



## Case Study 7: Merlin Creations

### 1. Background

This case study has been developed on the basis of the SUSBIZ India programme running from 2007 to 2009 ([www.susbizindia.org](http://www.susbizindia.org)). The case studies were finalised in May 2009.

The garment manufacturing company Merlin Creations was established by two young entrepreneurs in Noida - a city adjacent to Delhi - in 1998. The business was set up as a partnership firm with 15 workers and the first year turnover was around US\$ 78,000. The company has grown exponentially and has been expanding every year. During 2006-2007 Merlin Creations invested a large amount in building a new, bigger and more modern manufacturing unit. In the year 2007 and 2008 the turnover of the company was US\$ 6.3 million and US\$ 4.3 million respectively. Today the company is employing more than 250 regular workers and additional 300-500 workers on contract during peak production season.

Merlin Creations is specialised in designer ladies wear and kids wear and caters to a large number of customers in various countries. The company is 100% export oriented and its products are supplied to customers mainly in US and Europe. Buying houses in France and Spain are other major customers for the company, but the products are also supplied to various customers in UK, Denmark, Belgium and Japan.

#### Production processes

Merlin Creations generally buys fabric from vendors and gets the fabric dyed or printed externally according to customer specification and design requirements.

In most cases Merlin Creations makes its own designs and then sends the designs to the customers for approval. If approved, the company produces the garment under the customers' brand name. Merlin Creations also manufactures garments based on customer design or samples.

Specialized work is outsourced to external contractors, e.g. embroidery and bead work. Sometimes, however, this work is carried out in-house by specialised workers hired through contractors.

The company has a skilled human resource base and independent managers are running departments such as accounts, quality control, maintenance, merchandising and marketing. Every year on an average 3-4 new customers are added to the business.

### 2. Challenges Identified During Needs Assessments

Up-till engaging in the SUSBIZ project, issues related to labour standards, workers welfare, health & safety, overtime, contract worker management and supply chain management were only addressed on an ad hoc basis. Management had not focused on these issues since pressure in the form of CSR demands from customers only related to non-usage of

child labour. Moreover, the management was not aware of the possible business benefits that could be derived from improved CSR standards.

The SUSBIZ India project was introduced to Merlin Creations at a time when the company was under a transition period to shift to the new manufacturing site. The company management was open to the idea of enhancing its business prospects through CSR initiatives and showed an appetite for acting proactively in implementing a structured CSR agenda while establishing the new manufacturing unit.

At the old production unit problems related to occupational health and safety existed. The temperature was too hot during summer, safety management and equipment was poor and space was inadequate to allow for comfortable and efficient workflow. Spot removal was identified as a hazardous activity due to use of toxic chemicals and lack of proper ventilation.

Sanitary measures were also a problem, as toilets were too few and unhygienic; eating areas were insufficient for the workers to consume their meals.

High attrition rates were also one of the concerns faced by the company. Merlin was investing in building up competences through on-the-job training, as management wanted a steady workforce and a high return of the contract workers. But a non uniform work schedule throughout the year has caused the company to lay off many workers during the lean seasons and only around 50 % of the contract workers returned in the peak season. Wage differences was part of the reason for this, as many of the contract workers were quick to decide to work elsewhere even if small improvements in rates were offered.

Human resource management was not systematized before engaging in SUSBIZ and working hours were not tracked. Therefore, though it was suspected that excessive overtime existed, it could not be quantified or validated.

Regular workers did not have a formal written employment letter and all contractors did not have the required licenses for operating as contractors. Merlin Creations also did not have a license to hire contractors. Only some of the regular workers were covered by Provident Fund (PF) and Employee State Insurance (ESI). Contract workers were not covered at all. Salary paid to contract workers went through the contractors and there was no mechanism to ensure that the contractors paid at least the minimum wage to their workers.

Environmental issues at the new production unit of Merlin Creations did not pose major concerns. However, a recently established pilot dying plant needed attention. As did the emissions from the diesel power generator used during power cuts and the fuel storage area which was not up to date.

