



Hayleys PLC (B3):

Dipped Products PLC (DPL): “Firstlight” for Suppliers

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This case was written by Mark Hunter, Adjunct Professor, and Luk Van Wassenhove, Professor of Operations Management, the Henry Ford Chaired Professor of Manufacturing, and Academic Director of INSEAD Social Innovation Centre. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Opinions, facts and commentary not attributed to Hayleys PLC or its employees are the sole responsibility of the authors.

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DPL's diverse activities accounted for 29% of Hayleys turnover, more than any other division (See Exhibit 1 for DPL's results since 2003).¹ Its two core businesses were manufacturing protective rubber gloves for the global consumer, industrial and health care markets, and growing, processing and marketing teas from its subsidiary Kelani Valley Plantations PLC (KVPL). Four-fifths of its business was manufacturing and the rest centred on rubber and tea plantations. DPL's gloves were distributed to public health care organisations such as the UK's National Health Service, as well as to major retail chains like Tesco and Asda Walmart (For an overview of DPL's markets, see Exhibit 2).

Certification of labour and environmental practices and customer inspections were frequent events at DPL's plants. J.A.G. Anandarajah, the managing director of DPL, commented: "The factory becomes a marketing tool. There are customers who will pay a small premium [for suppliers who meet CSR criteria], and we have access to certain markets."

Since 2004, DPL's group turnover had grown by 246%, from LKR 4.9 billion to over 11 billion. Yet profits were under pressure from what management called "a classic example of top line growth squeezed by burgeoning costs leading to an eroded bottom line."² Besides wages – a month-long strike at the end of 2006 led to wage increases between 32% and 48% respectively on rubber and tea plantations³ – and transport and chemicals, the fastest-rising costs were for energy and latex. DPL's approach to these issues included social initiatives.

Building a Partnership with Workers

Moneylenders were a common feature of the plantations and had a strong hold over workers who lacked access to formal credit. DPL responded with micro-finance banks, as at Dewalakande Estates. This bank lent money at 20% per annum (compared to 15% monthly for moneylenders), took repayments out of workers' wages, and paid an annual interest rate of 12% on deposits. The estate manager served as the bank's president. All decisions concerning loans (which could be as high as LKR 25,000) were made at monthly meetings. A manager noted: "From the inception the unions were always in the committees – we said, 'Come in.'" However, some union officials at the regional level had opposed the programmes but decided to participate when it became clear that they worked. Staff, who were recruited from among workers' children and given scholarships to study accounting, also participated. These processes guaranteed that no one would accuse the bank of cheating the workers. Worker involvement embodied a change for managers, said Kavi Seneviratne of KVPL:

"A generation ago, if you were to sit with your workers around a table and had a discussion, your manager would get angry: You were too familiar with them, losing authority and control. Now, we expect every manager to sit with workers, discuss the issues, get a solution. Before, they'd come to the office and talk to you from outside, through a window. Now they come in, and you offer them a seat."

In the process, management was pushing unions to become partners or to lose power. The unions used the meetings to propose new services, such as insurance for life events (a funeral

1 Hayleys PLC Annual Report 2007-8, p. 64.

2 Ibid., p. 35.

3 Kelani Valley PLC Annual Report 2007, p. 3.

could bankrupt a family) and trishaw delivery of grocery orders. Management thus showed respect for unions while eliminating conflicts or unmet needs that made union intervention necessary.

Whenever possible, management sought to involve workers directly in running programmes. Thus, parents were invited to serve on a committee with management and teachers who ran the new pre-school at the Dewalakande rubber estate. School began at dawn, when rubber tapping started. A manager noted: “We give the families a package.” This included Montessori-trained teachers and free uniforms, meals and activities for the children. Certificates were given out at the end of the year, and were accepted as proof of pre-schooling by government schools.

CSR Versus the Rubber Middlemen

Latex, the sap of the rubber tree, is the world’s only renewable industrial material. In its raw state it looks like thin milk, and contains about 30-40% rubber. The sap is “tapped” by cutting the bark and collected in cups under the cut. Tapping is skilled labour and bad tapping can ruin the crop.



Young rubber trees awaiting replanting on a DPL plantation. Replanting is essential to maintain latex supplies. Changes in national policies concerning plantation ownership and the market have directly impacted planting. Currently, smallholders account for a majority of supplies.

Photo: Mark Hunter

At present, noted Tanky Wickrematne: “There’s a limited supply of rubber here – 100,000 tons. Increasingly there is competition to get it.” Both foreign and domestic manufacturers of rubber products were expanding in Sri Lanka. Any risk that DPL might be forced to import latex “would be catastrophic for us,” said Managing Director, J.A.G. Anandarajah.

