

# Building A Business Case for Fair Labor Practices: Spinning Mills In Tamil Nadu

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The Global Fund to End Modern Slavery (GFEMS) engages businesses in key sectors and geographies to create sustainable and ethical business models and eliminate forced labor from supply chains. To build the business case for fair labor conditions in the apparel sector, GFEMS commissioned Wazir Services to investigate conditions of forced labor in spinning mills in the Indian state of Tamil Nadu. The results of this research, investigation into existing and ongoing efforts for improvement within mills, and analysis of the financial impact of a concrete set of improvements in labor conditions are shaping the Fund's intervention strategies in India's apparel sector.

# Background:

## Tamil Nadu's Spinning Industry

Tamil Nadu is India's biggest textile hub, known particularly for its yarn manufacturing capabilities. The southern state generates more employment in the spinning industry than any other state in India. Mill workers in Tamil Nadu, however, are highly vulnerable to forced labor conditions.

### LABOR CHALLENGES

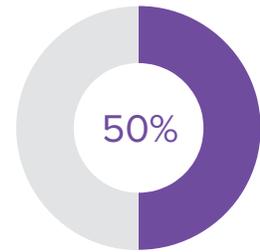
Workers in Tamil Nadu's spinning industry face challenges including but not limited to: sexual harassment, high workload, lack of standard welfare or human resource policies, harsh working conditions, and non-payment of wages due to an undefined wage structure and loopholes in legislation. Within the last decade, the state has experienced an influx of vulnerable migrant workers from other states within India, reaching levels as high as 50% of the total workforce. Despite high levels of migration, however, migrant workers increasingly look for work in the service industry, or other less strenuous jobs, where they feel they are more relaxed and compensated better. As a result, mills are experiencing a labor shortage.

To offset this labor shortage, and in contrast to other states in India, Tamil Nadu also exercises longer working hours, usually 12 hour shifts. This is the primary reason for high labor attrition and absenteeism in mills. The annual average attrition levels in the industry are as high as 20% (the worst within the value chain, i.e. weaving, processing, garmenting).

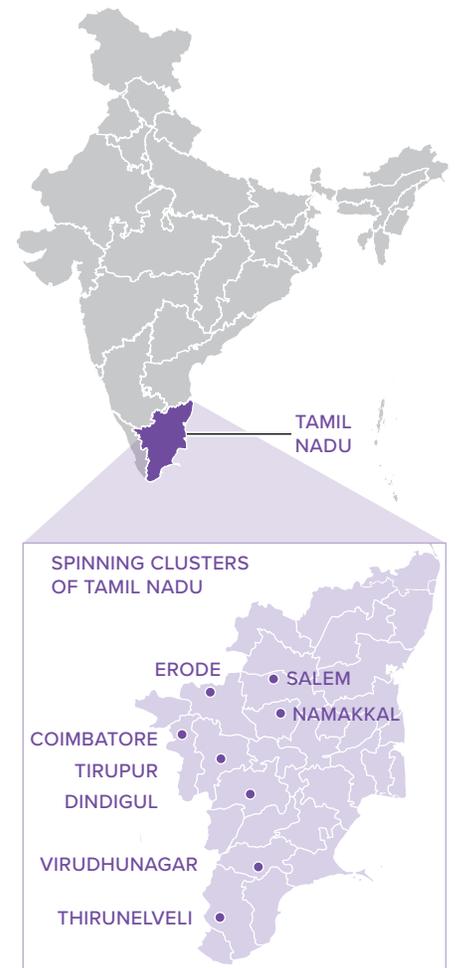
A growth in women's participation in the workforce has been observed over the last decade. At 60%, women have a higher share of employment in the sector, but often leave for marriage and family after only a few years.

### PRODUCTION CHALLENGES

As a result of the labor shortages, mill workers experience increased pressure to produce the same amount of yarn with a smaller labor force. This pressure adversely affects the quality of the product and/or overall productivity, which in turn negatively affects sales and further exacerbates financial strain on mills. The average utilization level of a spinning mill in Tamil Nadu was reported at 79%, over 15% lower than the utilization level of the average Indian mill at 95%.



Percentage of the total workforce within India comprised of vulnerable migrant workers.



## PARAMETERS DEFINING THE PERFORMANCE OF A MILL

The performance of a mill is defined by various parameters which include both the operational and managerial aspects of production. These parameters are dependent on multiple variables which includes type of product being produced, scale of production, technology levels, manpower etc. The chart below illustrates how fair labor practices in mills can positively impact business.