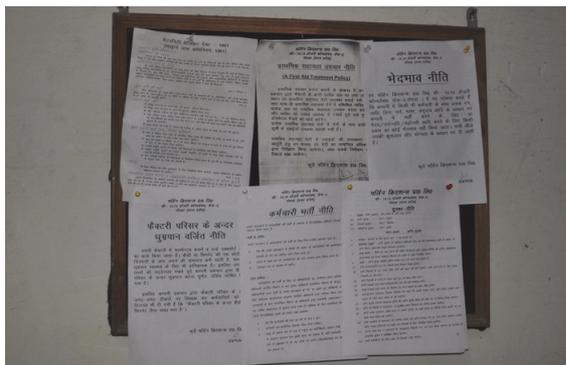
### **3. Action plan implementation**

#### **3.1 Labour standards**

Considering the large workforce in Merlin Creations, it was suggested to develop a Human Resource management system in the company to streamline labour practices and other associated issues. Thus, the company appointed a human resource manager and introduced a human resource management system. This has been part of a general change of management structure, providing a middle management in the company and thereby securing a more efficient division of labour. This has proved to be an important prerequisite for the allocation of human

resources to manage the implementation of the SUSBIZ action plan. A human resource policy was also implemented, relating to issues of recruitment, welfare and anti-sexual harassment. Along with the policy, Merlin Creations established a procedure for documenting all human resource developments in the unit. All employees have been provided appointment letters with terms and conditions of employment mentioned in it, and the company as well as its labour contractors now has proper licences according to local legal requirements.

Merlin Creations has also developed a Standing Order document under the Industrial Employment Standing Order Act validated by the local labour department. This document outlines the disciplinary measures that the company can take towards its employees.



*During the SUSBIZ project, policies related to human resource management and labour standards have been developed. Here, policies on issues of recruitment, first aid, non-discrimination, no smoking and safety are posted in the factory in the local language.*

The company was also recommended to establish a system for providing minimum social security to workers according to local requirements. All regular employees of Merlin are now covered under the Provident Fund and Employee State Insurance acts. The company is working toward ensuring that the labour contractors also provide similar benefits to their workers. However, temporary workers are not covered, neither are all contract workers. Different reasons

contribute to difficulties regarding this matter. Merlin has difficulties in covering temporary workers since costs are too high. If all workers were to be covered costs would go up tremendously. Also, since many temporary workers do not return, the management burden of enrolling them for only a very short amount of time seems very large considering the short period of employment. Moreover, some workers are also reluctant to pay their share of ESI and PF contribution.

Though there are difficulties regarding these issues for some groups of workers, the total number of workers covered by ESI and PF has gone up. Of a total workforce of approximately 600 people (including contract workers and temporary workers) a share of 300 workers are now covered under ESI and PF. Out of the contract workers approximately 30% are covered and Merlin Creations is committed to ensure coverage for all contract workers.

Installation of an electronic time keeping machine was another recommendation made to the company in order to record the working hours of all workers. Entry and exit of all workers is now being recorded and payments are made accordingly. Tracking of working hours has also enabled the company in measuring the amount of overtime worked. Salary payments by contractors to contract workers are now being monitored by the human resource manager, making sure that correct salaries are being paid.

Merlin Creations has also instituted a communication mechanism in the factory and ensured participation of workers by forming various bi-partite committees among workers and management representatives. Such committees are meeting at regular intervals and providing valuable inputs to the company. Suggestions boxes were also installed in the factory premises to receive opinions from

workers as suggested by the SUSBIZ team. However, management also experiences that since the workers are not accustomed to such a democratic process, they are reluctant to provide inputs; management feels it will take some time for the workforce to learn how to engage fully and in a constructive way.

