

GREENKRAFT: ENSURING SUSTAINABILITY DURING AND POST COVID-19

Jaydeep Mukherjee from Management Development Institute, Gurgaon, India wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Greenkraft Producer Company Limited (Greenkraft) was one of the producer-owned companies incubated by IndusTree Foundation (IF), an India-based not-for-profit organization. Greenkraft supplied handcrafted products to global clients produced in a unit in Madurai city and manufactured under strict international compliance requirements (see Exhibit 1). The production facilities ensured timely production of requisite quality and quantity products through well-developed processes and the watchful eyes of trained professionals. For the 800 women producers, the unit was also a symbol of independence and pride, motivating them to work and deliver quality output as they are the owners of this producer collective.

In late March 2020, to contain the spread of COVID-19, the Government of India imposed a nationwide lockdown of all commercial places that contained an aggregation of people, which led to the widespread closure of all factories. The lockdown was a shock to most businesses, as operations were forced to a grinding halt. For Greenkraft, it was even more problematic—it had already committed to fulfilling orders from global clients and its production units had to be closed. In May 2020, the Government of India ended its complete lockdown. Factories were allowed to operate if they adhered to social distancing requirements and provided personal protection equipment to employees. Greenkraft's production resumed. However, the persistent fear of lockdowns and re-imposition of tighter restrictions loomed on the horizon. Greenkraft adopted home-based production alongside unit operations to cope with the pandemic and maintained its output. Home-based production continued with unit-based production until the end of 2021 when, even with the population receiving vaccinations across India en masse, an end to the pandemic was not in sight. With the rapid spread of the COVID-19 Omicron variant in January 2022, a joint decision was made by the Greenkraft team and the Apex team (from IF) that Greenkraft needed to decide its future production and fulfillment strategy to account for the uncertainties of the new normal.

The main objective was to ensure unhindered operations and the safety of employees to efficiently meet the requirements of company stakeholders in the long term. One option was to adapt Greenkraft's established, tried, and tested unit operations to the newer COVID-19-related protocols associated with social distancing and personal protective equipment. However, the uncertainty of COVID-19 meant that this strategy would not work if either a partial or complete lockdown were re-enforced. A diametrically opposite second option was to pivot to complete home-based production. This option would insulate Greenkraft's production from potential COVID-19 pandemic-related restrictions and would also allow an expansion of production

facilities to other geographic locations. However, this option had the potential to reduce production efficiency, caused concern for meeting global compliance requirements, and could affect the quality and competitiveness of the manufactured products among customers. A third option was to adopt a hybrid model utilizing part unit-based production and part home-based production. This option was the most flexible for the company to manage its business but cumbersome with operational challenges. The change in the production strategy would also require corresponding changes within the business model, which had to be calculated and implemented. Greenkraft needed to choose a long-term strategy and implement it by June 2022. Susan Bhaktul, chief executive officer of Apparel and Embroidery and Natural Fiber Value Chains at IF, needed to decide on an option based on a consensus from all stakeholders that included the long-term interests of Greenkraft—thousands of producers depended on IF for their economic resilience.

GREENKRAFT BACKGROUND

Industree Foundation was a not-for-profit organization established in 2000 by Neelam Chibber, Geeta Ram, and Nivedita Ram in Bengaluru, India. The organization worked to address socio-economic needs of marginalized and vulnerable women. The idea was to create an ecosystem to enable women through ownership-based, sustainable livelihoods in climate-positive value chains. The initiative would pave the way for a future where these women producers could live with dignity, empowered at home and in their communities.

IF evolved into an incubator by facilitating the aggregation of producers into self-owned collective enterprises, building their capacities through training, assisting them in developing products that appealed to modern markets, and enabling their access to vital working capital. By 2020, IF had interacted with over 60,000 women producers across India and Ethiopia through dialogues and collaborative efforts with the World Bank, World Economic Forum, United States Agency for International Development (USAID), United Nations Development Programme (UNDP), the Government of India, the Ethiopian Government, and Catalyst 2030 to accelerate the growth and reach of its programs. The foundation's work was supported by funders and investors that included USAID, HSBC Holdings plc, Target Foundation, British Asian Trust, Mastercard Center for Inclusive Growth, Bank of America, HDFC Bank, BNP Paribas, Fidelity, HCL Foundation, National Skill Development Corporation, Grassroots Business Fund, and the International Trade Center in Geneva. IF had also leveraged considerable support from various government departments in India (see Exhibit 2).

