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Ethiopia Productivity Report: Summary of the field survey on the apparel industry

Development Policy Forum

**Mulu Gebreeyesus (Ph.D)
FDRE Policy Studies Institute**

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Outline

- A. Introduction
- B. Basic characteristics of firms in the sample
- C. Labor mindset and quality
- D. Management practices
- E. Policy and external conditions

A. Introduction

- Above we have shown that
 - Ethiopia's economy-wide labor productivity is among the lowest in the world.
 - The labor productivity in the manufacturing sector is also much lower than peer countries.
- An in-depth firm survey was undertaken to identify the causes of low level of productivity with a focus on the emerging **apparel industry** in Ethiopia
- The following three major factors that affect labor productivity in light manufacturing have been explored
 - **Factor 1:** labor mindset and quality
 - **Factor 2:** management strategy/practice
 - **Factor 3:** public policy and external factors

A. Introduction

- Sample - 18 apparel enterprises were selected and interviewed;
 - Hawassa Industrial Park (7)
 - BoleLemi Industrial park (7)
 - firms located around Mekelle (4)
- The **survey instrument** comprises both qualitative and quantitative interview questions related to **labor mindset, management and external conditions**
- The survey also collected information on **level of efficiency and productivity** using some standard parameters
 - In most cases the top management as the main respondents
 - A focus group discussion (FGD) of selected workers was carried out in an effort to triangulate the evidence
- But for the quantitative survey information was recovered from **15 out 18 firms**

B. Some basic characteristics of the sample firms

Number of workers by type of work (production versus non-production), gender and location

Firms	Number of firms (sample)	Total number of Workers			Average number of total workers	Share of production workers by gender	
		Production	Office	Total		Male	Female
Mekelle	2	2,436	192	2,628	1314	6%	94%
Bole Lemi	7	13,903	517	14,420	2060	8%	92%
Hawassa	6	6,852	311	7,163	1194	7%	93%
Total	15	23,191	1020	24,211	1614	7%	93%

The majority workers (75%) are **sewing machine operators**

B. Basic character cont.

- Ethiopia's manufacturing and particularly textile and apparel sector **labor productivity is very low** in comparison to other countries
 - Several apparel firms suggest they only achieved **30-40% level of efficiency**

Average labor productivity of selected products and countries

Product type	Reported line Efficiency % (Ethiopia)	Labor productivity [Number of Pieces per worker/per day] Ethiopia and comparator countries			
		Ethiopia	Bangladesh	China	Vietnam
T-shirt	58	26-55	50		
Shirt	51	3-9	10		6-15
Polo Shirt	43	7-18	13-27	18-35	8-14
Fleece Jacket	34	4			
Woven Jacket	29	3			

C. Labor mindset and quality

- Labor mindset and quality: framework
 - i. Workers education, trainability and skills
 - ii. Mindset of workers
 - iii. Incentives and working conditions

i. Workers education, trainability and skills

- ❑ Education is not very important for sewing (whereby >75% are engaged in) except **some numeric and reading skills**
 - The focus is on personal integrity and limited physical test
- ❑ But in practice majority (>60%) workers are with high school education

Share of sewing workers by education level and age category

Education Level	Share of sewing workers by education and age group
Grade 8 or below	41%
Grade 9-12	50%
TVET graduates	9%
Age Group	
18-25 years old	89%
25-35 years old	10%
Above 35 years old	1%

i. Workers education cont.

- ❑ The training time for operators last 1-3 months depending on the firm
- ❑ The training comprises both **technical and soft skills** such as work attitude and discipline.
 - Almost all firms agree that workers are **quick learners**
 - But all firms also agree that workers **do not pay enough attention** for details, lack focus and consistency
- ❑ According to the managers, what is severely lacking and more time taking is developing **soft skills** (industrial work discipline and motivation)

ii. Mindset of workers

- ❑ As per the managers, the most serious problem affecting labor productivity is **poor work culture and motivation**
- ❑ The main manifestations of the poor work culture and attitude of workers are;
 - High attrition rate (average tenure 10 months)
 - High absenteeism rate
 - No sense of urgency for work
 - Low motivation to work overtime

Location	Rate of Attrition		Rate of Absenteeism
	Volunteer attrition	Fired	
Mekelle	27%	5%	2%
Hawassa	35%	3%	6%
Bole Lemi	84%	2%	9%

i. Mindset of workers cont.