### 3.2 Occupational Health and Safety

During the transition period of Merlin Creations to the new manufacturing site, proper health and safety measures as well as emergency procedures were implemented. The entire premise is covered with fire hydrants and adequate number of fire extinguishers have been installed. The company has also developed an emergency preparedness plan and an emergency exit plan has been displayed in strategic locations in each floor. An External agency has been appointed by the company to conduct periodic training on fire safety and for maintenance of fire fighting equipment. First aid boxes have also been installed and its content is systematically kept up to date and personnel have been trained in first aid techniques.



*Sufficiently equipped first aid boxes have been provided and lists of first aid trained personnel are posted next to the boxes.*

In the new unit, a spot removal cabin has also been constructed with a local exhaust ventilation system so as to protect workers from exposure to harmful chemical substances.



*Emergency escape routes have been clearly marked for quick, safe and efficient evacuation in case of emergency.*

The production layout in the new unit has tremendously improved compared to the earlier location. There were improvements in the ventilation system, illumination and space utilisation per employee and general physical factory layout. Water based industrial coolers have been installed in the factory to control the temperature during the summer season. Drinking water facilities and adequate number of toilets/washrooms have been constructed. A new eating area has also been developed for use by workers.



*Emergency exits have been marked, fire extinguishers installed and area below fire extinguishers have been marked for keeping the area clear.*

Merlin Creations has also made an arrangement with a local hospital to take care of workers in case any injury happens.



*Slide used for easy transportation of heavy bags with fabric. One end of the slide is at street level where the bags are unloaded when they arrive at the factory, the other is in the cutting department where fabric is processed. At the old unit workers used to carry the heavy bags on their backs.*

***“Our employees like it better now. Now it’s a standard norm that if anybody gets hurt we have a van here every day so that person will be taken to the hospital.”***

*Samir Kohli  
Director and part-owner  
Merlin Creations*

### **3.3 Environment**

Merlin Creations has installed energy efficient tube light in the work area which saves around 40% of energy the required for illumination. The investment was rather large as normal tubes cost Rs. 200 per piece whereas energy saving tubes cost Rs. 1300 per piece. However, the workshop on cleaner production made the management aware of the long term savings which could be generated by this investment.



*Energy friendly tube lights have been installed, saving 40% electricity. Overall illumination has improved compared to the old production unit. Also, space is now sufficient for a convenient working environment.*

Merlin Creations has always segregated waste, but during SUSBIZ this has improved which means that more waste is sold for recycling and less is being discarded off.

## **4. Business Improvements**

All the measures related to labour management are providing a sense of security and belongingness among the workers towards the company. Retention of regular employees in the company has improved compared to previous years. Attrition rates

have gone down by an estimated 15%. Apart from improved labour standards this can also be ascribed to other improvements that make Merlin Creations a better workplace, e.g. a cooler environment, clean drinking water and a generally improved atmosphere. The drop in attrition rates has saved resources being used on training of new personnel and a steadier workforce has improved efficiency and quality. This tendency has been part of the foundation for an estimated 15% decrease in overtime work, which holds a financial improvement as well as a labour standard improvement.

***“Now she (the Danish costumer) wants to work with us as a partner and introduce us to all her Danish customers, so it will give a more mutual and equal level of relationship. She wants to consolidate her suppliers and have fewer suppliers, so in that process she’s focusing more on us”***

*Amita Naithani  
Director and part-owner*

Though exact quantitative data may not be available to monitor productivity or quality improvements as the designs of products vary from product to product, management estimates that rejection/rework rate has come down by approximately 15%. On time delivery of assignments has never been a major problem for the company, however, due to increased efficiency, on time delivery has also improved.

Financial savings occurring from environmental initiatives have not yet been quantified, but savings from energy efficient light tubes, increased recycling and increased sale of waste for reuse, have definitely had a positive impact on the financial bottom line of the company.

***“After the energy audit I realized that though the initial implementation costs from energy saving tube lights would be high, in the long run we would save money on it. Now we are also planning to buy a new energy saving boiler”***

*Samir Kohli  
Director and part-owner  
Merlin Creations*

The company has also tremendously leveraged its management abilities. By delegating various responsibilities to the middle management, the top management can now devote more time on strategic business planning and marketing. As a result, more business can now be realized.