# What We Learned

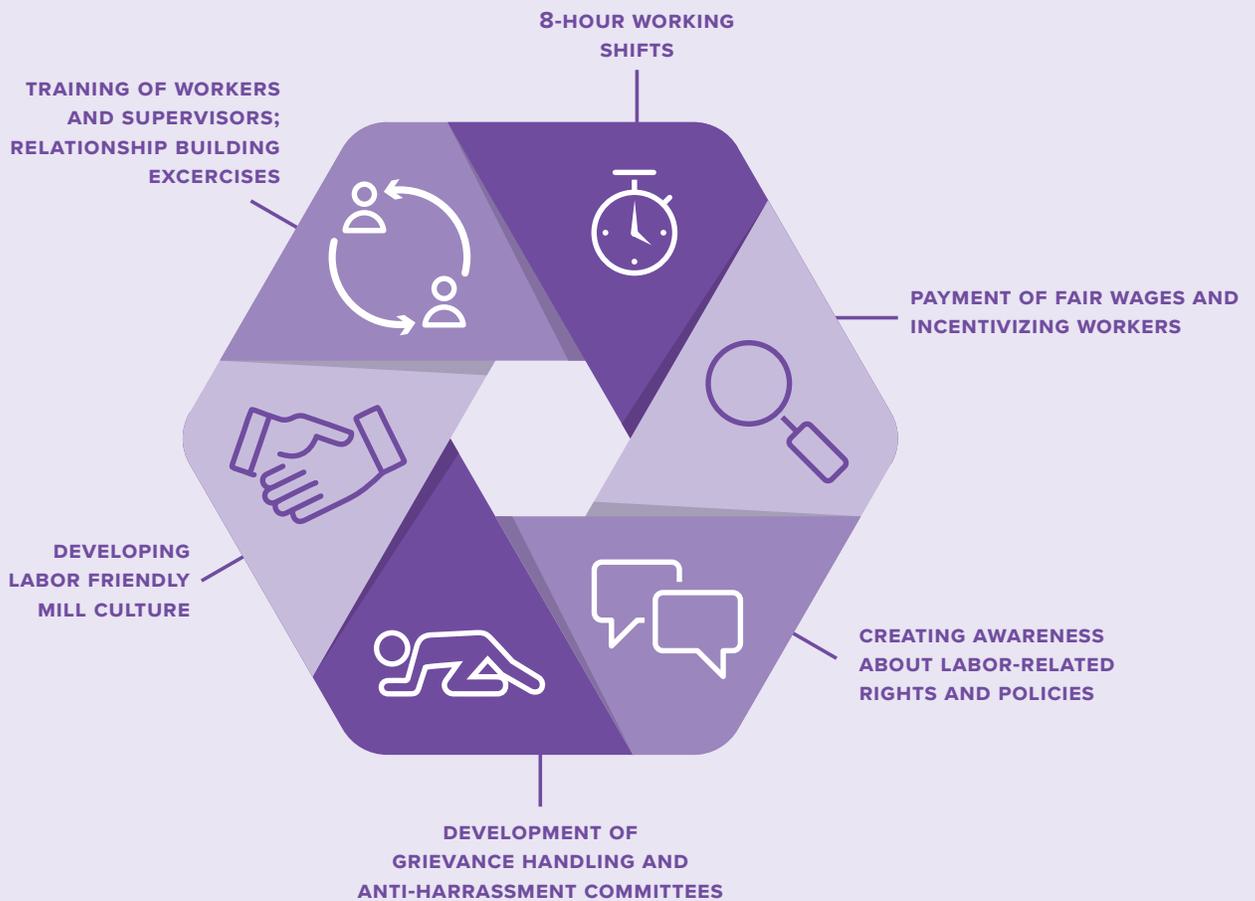
Wazir's research suggested there is a business case demonstrating long-term profitability of fair labor practices that could incentivize mill owners and managers to improve conditions. Leveraging the analysis, Wazir proposed and assessed potential win-win models for spinning mills' managers and workers.

## EXISTING INITIATIVES

Due to existing NGO initiatives raising awareness around labor rights, owners and managers at medium and large mills are open to labor conditions improvements. Changing their operational and managerial practices with regards to labor conditions can make them more compliant, more attractive to brands, and more profitable.