Greenkraft's operations were located in the South Indian state of Tamil Nadu, with a full-fledged production and dispatch hub in Madurai and production spokes in the surrounding areas. Its significant clients were Mother Earth Company, IKEA, TJ Maxx, Home Stop, Hometown, and H&M Home. Greenkraft had, since its inception, successfully moved thousands of producers from the informal sector to the formal sector and organized them into producer-owned collectives. The participatory processes to create economic opportunities for the underserved in creative manufacturing vocations through formal work kept the producers economically and socially secure. This systemic thought proved to be crucial during COVID-19 and was a considerable reinforcement of the model that mitigated risks for the most vulnerable populations in its design (see Exhibit 3 for the 2019 critical impact summary, and Exhibit 4 for Greenkraft's key challenges).

For most clients, Greenkraft qualified as a potential vendor based on their client's criteria, which included the meeting of specifications for raw materials and processing. Greenkraft clients were concerned about compliance requirements such as ensuring the use of no child labour, meeting health and safety guidelines, regular earnings issued to producers, and following specified working hours and healthy workplace conditions. Apart from that, these clients employed their own or independent audit agencies who ensured that total compliance with the guidelines was always met. Almost all global clients used a transparent tendering process to award orders.

Greenkraft products were co-created with the brands to meet product, price, and packaging requirements. It had always worked collaboratively by understanding market requirements and developing functional products. Price was decided based on time and motion study and improved against volume business by building efficiency and better sourcing. Establishing a raw material bank was a positive step in this direction, as it helped build traceability and transparency. Sharing open costing was a method Greenkraft used with clients for them to advise on improvements. Competition was mapped and used as a price and product benchmark to improve processes.

THE ONSET OF COVID-19 AND THE NEED FOR AN ENTERPRISE LEVEL CHANGE

The year 2020 saw a worldwide impact on peoples' ways of life due to the onset of COVID-19. The pandemic unfairly negatively impacted those at the bottom of the socio-economic pyramid. There were more than 10 million job losses in India, and 97 per cent of households' income declined during the second wave of COVID-19 in India in April-May 2021.¹ The country also witnessed reverse migrations that created interest within states for local jobs. However, the reverse migrants were mainly from the informal sector with no access to social protection and little money for food or housing. Most labourers had to use savings and borrow money from informal sources. This crisis brought to the forefront a need for fairer systems.²

Throughout the pandemic, producers within Producer Collectives of Greenkraft were secure. Through the institutional support of the Producer Collective structure, thousands of producers had access to work and continued earnings. Work-related health insurance and life insurance was also issued as social security through the pandemic on compassionate grounds. Nevertheless, despite the enabling ecosystem, COVID-19 brought new challenges that required urgent and innovative responses. For Greenkraft, countrywide lockdowns also meant that production across value chains halted in March 2020 and affected the producers' income in those value chains. However, clients supported Greenkraft with orders, and Greenkraft responded immediately by creating a model that allowed the women to produce from home. To overcome a bias against the home-based informal approach towards production, which was perceived as having inconsistent output quality by clients, Greenkraft implemented processes to ensure that production at home continued with the proper checks and balances in place and maintained the producer's dignity.

The transition to the home-based production model was facilitated by thirty team leaders supporting producers at the ground level, twenty-four members supporting production and logistics, and another eight members managing the coordination function, operating as a hub (see Exhibit 5).

THE DECISION DILEMMA

By the beginning of 2022, the COVID-19 pandemic continued unabated, with different virus mutations regularly appearing in different parts of the world and progressing quickly to other countries. The effect of the disease was uncertain, and its next wave unpredictable. However, one thing was for sure: people and governments worldwide had learned to live with a new normal. Businesses had to plan to implement social distancing and expect regular work disruption in factories and offices at any time. Greenkraft operated with

¹ "10 Million Lost Jobs in Covid 2nd Wave, 97% Households' Income Declined: CMIE," BusinessToday.in, June 1, 2021, <https://www.businesstoday.in/latest/economy-politics/story/income-of-97-households-declined-since-covid-19-pandemic-began-cmie-298381-2021-06-01>.

² Balwinder Kaur and Shivangi Shubham, "Rural Pulse: COVID-19 Crisis through a Reverse Migration Lens," NABARD.org, June–July 2021, <https://www.nabard.org/auth/writereaddata/tender/2312213756rural-pulse-covid-induced-migration-final-comments.pdf>.

global clients who demanded assured supplies while adhering to strict production processes and compliance requirements, which were audited regularly.

Greenkraft was committed to serving its women producers by providing ongoing livelihood opportunities that improved their socio-economic conditions. It was important for Greenkraft to ensure quality production and reliable supply of orders for its clients, irrespective of the pandemic or other exigencies. Thus, to be commercially viable, production had to adhere to the quality and compliance requirements of the global clients, ensure continuous supplies to meet the strict delivery schedule, and be conducted cost-effectively.

