, made this task extremely critical and challenging. To assist in developing his proposal for his senior managers at the head office, he spoke with several colleagues to gather ideas for an incentive plan and investigated the incentive programs at nearby factories. Mr. Sharma and his team narrowed their ideas to three potential models for their incentive plan. At the end of the case, he has less than a week to make his decision and prepare his presentation to management in Dubai.

Teaching Purpose and Objectives

The objective of this case is to profile labor issues, including low productivity, absenteeism and high turnover, that affect garment manufacturers in Jordan and analyze potential solutions to these problems. The case outlines critical issues impacting labor productivity and unit costs and provides

students the opportunity to evaluate strategic alternatives for managing labor relations in a complex international setting.

Since these issues and decisions typically fall under the responsibility of factory general managers, this case study is most appropriate for courses in Management, International Business, Managerial Accounting or Operations Management. The case exposes the reader to the complexities of managing and motivating multi-ethnic garment factory labor, shows how these issues are affected by the local cultural and legal environment, and requires that they estimate the short and long-term financial impacts of proposed solutions.

Case Discussion

To facilitate a comprehensive class discussion of the case, the following topics should be addressed:

Developing Competitive Advantage

- The role of the QIZ Agreement in making Jordan an attractive location for garment manufacturing
- The arrival of foreign managers and foreign workforces for Jordanian factory operations
- The potential impact of nearby countries (i.e. Egypt, Morocco) also receiving preferential access agreements from the U.S.
- The power of international buyers to demand price reductions from their suppliers
- The high cost position of Jordan relative to other garment-producing countries around the world and the impact of these high costs as well as quota elimination on Jordan's ability to sustain a competitive advantage over the long-term
- Gold Seal's market position relative to other garment manufacturers operating in Jordan, and the ability of this factory to develop and sustain a competitive advantage in the Jordan export market

Local Market Complexities

- The role of the local culture in influencing work ethic and on-the-job behavior,

particularly as it relates to male-female interactions

- The impact of familial and cultural obligations on absenteeism and turnover rates
- Social perceptions of the garment industry in general
- Labor law and other government regulations that increase the total cost of employing workers and make it difficult to punish undisciplined employees

Absenteeism and Turnover

- The impact of high absenteeism and turnover on machine cost and overall factory profitability
- Methods for reducing absenteeism and turnover through selective recruiting, discipline and incentives
- The trade-offs of cost, feasibility and effectiveness for each incentive scheme

Improving Labor Relations

- Avoiding tensions between the various ethnic groups working at the factory
- Ways to improve the factory's HR policies pertaining to local and foreign labor recruiting, compensation & benefits and discipline
- Interaction between management and labor and the potential impact on employee morale

Evaluating Incentive Strategies

- The financial cost and potential risks of implementing each incentive model
- Likely impact of each model on reducing absenteeism and undesirable behaviors
- Alternative strategies for motivating employees

Questions for Discussion

(1) Why is Gold Seal's Jordan factory underperforming?

(2) Is it possible to operate a profitable factory in Jordan given the local market conditions?

(3) Would an incentive program be effective at motivating labor to increase production?

(4) If so, which incentive model should the factory implement?

(5) Are there other methods the company could use to address the problems of absenteeism and employee turnover?

(6) What impact, if any, can the garment sector have on improving living standards in Jordan and strengthening commercial ties between Jordan, the US and Israel?

Discussion

(1) Why is Gold Seal's Jordan factory underperforming?

Students should mention the high costs of operating in Jordan compared with other garment-producing countries as well as the issues of absenteeism, turnover and stringent labor regulations that are prevalent in the local market. In addition, the reduction of orders and the fact that the factory is operating under capacity should be discussed.

(2) Is it possible to operate a profitable factory in Jordan given the local market conditions?

Students should address the difference in labor costs between various garment producing countries, and the fact that even countries with higher labor costs than Jordan (i.e. United Arab Emirates) have factories that operate profitably. Additionally, students should consider the productivity measures of other factories in Jordan and discuss the reasons why Gold Seal may be underperforming relative to them to determine whether the problems are unique to Gold Seal or are more indicative of widespread trends in Jordan. Issues of scale and types of garments should be considered in evaluating the factory's ability to achieve profitability.

