



Uplifting Sri Lankan Apparel Industry Through Innovation Management to Face the Challenges in the Post MFA Era

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Abstract

Being the single largest employer in the manufacturing sector Sri Lanka's apparel industry has grown to be nation's one of the leading contributors to the export revenue. However, in 2005 Multi-fiber arrangement (MFA); a quota arrangement made by the importing countries had eliminated. This brought critical challenges for Sri Lankan apparel manufacturing sector. Innovation is a tool that enables companies to achieve unique strategic goals. Intensified competition, changing consumer needs and changing business environment are the key drivers for innovation. These factors influence Sri Lankan apparel manufactures towards the need for innovation, thus the key objective of this research is to find out how Sri Lankan apparel sector could uplift themselves through innovation management approaches to face the impacts of MFA phasing out. Hence the research centers around the research question of what are the encountered problems associated in existing innovation management approaches?

Research has adopted a qualitative research methodology. In-depth interview method was selected to obtain necessary information. To analyze the gathered information, research has chosen thematic analysis method. Research revealed that recognise innovation as a single discipline, lack of knowledge, leadership and managerial issues, inefficiency, non-collaborative work culture, less motivation, creativity and idea limitation, traditional focus, as some of the main issues in the industry that limit innovation capabilities.

Keywords: *competitive advantage; innovation management; Sri Lankan apparel industry*

1. Introduction

Sri Lanka's apparel industry has grown to be nation's one of the leading contributors to the export revenue. Being the single largest employer in the manufacturing sector the apparel trade grants close to 75% of Sri Lanka's employment either directly or indirectly (Dheerasinghe, 2003). A large population of the apparel factories in Sri Lanka are small and medium scale, yet the industry dominance by few large firms. However in 2005 Multi-Fiber Arrangement (MFA); a quota arrangement made by the importing countries had eliminated. This brought opportunities to highly competitive and proactive garment exporting countries whereas the challenges will be faced more by the less competitive countries for instance Sri Lanka (Tilakaratne, 2006). Therefore in this global environment, strengthening the competitiveness has become a major challenge for Sri Lankan apparel industry. In order to face the immense competition from countries like China and India, Sri Lankan apparel industry need to come up with innovative and buyer winning strategies.

It is been widely recognized in recent years that, without innovation, companies will quickly lose their competitive edge. Therefore innovation strategy is an essential tool for continued growth even in difficult times (Cooper and Edgett, 2000). As to Goffin and Mitchell (2005) intensified competition, changing consumer needs and changing business environment are the key drivers that create the need for innovation. Moreover innovation is essential in order to generate long term stability, growth, shareholder returns, and

sustainable performance and remain at the competitive edge (Cottam *et al.*, 2001).

Most of the industries today are facing challenges of rapidly changing technology, globalization, uncertainty, unpredictability and turbulence (Agbor, 2008). When considering the situation of Sri Lankan apparel sector after the MFA phasing, it is apparent that these key factors influence Sri Lankan apparel manufactures towards the need for innovation. Hence, the main objective of this investigation is to find out how Sri Lankan apparel manufacturing sector could uplift themselves through innovation management approaches to face the impacts of MFA phasing out. Based on the this research objective the major research questions was; What are the encountered problems associated in existing innovation management approaches?

2. Literature Review

The Apparel Industry in Sri Lanka

The export-oriented production of clothing or the readymade garment industry in Sri Lanka has begun in the 1970s and expanded rapidly after the introduction of trade liberalization of economy in 1977. Direct foreign investment occupied a vital role in the early era of industry's establishment and growth, while lately domestic capital became similarly important. The MFA set up a quota system granted an assured market in EU, USA, and Canada for countries such as Sri Lanka, India, China, Hong Kong, Taiwan and Korea (Kelegama & Epaarachchi, 2003). According to Tilakaratne (2006) during late 1990s, the apparel industry grew at 18.5 % per annum and the export-led expansion of the industry led to the replacement of tea by garments as the nation's largest foreign exchange earner. The growth of Sri Lankan apparel industry has been remarkable in terms of its contribution to GDP, exports, foreign exchange earnings and employment generation. Tilakaratne (2006) further discussed that a great proportion of the apparel factories in Sri Lanka are small and medium scale. Nevertheless, the small and medium scale industries export merely about 15 % of the total exports and the industry is dominance by a few large firms, which claim to about 85 % of the total value of exports (Dheerasinghe, 2003).