Local middlemen, many of them former officials of state-sponsored group processing co-operatives, controlled roughly 75% of the latex supply through smallholder farmers.⁴ A Sri

4 A smallholding is under ten acres; in the Sri Lanka rubber industry, two acres or less is common.

Lankan scholar described their power: “The private dealers retail many goods and often do so on credit, and they sometimes disburse credit itself for the smallholders’ urgent needs. From the perspective of the farmers, these dealers... are indispensable.”⁵

DPL had initially sought out middlemen as business partners, to simplify its dealings with roughly 3,000 smallholders. “Over time, we tried to control the margin [that the middlemen] took,” said Anandarajah, “we could never do it.”

“They had a hold on the small farmers. The only way to break it was to deal with the farmers directly. If we didn’t, years from now we could be completely dependent on the middlemen, and then they would take serious advantage. We decided to move before we couldn’t do anything about it.”

The resulting programme was called the DPL Smallholder Link (DSL), later branded as “Firstlight”. Its principal components were to guarantee farmers “a fair price for their produce”, to “build capacities in their communities” and to “educate and empower” smallholders through training in farm management and rubber farming methods.⁶ Training aimed at showing farmers that, for example, improved tapping techniques and using hygienic cups to collect sap, provided free by DPL, gave them better yields and earnings in the long term. “Once they see the results in terms of money, it’s much easier,” said a manager.

Although Anandarajah insisted that “We want to take this game away from price,” to create broader relationships with suppliers, DPL effectively competed on price. It offered small producers prices benchmarked against the publicly available Colombo commodity auction prices. This translated into higher prices than middlemen or other manufacturers offered. The state’s Rubber Research Institute, a highly respected player in the industry, warned late in 2008:

“Farmers do not get information [about prices] and middlemen are exploiting the situation.... There is a huge gap between the farm gate price and auction price. Middlemen and value added industries who directly purchase rubber from the farmers offer a lower price, although the auction price is higher.”⁷

DPL made a particular point of not cheating on the weight of latex. Anandarajah explained:

“You pay for the dry rubber content, so you can cheat [by saying the weight is water]. You may give the supplier a price per kilogram that looks higher, but you can always estimate the dry rubber to a lower point. DPL has always been known for being above board on this. Now people leave it to us to say how much rubber there is, because if there is excess over what they thought, we pay for the excess. We have a long history of being credible.”

5 H. M. G. Herath, “The Rubber Industry in Sri Lanka: Dilemmas in Development Policy”. *Asian Survey*, Vol. 24, No. 8 (Aug., 1984), pp. 817-827.

6 Dipped Products Plc Annual Report 2007-2008, p. 16. See note 8 for information on a partnership between Hayleys’ agricultural division and the US government’s USAid organisation.

7 Gamini Warushamana, “Reduce supply to maintain rubber prices – RRI Director”. *Colombo Sunday Observer*, November 2, 2008.

The programme had enrolled 219 smallholders and was providing 20% of DPL's latex at the end of 2008. A contribution of US\$.005 from every pair of gloves sold in packaging that carried the Firstlight logo – about US\$60,000 in all – went back into the programme.

DPL had reached a point where it could no longer expand these initiatives on its own (For a list of all DPL's corporate responsibility initiatives, see Exhibit 3). One possible solution was to seek international aid funds, as other Hayleys divisions had done.⁸ Another option was to forge alliances with development NGOs. Anandarajah explained:

“We want more people involved; we want to have their communities. We think that unless we maintain the momentum of this programme, unless they know they're supported, people will leave us; they'll lose faith in us. To stay, we need money.”

8 Hayleys' agricultural division was selected in late 2008 by the U.S. State Department's USAid agency to manage a training programme for 120 farmers in the East. The programme covered aspects from “technical, growing and commercial aspects, to seeds, suckers, fertilisers and agro-chemicals, expertise on modern cultivation, harvesting, packaging and transportation methods and assistance to find markets through out-grower arrangements.” See: <http://srilanka.usembassy.gov/pr-27mar08.html>.