(3) Would an incentive program be effective at motivating labor to increase production?

Students should discuss the different motivators for Jordanian vs. foreign employees and for males vs. females. Students should indicate which group(s) would be most likely to change their behavior in response to an incentive program, and based on this assessment, determine the likely impact of an incentive program on improving factory productivity.

(4) If so, which incentive model should the factory implement?

Students should evaluate each model based on its financial cost, risk factors, and its likely impact on improving factory productivity. Based on this analysis, students should determine the most desirable model as the one producing the highest benefit at the lowest cost.

(5) Are there other methods the company could use to address the problems of absenteeism and employee turnover?

Students should discuss alternative strategies based on their assessment of the motivators for each employee group. Ideas could include altering recruiting policies (i.e. hiring only foreign employees and attempting to lower accommodation and food costs through supplier negotiations), lobbying the government to influence changes to labor regulations and organizing company events and group trips to enhance the team spirit among factory workers and boost employee morale.

(6) What impact, if any, can the garment sector have on improving living standards in Jordan and strengthening commercial ties between Jordan, the US and Israel?

Students should discuss the fact that the majority of garment exporters operating in Jordan are managed and staffed by foreign nationals. This does not fare well for the long-term sustainability of

Jordan's garment sector, as expatriate factory owners have little incentive to maintain operations in Jordan if business conditions deteriorate further and if international trade barriers continue to diminish. However, while Jordanian laborers may see minimal direct benefit in the short-term as factories continue to employ large numbers of foreign workers, over the long-term, the garment industry if it can sustain itself could have significant impact on the national economy and local communities.

Regarding the preferential access agreements, industry experts expect the QIZ agreement will have diminishing influence on the growth and development of the garment sector in Jordan, and the FTA will take over as the primary arrangement for manufacturing and exporting to the US. If and when this occurs, this agreement could play a large role in further strengthening economic ties between Jordan and the US, but it is unlikely that commercial ties between Jordan and Israel will develop further under this program. However, Jordan's King Abdullah has recently encouraged more Israeli investment into Jordan.

Subsequent Events

Since the writing of the case, the following events have occurred:

- On April 19, 2005, several factory workers launched a labor strike that halted production for two full working days. As a result, Mr. Sharma was forced to postpone his meeting at the head office until the following week. The strike was believed to have been triggered by outrage over an incident where a line manager physically assaulted a worker to punish disruptive behavior. The line manager was suspended from the factory for two weeks and the production resumed as normal.
- Mr. Sharma decided to move forward with the “monthly bonus” model for his incentive plan (the second option), as he believed that absenteeism and lack of discipline were the primary causes of low productivity at Gold

Seal. He presented his proposal to management, highlighting details about absenteeism rates and the impact on machine cost, and they unanimously supported his recommendation. The incentive plan was launched on May 22, 2005.

- Three months following the implementation of the incentive plan, absenteeism was reduced to an average of 9 absent employees per day and there was a marked reduction in undesirable behavior during work hours. Still, most of the incentive award recipients were not Jordanian and Mr. Sharma was contemplating revising the incentive model to include multiple levels of recognition so that more employees could receive some form of incentive award. He believed that a tiered model would prevent animosity and tension among employees and would be more sustainable over the long-term.
- There were no further incidents of physical assault or other forms of inappropriate disciplinary tactics, and Mr. Sharma believed that employee morale improved substantially. While the company still had not reached profitability as of August 31, 2005, the financial performance of the factory was improving and Mr. Sharma expected the factory to become profitable by yearend.

¹ This case was written by Cheryl Wilson of Columbia University under the supervision of Professor Richard Linowes of the Kogod School of Business at American University in Washington, D.C. It was produced in conjunction with the Emerging Markets Development Advisors Program (EMDAP) under the auspices of the U.S. Agency for International Development (USAID) and administered by the Institute of International Education (IIE).