Innovation and Change management

It is been broadly recognized in modern times that, without innovation, companies would quickly lose their competitive edge. Thus an innovation strategy is a fundamental tool for continued growth even in difficult times (Cooper & Edgett, 2000). According to Goffin and Mitchell (2005) there are four key dimensions of innovations in the manufacturing sector. Among these four factors, new product innovation is the most important element to companies in the manufacturing sector. Nevertheless, if an organization focuses only on product innovation opportunities for sustainable competitiveness could be fail to see. Firms in the manufacturing sector could also generate services to assist differentiate their products; service innovation is the second dimension. Improvements could also make to the manufacturing along with delivery process, which referred to the next innovation dimension; process innovation. Finally, companies in the manufacturing sector can use business process innovation to make it easier for customers to do business with the company or to cut costs (Goffin & Mitchell, 2005).

3. Methodology

According to Flick (2009) qualitative research lets the subjects being studied to provide much richer responds to questions put to them by the researcher, and might give valuable insights, that may have been missed by other research methods. Therefore, qualitative research method was used to investigate the encountered problems associated in existing innovative management practices in the apparel industry. In-depth interview method was selected to obtain necessary data as In-depth interviews are most advantageous for gathering information's on individuals' personal perspectives, and experiences, mostly when complex subjects are being investigated (Flick, 2009). The discussion guide contained eight open-ended questions focused on existing innovation management approaches and issues encountered in those processes.

The study implemented non-probability purposive sampling. Eight informants were selected for interviews. In order to make sure respondents knowledge, experience and most importantly relevance to the research objectives, bellow conditions were set when selecting which firm and whom to be interviewed. Table 1 illustrates a summary of the interview participants in the research. Interviews were carried out between August to November in the year 2013.

Table 1: Summery of the interview participants

	Professional career (In years)	Previous Working experience	Education Level	Size of the organization	Department
Respondent 1	5	Yes	Degree	Small-Medium	Design
Respondent 2	10	Yes	Masters Degree	Medium	Marketing and Merchandising
Respondent 3	8	Yes	Degree	large	Design
Respondent 4	18	No	Diploma	large	Planning and Operations
Respondent 5	4	No	Degree	Medium	Planning and Operations
Respondent 6	35	Yes	Masters Degree	large	HR
Respondent 7	9	Yes	Diploma	Small-Medium	Design
Respondent 8	6	No	Degree	Medium	Marketing and Merchandising

To analyze information this research had chosen thematic analysis method. Aronson (1994) stated that thematic analysis is one of the best ways to analyze informants’ comments and experiences. By using this method data from different people are compared and contrasted while the process is continued until the researcher is fully satisfied that no new issues are arising. According to Flick (2009) comparative and thematic analyses are generally used in the same study, with the researcher moving backwards and forwards among notes, memos, transcripts and the literature review.

4. Results and Discussion

Key issues of the current innovation management disciplines and business activities of the industry that have been identified through primarily research have discussed here.

Recognizing innovation as a single discipline

Cooper and Edgett (2000) mentioned that innovation requires a steady and long-term attention from managers, and the implication that innovation management requires high performance in a single discipline is incorrect. However, research findings evidenced that most of the apparel manufacturing companies in Sri Lanka are perceiving innovation as a sole discipline. Research revealed that many apparel manufactures recognize the importance of innovation in order to maximize the competitiveness. Yet it is found that most of these firms are not clear about how to fit innovation in to company strategies and day-to-day business activities. Moreover, they acknowledged that innovation management requires the entire contribution of every part of the organization. Respondent 1, 4, 5 and 8 had similar views on this matter “Industry recognizes innovation as being identical with inventions and breakthroughs. The hazard is that research and development has seen as the only department directly responsible for innovation with the focus exclusively on product development”. Respondent 3 stated that “process innovation is often harder to copy than product innovation yet unfortunately many operational managers do not perceive that they have a key role in driving innovation.”

There is more to innovation than product development and firms should drive all forms of innovation mainly, process, service and market. For instance, as a source of competitive advantage the key role of process innovation is often overlooked. On the other hand, process innovation provides the means for safeguarding

and saving cost as well as improving quality (Cooper & Edgett, 2000). Respondent 5 identified that process innovation holds business process reengineering and quality function deployment. “We should work to reduce operating costs and also to increase service quality through process innovation however unlike product, the management of process innovation is quite challenging”.