The unit-based production model perfected by Greenkraft had the advantage of being monitored by trained professionals under one roof to meet production and quality targets within the specified compliance requirements like working hours. There were also additional costs due to the fixed costs related to production unit operation, staffing, and meeting the statutory requirements specified under the factories act. Overall, Greenkraft had much higher control over the raw material quality and quantity, process adherence, product quality, and compliance requirements, which resulted in cost-efficient production of desired outputs in time. However, in case of additional government restrictions due to the pandemic, unit-based production could be problematic, jeopardizing Greenkraft's delivery schedule.

Home-based production had the advantage of being a more inclusive model, and provided a more extensive reach to women who were constrained to work only half-days or who could not travel. This model also motivated some women to earn more as their incomes were based on production, allowing them to earn beyond the otherwise fixed income in the unit. The most significant advantage of this approach was the assured production, even if the government imposed a complete lockdown that restricted people from moving out of their homes. However, this model also posed many execution challenges. Work hours were not fixed, and the locations were distributed over large and dispersed geography; hence supervision and training costs increased. Monitoring production efficiency and improving it became a challenge, and a method to address this had yet to be defined. There was an additional cost of transportation of raw material delivery and collection of finished goods, and the potential for damages to goods in transit. Productivity and output became uncertain due to unsupervised conditions, unannounced leave, and diversion of the producer's attention due to the needs of home and family. There was little scope for proactive managerial interventions for the GreenKraft team. They could only respond to specific situations faced by the home-based producers.

The hybrid option of concurrently having product finishing steps—for example, lacquering and trimming—at the factory, alongside home-based production, assured unhindered production under any emergency but also entailed high costs to maintain both operations simultaneously. In this option, the initial cost factor seemed high since one would be running a disaggregated production model; however, with monitoring and evaluation, the processes could be streamlined, and efficiencies could be built in eventually. Making production home-based and conducting the final finishing at the unit, meant engaging with women of different skill sets while avoiding internal comparisons among them.

Bhaktul's team needed to choose the best-suited model to secure continued economic opportunities for the producers while fulfilling business in hand. Financial plans for all three choices were made to understand their viability, which was important for ensuring sustainability of the venture (see Exhibit 6). The choice was difficult as each option had advantages in different dimensions. The rapid spread of the COVID-19 Omicron variant across the globe compelled the team to decide quickly, using the available information.

EXHIBIT 1: GREENKRAFT PRODUCTS

Images of Products (Product Types indicated below)



Placemats



Bowls & Baskets



Holders & Organisers



Lampshades



Bins & Baskets



Bags



Table Runners

Source: Greenkraft company files.

EXHIBIT 2: MISSION AND VISION STATEMENTS OF INDUSTREE FOUNDATION

Mission: Builds sustainable livelihoods in the creative manufacturing sector to ensure that underemployed women can have high and regular incomes, decent and equitable working conditions, and the ability to cope with life crises.

Vision: Envisions a world where millions of producers rise out of poverty by building sustainable livelihoods in creative manufacturing. We believe that producers can pursue their futures with dignity when they have access to an enabling ecosystem. When women earn, they are empowered at home and in their communities.

Alignment with Sustainable Development Goals: Aligned with 3 of the 17 Sustainable Development Goals set by the United Nations:

- Goal 5: Achieve gender equality and empower all women and girls
- Goal 8: Promote inclusive and sustainable economic growth, full and productive employment, and decent work for all
- Goal 12: Ensure sustainable consumption and production pattern

Objective 1: To build economic and social empowerment of women by

1. Capacity building to include them in the global value chain
2. Providing them access to regular employment
3. Deep handholding them through professional management
4. Building individual and community leadership skills

Objective 2: To develop local and global markets by

1. Developing products of global standards
2. Creating production facilities at global standards with decent working conditions
3. Reaching out to buyers and other stakeholders

Objective 3: To build self-sustainability of the producer company by

1. Raising grant equity, working capital, and capital expenditure for the enterprise
2. Creation of producer-owned companies at scale
3. Building local partnerships on the ground

Objective 4: To ensure the sustainability of professional support from IF by

1. Raising capital for scaling up the model
2. Advocating and promoting producer ownership/distributed ownership for inclusive growth globally
3. Replicating the model in the diverse value chain

Objective 5: To have a positive impact on the environment by

1. Creating products from natural fiber
2. Using more environmentally friendly materials and processes
3. Bringing work to the doorstep of the producers

Source: Greenkraft company files.

EXHIBIT 3: SUMMARY AND KEY IMPACT OF GREENKRAFT IN 2019

Educational qualifications: 58% of the women were educated only until high school. 94% of the women felt that this was a secure workplace. This feeling was particularly significant because many women were from conservative backgrounds, belonged to fishing and agricultural communities, and were not previously allowed to work outside.

