Case Study: MAS Holdings

An excerpt from Market Movers: Lessons from a Frontier of Innovation

Full Market Movers report, and its companion piece, Developing Value, are available at www.ifc.org/enviro and www.sustainability.com/marketmovers
Despite a violent ethnic conflict and the removal of trade protections under the Multi Fibre Arrangement (MFA), this Sri Lankan apparel manufacturer has thrived in recent years while championing women’s empowerment.

In the mid-1980s, Mahesh Amalean was excited that his small textile business on the island of Sri Lanka had won an order to manufacture dresses out of synthetic fabric for a subsidiary of Limited Brands, a huge American apparel company. Then a change in quota restrictions meant that he could not fulfil the order. Mahesh had to look around for something else to manufacture. He and his two younger brothers, Sharad and Ajay, had pooled all their savings a few years earlier and bought 40 sewing machines. They needed to keep them busy.

On a visit to MAST Industries’ office in Sri Lanka, Mahesh spotted a Victoria’s Secret catalogue on the desk of a senior executive that he was meeting. Victoria’s Secret was (and still is) one of America’s biggest retailers of fashion lingerie. Although lingerie was outside the quota system, Sri Lanka had no expertise in dealing with the fine needlework that such products require.

Nevertheless, Mahesh decided to try and manufacture it, and he and his brothers set out to see how it was done. They travelled to Hong Kong and China to gain a deeper understanding of the manufacturing process.

Mahesh also went to Ohio where he managed to persuade senior executives from Victoria’s Secret that a couple of unknown Sri Lankan entrepreneurs could produce bras to the very high standards that American consumers demand. With a vote of confidence from Victoria’s Secret, the brothers’ company, MAS Holdings, found itself with access to American customers and Sri Lankan workers. It was a potentially powerful combination.

Some time later, MAS learnt that a 120-year-old German company called Triumph had the top technology for manufacturing lingerie and, two years after joining hands with Victoria’s Secret, the Sri Lankan brothers struck lucky once again. Triumph had been looking to set up a plant in southern India, but the plan had just fallen through. The Amalean brothers appeared at an opportune moment and Triumph agreed to go into a joint venture with them. “Sometimes things just fall into place,” says Mahesh.

At the time, however, western buyers were focused primarily on price. China was just opening up and the cost of garments was falling sharply in real terms in both America and Europe. Besides, Sri Lanka was not a buyer’s natural first port of call. For one thing, wages there are higher than in other Asian countries such as China, Vietnam and Bangladesh. Moreover, the country has been embroiled in a civil conflict in the north and east, which has killed over 60,000 and left close to a million homeless since 1983.

Under such circumstances, it is surprising that the brothers stayed at home. But the Amaleans are of sturdy cloth. From all accounts, Mahesh in particular was driven by a vision that went beyond financial performance. “He used the opportunity to create something much bigger than all of us,” says Deepthi De Silva, the group’s human-resources director and a man who, prior to MAS, worked for 20 years in the UK. “He created this feeling that we (and Sri Lanka) can be world class.”

At the time the company was being set up, good textile workers were hard to find in Sri Lanka’s larger towns and cities. Moreover, the urban infrastructure could scarcely cope with a further big influx of labour – the government itself was trying to encourage the apparel industry to move to rural areas. So MAS decided to locate its plants in the countryside. “We took the work to the workers, instead of the workers to the work,” says Mahesh Amalean.
Sustainability performance

“Companies that attract the best people perform better – this is true regardless of where you are in the world.”

From the beginning, MAS set out to be a good employer. In addition to maintaining basic workplace standards (e.g. a limit on working hours and overtime, age limits, safe working conditions), MAS gives its workers – over 90% of whom are women – benefits including free transport and a decent breakfast to start their day, insists that managers eat in the same canteen as everyone else and provides onsite health care services. To some extent they did it because, as Ajay Amalean, the youngest of the three brothers, puts it, “it was the right thing to do. We had absolutely no idea that 20 years down the road, the things we were doing would be called CSR.”