Manufacturing firms could also take advantages from services which differentiate their products (Goffin & Mitchell, 2005). Rising competitive intensity and advanced market complexity are forcing traditional product-manufactures to modify their position in the good -services continuum by constantly extending the service business (Gebauer, 2008). Johne (1999) described that market innovation is concerned with improving the mix of target markets and how chosen markets are best served. Its purpose is to identify new potential markets and new ways to serve target markets. Respondent 1 and 2 stated that Sri Lanka's heavy dependence on USA and EU exports markets will cause a serious risk in near future. Therefore, diversification of export market destinations is essential. Hence, industry needed skillful market segmentation to identify new market potentials. Moreover, they should develop their marketing skills in strengthening existing markets and increasing market share. Respondent 2 added “Western markets are now in a maturity phase and there are many emerging markets and industry should grasp this opportunities because potential market opportunities misread or neglected now might be lost forever”.

Efficiency and Evaluation

The apparel sector is one of the most globalised industries, with market characteristics of low predictability, short product- lifecycles, high volatility and a high level of impulse purchase (Bruce et al., 2004). In this phase product development occupy a major role in revenue generation. This highly requires efficiency. However research revealed that many companies have added layers of official procedures that could bog down the inter-relationship between departments. Respondent 8 stated that “steady exchange of information internally and externally all over the supply-chain is one aspect that industry needs to be improved”. Respondent 5, 7 and 8 explained the importance of better communication and relationship in the process of innovation. “He or she needs to communicate with internal departments such as marketing, quality, dyeing, finishing from concept stage to issuing final tech-packs for production, at the same time with client in order to develop a viable and quality product. This communication aspect is critical and vital to facilitate smoothly run production process and satisfy clients' needs”. They also identified that performance measures, operational procedures and even office layouts should all designed to create an efficient communication system. Further, respondent 6 acknowledged that firm should attempt to speed up their product developments. However, faster product development involves firms to become expert at setting priorities and improving the development process from one task to the other. Basically approaching more projects into research and development does not increase productivity - generally the opposite happens next (Goffin & Mitchell, 2005).

Another key issue identified under research and development is not evaluating these projects effectively. The entire respondents identified that if product development is to be enhanced then the efficiency of the process (not simply the success of the product) must be evaluated. It is said that many companies do not evaluate their projects efficiently and measurements to do so are improper and minimal.

Leadership and Management issues

Ortt and Duin (2008) had shown that managerial decisions are crucial in contextual innovation management. Thus the management of innovation needs distinctive management skills and knowledge, which makes a fascinating challenge (Cottam et al., 2001). Further, for creativity and innovation to take place, leaders must actively implement strategies that encourage it. Thus, leadership is the source and catalyst of organizational innovation (Agbor, 2008). However, it is evidenced that senior management does not possess the required skills to encourage and foster innovation. Respondent 6 stated that “innovation management is still in its infancy. Even though there are tools, theories and approaches, there is no yet a clear methodology to help managers improve innovation performances”. Respondent 6 further stated that they are facing challenges of

having to merge ideas from various areas of researches and projects. Six out of eight respondents commented that management issues are common when implementing innovation. Moreover, they acknowledged that management should have a strong vision and they should give their fullest contribution to develop their firm's innovation projects. Therefore, it is important to give them necessary guidance and assist them to improve their skills through career development and training programs. Half of the respondents were not satisfied on their organizational work culture and leadership styles. They experienced less effectiveness in their working environment towards innovations. Respondent 1 stated that "our working structure is more production orientated where not much importance given on product innovations. I tried to introduce bonding systems for particular manufacturing process but it is a sad to say our team did not help me to proceed. In addition, I am the one who started design developments at the company but few of our executives know about what I am doing and most of them do not assist me to develop this further". Respondent 7 too added that "recently our company's management has passed to the next generation of the family and there are many issues among the top management now. My manager was trying to have three designers, one for product development and one for visual merchandising and to develop retail interior as well as advertising. Yet this was not implemented. Also, as a whole Human Resource Management got many issues; lot of restrictions to workers and most of the employees are not happy and less motivated. Early generation was different. They knew how to make their employees happy and how to increase productivity."