The work culture at Greenkraft was positive: 94% of workers were happy with the work culture. Some of the stated reasons for women's job satisfaction at Greenkraft include the following:

- Regular income
- Closer to home factories
- Good prospects for personal development
- Freedom to express concerns and participate in decision making
- Equal opportunities for men and women
- Good work-life balance

As a part of their benefits, women are being provided with Provident Fund (PF) and Employee State Insurance (ESI) services, which are some of the key factors that attract women to work at the Greenkraft factory. 73% of women traveled less than 5 km to work.

Education of children: Most of the women had school-aged children, and with the work timings of Greenkraft, they could adequately attend to their children's education needs. 52% of the women said they moved their children to better schools.

Change in attitude of family and neighborhood: 65% of women perceived a tremendous positive change in the attitude of their families and community towards them after they took up employment at Greenkraft. 80% received support to carry out their daily household chores before getting to work.

More than 66% felt they were now more respected and participated in all the family's decisions. They also served as an example for their neighbors, who were encouraged to take up work too.

Savings and Financial Literacy: All the women had access to bank accounts, but still 70% could not build up sufficient savings, as most of these women were already in debt and were using their income to repay their loans.

Source: Greenkraft company files.

EXHIBIT 4: KEY CHALLENGES OF GREENKRAFT

1. Building the community's trust is the biggest challenge for Greenkraft, as most of the women were from very conservative communities. Partnering with the local Non-Government Organization helped to a large extent.
2. Maintaining the workflow and regular payment—providing regular work to the women is critical in sustaining their commitment and participation.
3. Providing work conditions that meet global standards in remote rural areas.
4. Regular payment for the artisans for Greenkraft has been a struggle at the time that the Case was written.
5. It takes a minimum of 1-2 years to acquire new international clients. Consistent, targeted efforts must be made to attract clients.

Source: Greenkraft company files.

EXHIBIT 5: INITIATIVES TO FACILITATE HOME PRODUCTION

PRODUCTION

- Defining the kit requirements and setting the process for kit making.
- Establishing dispatch & collection routes.
- Feedback mechanism for producers to improve the quality of products
- Rework process at the unit
- Special process at the unit
- Monitoring & tracking production
- Tracking efficiency
- Sharing best practices through demonstrations & videos

TEAM LEADERS

- Training Team Leaders (TL) and defining clear roles.
- The TL visits the producers at home announced and unannounced to check on work progress and compliance.
- The TL, after inspecting, sends the products to the unit for final processing.
- Production quantity is noted in the producer and TL trackers and is acknowledged by both.
- Once a week, the TL visits the unit for reconciliations.

WORK FROM HOME PRODUCERS

- Importance and relevance of consent letters and compliance requirements
- Training conducted with focus points
- Wage calculation
- Time study and its relevance in production output
- Brief to family
- Tracker maintenance
- Alignment with TL
- Process to accept and submit the products
- Importance of adhering to product manual and quality standards

HUMAN RESOURCES TEAM

- Reconciliations with TL every week
- Announced and unannounced visits to the producer's home.
- Schedule trainings
- Wage calculated and disbursement
- Follow-ups with TL and production teams

Source: Greenkraft company files.

EXHIBIT 6: FINANCIAL PROJECTIONS OF THE THREE OPTIONS

Fixed factory overhead cost figures, apportioned for producing 1,000 units	Figures in ₹
Cost of running the factory	50,000
Salary of the core team	50,000
Rent of premises	20,000
Miscellaneous maintenance costs	3,000
Variable production costs for producing 1,000 units of a particular item only in the factory	
The variable cost of raw materials	120,000
Variable labour costs	120,000
Other operating overhead costs	20,000
Total costs of production of 1,000 units of a particular item in factory	383,000
Fixed home production overhead costs apportioned for producing 1,000 units	
Figures in ₹	
Fixed costs of running the home operations	5,000
Salary of the core team required for home operations	80,000
Miscellaneous operating costs (transportation / coordination)	30,000
Variable production costs for producing 1,000 units of a particular item in-home production	
The variable cost of raw materials	132,000
Variable labour costs, including incentives	120,000
Other operating overhead costs	40,000
Total costs of production of 1,000 units of a particular item in the home	407,000
Fixed factory overhead cost figures, apportioned for producing 1,000 units in the hybrid mode of production	
Figures in ₹	
Cost of running the factory	30,000
Salary of the core team	90,000
Rent of premises	20,000
Miscellaneous maintenance costs	3,000
Variable production costs for producing 1,000 units in the hybrid mode of production	
The variable cost of raw materials	126,000
Variable labour costs	120,000
Other operating overhead costs	30,000
Total costs of production of 1,000 units of a particular item in the hybrid mode of production	419,000

Note: ₹ = INR = Indian rupee; ₹1 = US\$0.013 on March 15, 2022, the selling price of each unit is ₹ 500.
Source: created by the author based on Greenkraft company files.