But they did it also because it made business sense. “Companies that attract the best people perform better – this is true regardless of where you are in the world,” says Sharmini Ratwatte, director of MAS Investments and a former board member. *Forbes* magazine recently described its 12-acre ‘campus’ near Chennai in southern India: “Past the manicured lawns and the pleasant security guards is an air-conditioned spacious workplace,” the magazine wrote, where there is “a day nursery and two nurses to watch over the well-being of employees and their children.”

Although the company’s turnover is high by western standards, it is only one-quarter of the local industry average. Many women leave to marry and then return once their children are at school. To persuade its workers to stay for longer, however, MAS asked them what they would most like it, as a company, to provide. One thing the workers suggested was education, in particular education in information technology and the English language, and the company is now providing both.

The whole programme has become formalised into something MAS calls ‘Women Go Beyond’, which was launched in November 2003, and which its customers increasingly see as a benchmark for ethical sourcing practices in the industry. The focus is on promoting knowledge, awareness, leadership skills, attitudinal changes, and the ability to balance work and personal life. It gives workers the ability to take on more responsibility and make decisions on behalf of the company, and helps them communicate better with customers. Ultimately, it provides MAS with a deeper pool of talent from which to pick its future managers.

Each year, workers’ achievements are celebrated through the ‘Empowered Woman of the Year Awards ceremony’. Those who receive this award are seen as role models and, says Mahesh, “Others are inspired by them.”

The programme has gained global recognition. In 2005, the programme was awarded the American Apparel and Footwear Association’s Excellence in Social Responsibility Award for women’s issues. In March 2006 one of the world’s leading business schools (INSEAD) published a case study for its Advanced Management and MBA students entitled ‘MAS: Strategic CSR in the Apparel Industry’.

Significantly, the company’s exemplary employment practices have led its customers to trust it in other areas. In 2006, Gap joined hands with MAS to launch a ‘Gap Go Beyond’ programme. In 2007, MAS was chosen by Marks & Spencer to be part of the flagship British retailer’s Plan A, a programme of sustainability that Marks & Spencer’s CEO Stuart Rose has said “will shape everything about the way we do business.” MAS was one of only two companies in South-East Asia to be selected by the British retailer as a partner in developing an iconic green manufacturing plant. MAS believes it was chosen because sustainability (in all its forms) was perceived to be part of its culture.

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Conclusion

Take your partners for the next adventure

The expiry in January 2005 of the Multi Fibre Arrangement (MFA), a long-standing quota system that governed volumes of world trade in apparel, raised fears in countries such as Sri Lanka that the cheapest manufacturers (China in particular) would decimate their business.

To some extent the company has benefited from a switch in its customers’ priorities. From their sharp focus on price and quality in the 1990s, western apparel firms are placing more emphasis on service, design and innovation. Sri Lanka is certainly not the lowest-cost producer. Average hourly wage rates in the industry are 35 cents (US), whereas in China they are 25 cents and in Bangladesh 16 cents.

Chinese has certainly gained from the agreement’s demise – within six months its exports of apparel to both the EU and the US increased by more than 500%. But Sri Lanka’s exports of textiles and apparel increased by 8% in 2005, the first year after the quotas ended, and MAS also thrived in the post-MFA environment. Between January 2005 and 2007 its number of employees increased from 28,000 to 40,000, and it is now Victoria’s Secret’s largest single supplier.

Western firms too are embracing just the sort of social and environmental programmes that MAS says are part of its corporate DNA. By correctly anticipating which way the market was moving, and by adjusting its approach accordingly, MAS was well situated to enjoy a first-mover advantage when customers came looking for more than price and quality.

MAS’ roster of blue-chip customers includes Marks & Spencer, Gap, Nike and adidas. When, in 2004, Nike was looking for suppliers with whom the socially and environmentally conscious American sportswear brand could link more closely as a strategic partner, MAS was selected as one of eight, the only one in South Asia.

The challenge for the brothers now is to anticipate where the apparel business is heading over the next few years. Compared with India and China, Sri Lanka can only ever be a niche player. But MAS anticipated a switch in the industry from a frequently confrontational buyer-vendor relationship to one of ‘strategic partnerships’ and joint ventures. Its future is increasingly linked to those of its customers. And these customers are demanding more and more that they follow good sustainability practices.