Ortt and Duin (2008) mentioned that the contextual innovation management implies that an innovation manager makes different decisions in different contexts. In their view, the decisions involved relate to two levels: a strategic level and an operational level. At a strategic level, decisions are made before an innovation process is started. On the other hand, at the operational level, decisions have a direct influence on the shape of the innovation process and can be made during the innovation process. Ortt and Duin (2008) further discussed that developing and monitoring and finally achieving the goals of the innovation strategy as prime responsibilities of the top management. This requires focus on number of key issues such as assessing market trends and determining how these drives the need for innovation in the firm's chosen sectors. In essence, to achieve constant innovation in any organization it must first put the right leaders and leadership structures in place. Then those leaders need to set up an environment conducive to renewal and build organizational culture that encourages innovation. At the same time, leaders must encourage and manage diversity in the organization. Communicate the role of innovation within a company and match the resources to the strategy too is vital (Agbor, 2008).

Less Motivation and Non collaborative working environment

Apart from three all the other interviewees exemplified that motivating employees to contribute towards innovation is lacking in their organizations. Respondent 8 stated that "some firms have barriers that prevent their employees from contributing all their skills, ideas and motivations". Respondents have mutually agreed that firms who desire to become more innovative must pass this message on to their employees and has to extend the generation of ideas across all functions. Respondent 1, 5, and 8 suggested that in order to form a fast and successful new product development, the skills and motivation of people whome are working on the process need to be well-organized and led. And later those contributions could be assessed. They further mentioned that discussions between employees and their managers all over the process are similarly important to achieve best results.

Furthermore respondents identified that companies should form a collaborative working environment that would promote ideas and responsibilities, risk-taking, and creativity. Respondent 3 stated that it is important to design the structure of a company in such a way that all employees have a sense of worth and belonging. Individuals should work together for a common goal; as a result accomplishments will be better, faster and accurate. Team working is one of the most cost-effective methods of expediting lasting improvement (John, 2006). Therefore, companies should improve their employee's team working skills and encourage their employees to be optimistic. Simultaneously they must treat all members equally with respect and

give credit wherever it is due.

Few fundamental concerns respondents had for increasing innovation outputs are creating a company culture in which employees are motivated to be constantly innovative, hiring and training policies, job design, and creating effective organizational structures. At the same time effective reward and recognition programmes will need to be maintained. Agbour (2008) believe that when the social structure of the organization aid employees feel secure and accepted it brings out their creativity. In essence, company leaders must encourage, stimulate, respect and finally harness the spirit of ideas .They must allow employees to use their unique personal assets and experiences for the company success.

Creativity and idea limitation

Many researchers have noted that innovation is more than just invention. According to Drejer (2002) innovation is not just an outcome but a process and ideas are the raw material for innovation. Agbour (2008) mentioned that creativity do not emerge by accident and leaders need to drive and control deliberate organizational structures to transform employees in to creative ,effective and production ones. Hence, it is managers duty on creating a well-organized atmosphere which supports creativity both individual and team level. Stimulating novel ideas that fulfill customer requirements is vital (Goffin & Mitchell, 2005). Therefore ideas need to be implemented in the products, production or administrative competencies of the company (Drejer, 2002). As innovation comprises new products, services and processes, the scope for ideas are broad; hence, all employees should be involved (Goffin & Mitchell, 2005). Respondent 3 described a way to improve companies innovation performance levels; “I would recommend getting more ideas via suggestions schemes and brain storming to generate more creative ideas”. Half of the interviewees acknowledged that some of the manufacturing companies are still having very traditional focus. Respondent 4 states that “rising labor costs in China give an opportunity for Sri Lanka to attract foreign companies looking for an alternative low-cost manufacturing base. Hence, product and technology innovation is vital for us at present. However, the problem is we do not find majority of our industry is considering the value of this. It is a disappointment to see they are still having a traditional focus on their manufacturing activities. As an example, even though our pattern makers are facilitated with fast and accurate pattern making soft ware’s they still prefer manual making perhaps because of their less knowledge on using them”. Respondent 7 stated that “I personally think that we need more experiments rather than strict in to common thinking pattern. Sometimes our experiments can be not feasible when it comes to mass production. However sometimes we can convert them in to practicable ways, maybe a part of it. Most important thing is doing more experiments and popup unique ideas”. Moreover respondent 1, 2, 4, 6, and 7 admitted that giving more opportunities to younger generation would be vital in overcoming the issue of traditional thinking patterns. Team creativity is another important element that should be improved. Respondent 6 stated “The level of creativity in a firm is not only depending on individual creativity hence nurturing team creativity could avoid barriers to creativity”.