Main causes identified for the poor mindset:-

a) High attrition rate

- low wage and worker benefits
- Workers do consider the garment work as only transitory job
- poor industrial work discipline - many workers find the job as very demanding and with high work pressure
- Workers think industrial work is unpleasant and hazardous to their health

b) High absenteeism rate

- lack of work discipline and motivation

c) Poor understanding of time and no sense of urgency

- Workers find it difficult to work continuously for eight hours

d) Poor motivation for overtime work among workers

- Low compensation, Security concerns for working late, evening classes ...

iii. Incentives and working conditions

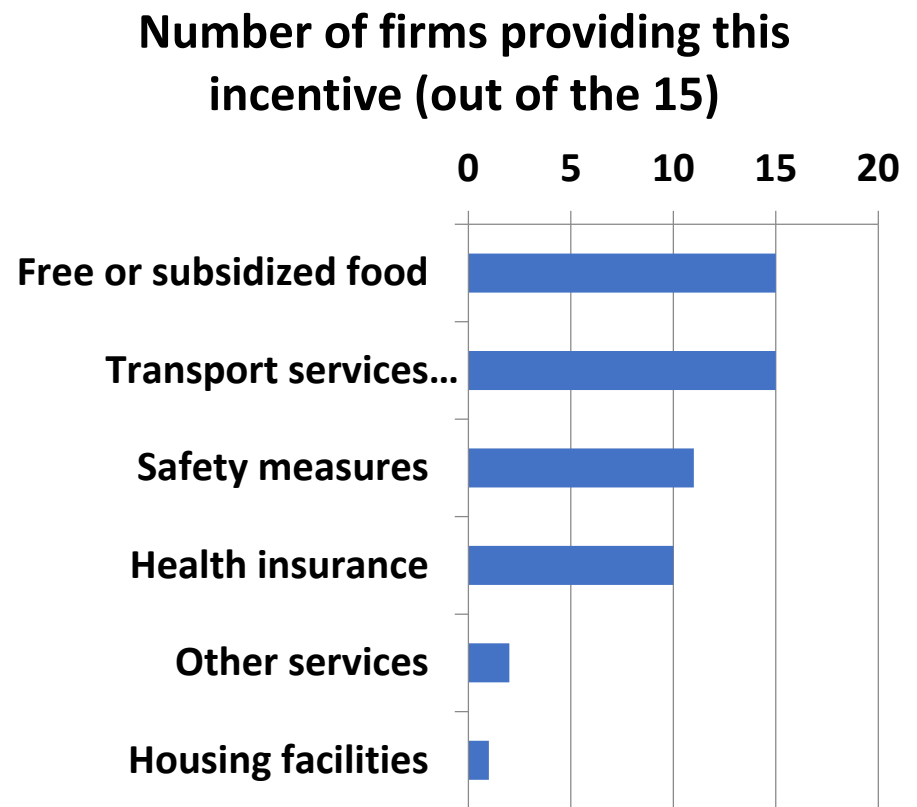
Average salary and non-wage benefits by work category

Task category	Initial Salary			Bonus and allowances			Wage + benefits
	Average	Min	Max	Average	Min	Max	Average
Cutting	886	650	1200	463	100	900	1349
Sewing	863	650	1200	509	100	1366	1372
Finishing	880	650	1400	458	100	900	1338
Quality control	978	750	2500	431	100	900	1409

- Average monthly sewing workers is estimated
 - salary - **USD 30**
 - non-wage benefits - **USD 20**

iii. Incentives and working cont.