“It was the right thing to do. We had absolutely no idea that 20 years down the road, the things we were doing would be called CSR.”

Ajay Amalean, Managing Director, MAS Corporate Solutions

BOX 8: DIFFERENTIATION

Success in the apparel industry once depended predominantly on price and quality, but today these are taken as a given and key success factors include design, service and flexibility. Since it was founded in 1987, MAS has worked hard to deliver against these rising expectations, including staying cost-competitive while also applying exemplary employment standards – no mean feat in Sri Lanka, where the cost of labour is relatively high. The pressure on cost has become all the greater since the end of the Multi Fibre Arrangement. At the same time, however, MAS has been able to differentiate itself from lower-cost producers by raising awareness with customers of its high labour standards and the ‘Women Go Beyond’ programme. So successful has MAS been that ‘Women Go Beyond’ has been supported by major customers like Gap and Victoria’s Secret. MAS has also been engaging with the Sri Lankan government to encourage it to differentiate the country as a source of ethically produced apparel.
Established in 1987 and headquartered in Sri Lanka, MAS specialises in lingerie and sportswear. It is the single largest supplier to Victoria’s Secret, and is a preferred supplier to Gap and Nike.

**FOUNDED**
Three brothers, Mahesh, Sharad and Ajay Amalean, founded MAS Holdings Ltd. in 1987.

**OWNERSHIP STRUCTURE**
Privately owned, involved in a series of joint ventures with industry leaders (Triumph, MAST Industries)

**SECTOR**
Apparel and textiles

**HEADQUARTERS**
Colombo

**OPERATIONS**
Operations in 10 countries but concentrated in Sri Lanka and India

**MARKETS**
Main customers are US and European brands including Victoria’s Secret, adidas, Gap, Marks & Spencer, Nike, Speedo and Reebok. MAS is also launching its own brand in India.

**MAIN COMPETITORS**
Ace, Clover

**EMPLOYEES**
41,000

**MARKET SHARE**
While it is difficult to put a single figure on it, based on MAS’ position as the preferred vendor for Victoria’s Secret, it is likely to be within the Top 10 of all intimates manufacturers.

**AWARDS AND RECOGNITION**

– 2006: Vendor of the Year by Victoria’s Secret

– 2005: Excellence in Social Responsibility Award for women’s issues by American Apparel and Footwear Association

‘Women Go Beyond’ has been highlighted in the publications of several organisations (e.g. Copenhagen Business School, INSEAD, London Business School, McKinsey and United Nations Global Compact).

The net income data for MAS Holdings was not available for inclusion in this report.
The MAS business case – the three most important factors

Here we highlight the three most important ways in which sustainability performance at MAS is influencing business drivers and supporting business strategy.

1. **Stronger client relationships as a result of high labour standards**

   – Despite competition from other manufacturers with lower costs and equal quality, MAS became a strategic partner to brands like Gap, Marks & Spencer, Nike and Victoria’s Secret, in large part due to its high-quality workforce and high labour standards.

   – Gap and Victoria’s Secret have joined in ‘Women Go Beyond’.

   – As part of its ‘Plan A’ programme, Marks & Spencer has selected MAS to build a green manufacturing facility.

2. **Higher employee productivity and lower turnover from good workforce management**

   – MAS’ reputation enables it to attract and retain top talent.

   – Annual staff turnover is 20%, one-quarter industry average.

   – ‘Women Go Beyond’ contributes to greater engagement and motivation of women employees, positively impacting productivity and absenteeism.

3. **Licence to operate from socio-economic development**

   – When factories first opened there was mistrust and concern from local communities that MAS would exploit local workers. Some employees were even attacked.

   – Community development efforts include supporting schools, hospitals and scholarships in rural villages, which help generate local licence to operate.

   – By ‘taking work to the worker’, MAS also brings investment and stability to rural communities.

**MAS BUSINESS CASE MATRIX**

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