Open Innovation

According to Kearney (2008) the best companies are committed to open innovation; working with a wider network of partners in the industry. There are always willing to collaborate both up and down the value chain capturing and sharing ideas with customers, suppliers, distributors and foreign consultants (Kearney, 2008). Furthermore successful innovation leaders invest more than three times as much effort in the beginning stages of the innovation process than do the followers. However five out of eight of the respondents have highlighted that lacking open innovation limit industry to become more innovative. Respondent 6 stated “while competitiveness is essential to boost exports through innovation, which can command high prices and bring returns that can cascade down to the entire economy, Sri Lanka is still struggling to put her resources to optimal use”. Respondent 1 and 6 mentioned that Sri Lanka has not developed a proper value chain in support industries to the country’s export sector, industry should form clusters in order to gain benefits from competition and collective approaches to inputs and distribution requirements. Respondents 4 and 5 too had

similar opinions; outside resources are essential for a globalised industry like fashion/textile. For example foreign consultants, research institutes can facilitate especially small and medium size sector to economically contribute in the development of new products and services and develop core competencies. Respondent 8 noted that after the end of civil war new international buyers are coming to Sri Lanka. However he explained that the industry should increase the capacity to meet the demand. "Less than 250 apparel factories currently operating are not sufficient to meet the demand". Hence Sri Lankan apparel industry should vertically integrate along the value chain at the same time invest more to increase the capacity, infrastructural facilities and consumption of outside resources.

Research further revealed that innovation management approaches that look for long-term gains in new areas may require completely new business processes to be adopted which sometimes will overlap with existing processes. Therefore, companies, which could mobilize knowledge, technical capabilities and experience, can only obtain competitive advantage through innovation. Success through innovation could not be guaranteed and there have been many failures (Goffin & Mitchell, 2005). Therefore, innovation projects should be well designed and controlled to minimize the effects of failure and so that lessons could be learnt if a project might fail. However, most of the apparel manufactures in Sri Lanka are dealing with their cost-reduction strategies. Therefore, even though they see innovation potentials, these cost-reductions would enable barriers for those implementations.

5. Conclusion

In this dynamic and changing environment one way to remain competitiveness and sustain performance is through innovation. Rapidly rising international competition in the post MFA era is forcing apparel manufacturing companies in Sri Lanka to seek ways to become more innovative. Research appeared that focusing on innovation management as an ideal strategic direction to uplift current industry performances. It revealed that most of the apparel manufactures have implemented various innovation practices as a competitive tool. However, at the same time they are facing several issues and challenges in those practices.

As emerged in this study, majority of the industry has keenly focused on product development, which is only a one aspect of innovation principles. There is more to innovation than product development and firms should drive all forms of innovation. Therefore Sri Lankan apparel manufacturing firms should not only need to improve their product innovation but at the same time should focus more on service, process and market innovation because if a firm is to be fully effective, every part of that organization needs to be strongly contributed in to the innovation process. It is concluded that since apparel industry has a fast business circular, faster product development is needed to gain competitive advantage. Yet one key issue identified under research and development is inefficiently and not evaluating product development projects effectively. Research further evidenced that innovation is still in its infancy as a management discipline and improving the innovation performance is a challenge for the industry. It was revealed that many organizations are lacking the kind of leadership that encourages effective innovation and produces success. Thus appropriate skills for managing innovation are crucial and managers should be given the necessary preparations to gain creative management qualities to foster and develop innovation. Skillful market segmentation is also of vital for innovation. Hence, industry should implement proper market segmentations to grasp emerging market opportunities. Moreover research evidenced that layers of official procedures halt the inter-relationship between departments. Therefore performance measures, operational procedures and office layouts should all designed to create an efficient communication system. De-motivation of the employees to contribute towards innovation and non collaborative working environment are several issues that were emerged in the study. Thus industry should form a collaborative working environment that would enhance the creativity, promote ideas and responsibilities and risk-taking. Further they could improve employee's team working skills as well as implement reward and recognition programmes to encourage them. The scope for ideas is broad in innovation. However research concluded that idea limitation and traditional focus too as issues in the industry. Nurturing team creativity and giving more opportunities to younger generation would be effective in overcoming these issues.

Lastly research found out that lacking outside resources is limiting industry to be more innovative. Therefore industry must adopt open innovation principles to be sustained.

This research could provide a foundation for future studies relating to innovation management in the apparel manufacturing sector. Additionally this research may encourage future researchers to explore more characteristics of innovation management practices such as what are the types of leadership that encourages innovation.

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