Exhibit 1

Dipped Products PLC Selected Financial Data, 2003-2008

In SLR millions

Year	2008	2007	2006	2005	2004	2003
Gross Turnover	<u>11,153</u>	<u>9,413</u>	<u>7,109</u>	<u>6,139</u>	<u>4,929</u>	<u>3,682</u>
Profit Before Taxation	616	775	415	670	427	269
Taxation	(101)	(106)	(66)	(72)	(67)	(24)
Profit After Taxation	515	669	349	598	360	245
Minority Interest & Pre acquisition profits	(144)	(111)	(62)	(111)	(66)	(34)
Profit attributable to equity holders of the parent	371	558	287	(110)	(65)	(34)

Exhibit 2

DPL's Global Presence

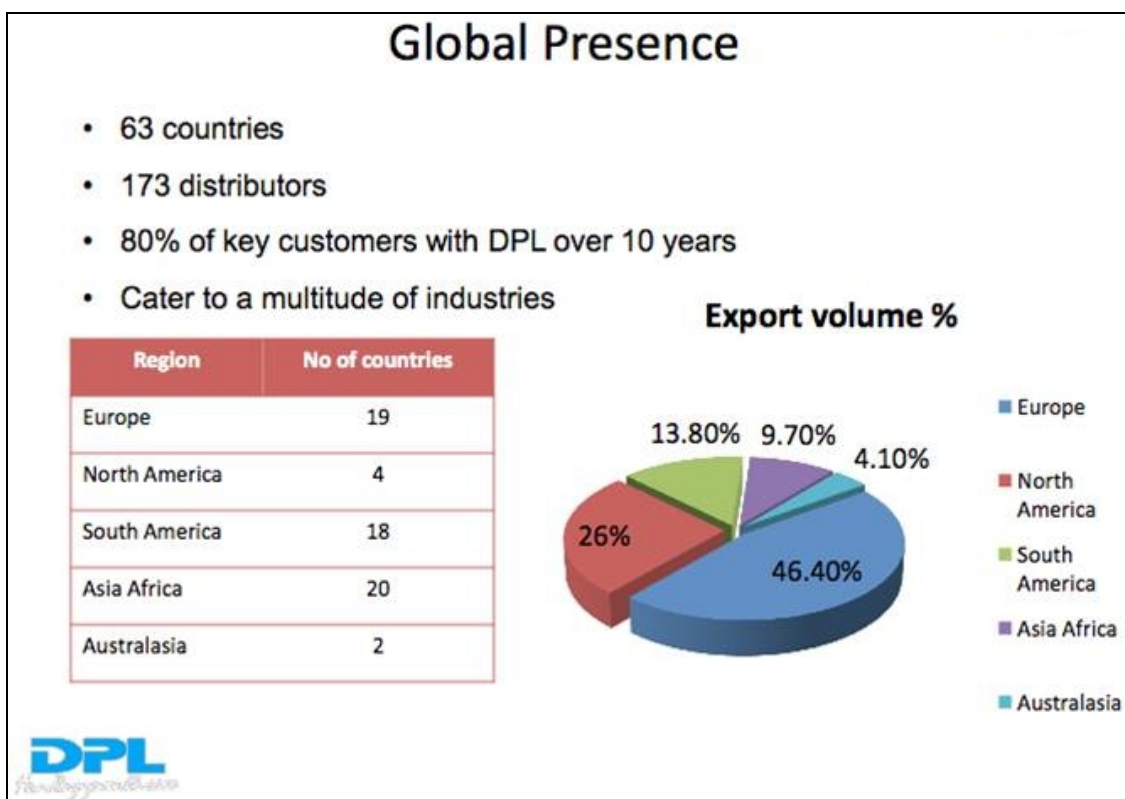


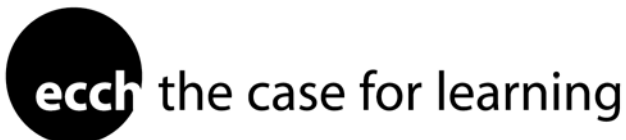
Exhibit 3
Corporate Responsibility Practices at Dipped Products PLC

Environment	Social/community	Certification	Awards	Partners
<ul style="list-style-type: none"> - Biological water treatment - Wood-fired boilers for thermal heat power to cure gloves via steam (renewable stands) - Economisers to reduce stack heat. >-Forest management to preserve green cover 	<ul style="list-style-type: none"> - Micro-finance - Pre-schooling - Healthcare (eye care, drinking water for schools, etc.) - “Firstlight”: Worker/farmer training, schools, insurance, fair pricing - “A Home for Every Plantation Worker” - Worker/Union participation - Scholarships for worker children 	<ul style="list-style-type: none"> - ISO 14000 - ISO 22000 - BRC - Customer certification (COOP – Italia, etc.) 	N/A	N/A

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