Wazir identified 6 key initiatives currently being implemented in a number of mills across Tamil Nadu as drivers of reduced prevalence of forced labor:

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In mills that implemented labor conditions improvement initiatives, Wazir identified two main drivers of increased performance and profitability:

**1. Low Attrition & Absenteeism.** Low attrition and absenteeism result in higher utilization, further resulting in higher production and sales.

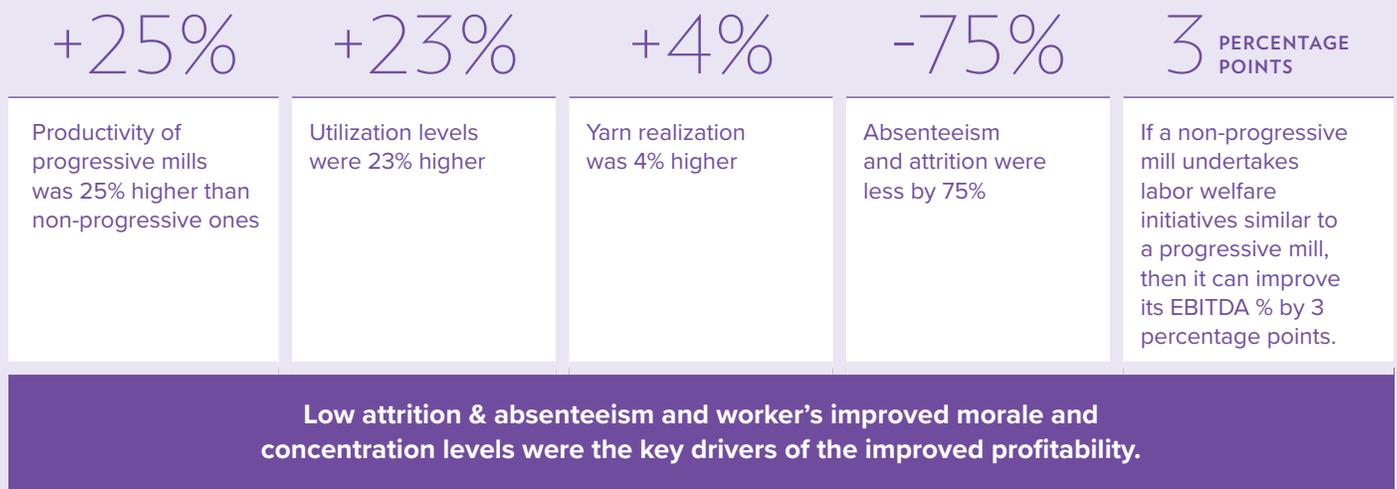
**2. Workers' Morale & Concentration Levels.** Healthy and satisfied workers perform better, are more productive, and produce higher quality products. Fixed working hours, a safe working environment, and fair wages can ensure that workers' morale and performance level is high.

In short, labor condition improvement initiatives both reduced prevalence of forced labor conditions for workers and increased performance and profitability of the mill.

### QUANTIFYING IMPACT

Wazir's research found that good labor practices had considerable positive impact on operational performance parameters such as productivity, utilization, quality, and yarn realization. This improvement in operations not only drives higher production and sales, but also reduces the manufacturing costs, in turn leading to higher margins.

The impact of good labor practices were quantified by converting the technical data obtained from 9 mills into a common base. On analyzing the difference between progressive and non-progressive mills, it was found that:



# Conclusion

GFEMS is enthusiastic that this research is a first step towards building a comprehensive business case for improvements in labor conditions in spinning mills.

Achievement of a comprehensive business case requires and can be used to continued engagement with spinning mills, industry associations, and the government about good labor practices and potential win-win solutions. By identifying the structure of labor trends and the key drivers of forced labor within mills, as well as better business practices showing positive results, this research has paved the way for future GFEMS interventions in this subsector. GFEMS will use the insights from this research to build partnerships and interventions that will result in sustainable prevalence reduction of forced labor in this subsector.

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## METHODOLOGY

During the first phase of the research, for the purposes of background and contextual data, Wazir met with 19 stakeholders including spinning mills, associations, NGOs, and labour related organizations as well as more than 70 mills

(both with improved labor initiatives and without) obtaining approval to access and analyze data from nine. Seven of these mills were identified to be progressive and two of which were identified as nonprogressive (showing indicators of forced labor).

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