- Companies claim to provide various incentive schemes to workers
- The bonuses are intended to motivate workers
- Housing service: least provided facility
 - unavailability of house inside and/or near the industrial parks entails transport cost and delay to arrive on time
 - Affordability of house rent: workers cannot afford the price of house rent → House rent takes significant share of the worker's monthly income



iii. Incentives and working conditions: Workers Focus

Group Discussion

- firms, workers complained about adequate availability of
 - basic facilities such as ventilator and restrooms
 - safety equipment
- Health issues
 - Kidney issues due to restriction to get to toilets
 - Respiratory infection caused by dust particles and congestion in buses
 - High heat level in production area
 - Typhoid caused by poor quality of food
 - high bureaucracy to get permission for sickness, annual leave
- Employer-employee dialogue
 - Immediate leaders or supervisors did not treat them fairly and abuse their rights
 - Expats mistreat them if a problem occurs during production
 - Union not allowed

D. Management practices

- ❑ Differences in management practices are important factors in explaining variations in productivity across firms and countries
 - How companies guide their workers makes substantial difference in labor productivity
- ❑ Based on global experiences (mainly Asia), we can identify several management approaches to the question of labor mindset and productivity, including:
 - ❑ Top-down order and punishment (highly hierarchical)
 - ❑ Creation of corporate family oneness (traditional Japanese and some Asian countries)
 - ❑ Mindset reform through instruction and persuasion
 - ❑ Mindset reform through rewards and incentives
 - ❑ Use of local middle managers as interface b/n foreign management and workers
 - ❑ The first two are diametrically opposed and mutually incompatible
 - ❑ Whereas, the third to fifth approaches are not mutually exclusive and more “partial” in the sense that they can be implemented under most corporate¹⁵ cultures and structures

D. Management practices

- All the above approaches are practiced in the Ethiopian garment although with different extent and result
 - The **hierarchical method** is so often practiced but some times leading to harassment and violation of workers rights
 - The **oneness (family)** approach is exercised in a limited sense – but may take long time to change behavior given the culture difference
 - **Instructions and persuasion** – mindset reform through persuasion never easy and benefits not immediate
 - **Rewards and incentives** – very common but the rewards does not seem sufficient to motivate workers
 - Use of local middle management – widely practiced and firms argue as effective way

D. Management cont.

- ❑ Composition of managers
 - Top managers are mostly expats (Indian, Sri Lankan, Bangladeshi, Chinese)
 - Middle managers are mix of expats and locals (but in some of the companies they are all local)
 - Almost all lower level managers (line managers, team leaders, supervisors) are locals
- ❑ Importance of Ethiopian middle managers and line leaders
 - The role of middle managers and line leaders is crucial in mindset change and productivity improvement of all workers
 - All companies select and train middle managers and line leaders from operators
 - Best workers quickly climb the ladder and take up supervisory positions even after only half to one year of factory operation
 - how foreigners train (and open opportunities) for these middle leaders makes a big difference in how quickly and effectively the factory will secure capable middle leaders

D. Management cont.

Management related Challenges

- Local managers (attitude)
 - slow to learn and adopt themselves with new environment
 - are not as pushy as foreigners for achieving targets
 - Absence of sense of urgency: They consider the existing inefficiency as normal
 - Are not serious in goal setting
 - are not buyer driven (not aware of quality, price, cost and delivery time)
 - they have the attitude that managers should spend their time sitting in their office. They tend not go down to the work stations to monitor and support workers
- Foreign managers
 - Language barrier
 - They tend to give up in the workers attitude
 - foreign managers have adaptability problem to local conditions and customs

E. Policy and external conditions

- All interviewed companies mentioned the decade old familiar common problems related to
 - customs related problems
 - Logistics related problems
 - Slow and high-cost logistics (one company mentioned that about 16% of turnover is spent on logistics cost)
 - Lead time is very long
 - Mismatch in the holidays in Ethiopia and Djibouti
 - Supply chain inefficiency: general lack of materials, supplies, spare parts, etc
 - Inefficient banking service including commission and bank charges Lack of foreign currency (major issue)
 - frequent power interruptions which damage their equipment and operation
- **Hawassa IP** provides relatively better services (e.g., customs and banking services as well as power supply)

E. Policy and external conditions

- ❑ Labor law: Generally restrictive in Ethiopia
 - Minimum wage: Most companies prefer to have minimum wage
 - Overtime work: Ethiopia has restrictive overtime work (20 hours per month).
 - ❑ Overtime work in other countries goes up to 60 hours per month (consistent with what ILO postulates)
 - Leave: Annual leave cannot be converted to cash payment
- ❑ Income tax
 - Workers lack awareness about income tax and pension payments
 - Workers wage (including bonuses) is too small to tax

Thank you!