#### Business improvements

- Attrition rates decreased by an estimated 15%
- Increased productivity resulting from improved physical conditions in the factory
- Better quality of products resulting from improved production and managing systems
- Rejection/rework rates decreased by approximately 15%
- 40% of illumination expenses saved because of energy saving light tubes

## 5. Future Activities and Challenges

Merlin Creations has shown a great deal of commitment and efficiency in implementing the action plan. Further improvements needed relate to payment of overtime premium and a general reduction in the overtime hours worked. Currently the company is not paying premium rate for overtime work and the overtime hours generally exceed the limit set by the Factories Act.

However, this is a very difficult issue to tackle. With regards to overtime premium, management estimates that only 10 out of 2000 companies in the Noida area pay premium and these companies are very big companies who can afford it. As a general rule smaller companies do not pay premium for overtime.

#### Merlin Creations Improvements at a glance

- Human resource management system with regards to recruitment, welfare and anti-sexual harassment established
- Appointment letters provided to all employees
- All regular employees of Merlin provided with Provident Fund (PF) and Employee State Insurance (ESI). 50% of total workers covered by ESI and PF and 30% of contract workers covered.
- Electronic timekeeping installed ensuring correct tracking of working hours and overtime
- Contractors encouraged to pay contract workers their entitled salary.
- Licenses for hiring contract workers obtained by Merlin and its contractors.
- Adequate number of toilets / washrooms constructed.
- Fire extinguishers and hydrants installed
- First aid boxes installed and training has been provided
- Emergency preparedness plan and emergency exit plan developed and displayed
- Waste collection and segregation system established. Solid waste recycled by external vendors

Furthermore, with a tendency for western companies to move outsourcing in the textile industry from India to Bangladesh because of cheaper prices, management is very reluctant to carry through any activities which will increase prices. Thus, a great deal of the responsibility for low wages lays with western buyers i.e. the price they are willing to pay. However, if a buyer lives up to this responsibility by paying higher prices and demands payment of overtime, it will be practically impossible for the supplying company to carry this through. Since there are many buyers – and many orders being produced simultaneously - the company cannot single out wages paid for production of single orders. So the solution requires buyers to jointly demand overtime premium being paid and at the same time increasing the price they are willing to pay. This, however, is not realistic as things stand today. Thus, though Merlin Creations supports the idea of paying overtime premium, complex circumstances makes it a difficult issue to realise.

Though overtime hours worked at Merlin Creations has decreased, overtime is difficult

to avoid, since workers reluctance towards cutting down on overtime.

***“If we were to abide 100% by overtime rules the workers would leave us and work for another company”***

*Samir Kohli  
Director and part-owner  
Merlin Creations*

The fuel storage area still needs renovation and the in-house diesel energy generator needs attention related to stack emission norms.

Also the issue of supply chain management holds scope for improvement as not much is being done. Merlin Creations could improve on CSR by researching into conditions in its supply chain and addressing issues of relevance.

***“We will definitely continue to work with CSR. We will implement the rest of the action plan, and at least we will try to maintain the level of what we have done so far”***

*Samir Kohli  
Director and part-owner  
Merlin Creations*

The company is planning to provide a day care centre for the children of women workers as the number of women workers are growing in the workforce. This is a legal requirement in any company employing over 30 women in some states and over 20 women in some states in India.

These issues are the next priority for Merlin Creations. The journey is not ending; the company is determined to make a positive social and environmental change in its core business operations, and continue to do so in the future.

**Text & Photo**

Claus Aabling (Danish Federation of Small and Medium-Sized Enterprises)

Line Bech (Danish Federation of Small and Medium-Sized Enterprises)

Pranjal Goswami (SUSBIZ India)

Henning Høy Nygaard (Danish Federation of Small and Medium-Sized Enterprises)

Raghu RV (Versatelist Consulting India, Pvt. Ltd.)