

**Southeast Asia
Centre of
Asia-Pacific Excellence**



**GLOBAL SAFEWEAR:
MANUFACTURING IN VIETNAM**

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THE COMPANY

Global Safewear is a New Zealand company that specializes in top-quality rainwear, workwear and protective safety clothing. The company offers end-to-end solutions to major protective safety retailers and wholesalers around the world, providing services from design and manufacturing to supply chain management and product distribution.

Global Safewear was founded by three entrepreneurial women in 1995, two of whom – Pam Brewer and Andrea Young – are still active as Executive Directors today. It operates offices in Auckland and Ho Chi Minh City, Vietnam. Seven people staff the Auckland office and around 250 employees work in the manufacturing facility in Vietnam.

The company sources high-quality fabric and other supplies from around the world to produce products including high-visibility rainwear and softshell jackets, trousers, fire-resistant (FR) rainwear, FR coveralls, drill coveralls and industrial workwear.

Global Safewear located its manufacturing operations in Vietnam in its first year of operations. Initially using a contract manufacturer, since 2006 it has operated its own wholly-owned manufacturing facilities on the outskirts of Ho Chi Minh City. Now in its third decade of operations,

Global Safewear has weathered major international shocks such as the Global Financial Crisis of 2008 and is growing steadily. It has been recognized with repeated awards from the District Labour Department in Ho Chi Minh City for commitment to excellent working conditions, quality training and fair pay to employees. The company has also won the New Zealand Wesfarmers Industrial Safety Source Supplier of the Year award, which recognizes the company for their growth performance, on-time delivery and consistency of quality.

Global Safewear's global sales are distributed approximately half in New Zealand and Australia and half in Northern Hemisphere markets, particularly in Scandinavia, the rest of Europe, and North America.

CHALLENGES

The decision to locate manufacturing of the company's products in Vietnam was relatively unusual for a New Zealand company in the mid-1990s. It was clear that cost pressures would make New Zealand production unsustainable, but Brewer and Young recalled in an interview that, at the time, other companies were looking at China as an alternative. Vietnam was overlooked, despite its young population profile, a tradition of skilled craftsmanship and relatively untapped position in global manufacturing and supply networks. Vietnam was still in the early phases of opening up its economy to the world and transitioning to greater private ownership. The opportunities were there, but it was also unknown territory.

Vietnam has a complex, constantly evolving business environment. Brewer notes that "We never know enough and we are always learning because it is an evolving landscape in a developing country. People are developing what they know and their expectations are different...When you arrive, it is terribly confusing."

Cultural differences

Not only did Global Safewear's founders face the challenge of operating in a foreign-language environment, Vietnam's culture is very different to New Zealand's. On measures of how hierarchical a culture is, Vietnam and New Zealand stand at opposite ends of the spectrum. Where Kiwis are laid-back, informal and generally operate on an egalitarian, first-name basis, Vietnamese are traditionally very conscious of status and hierarchy. Brewer observes that as a company, "We tend to be quite flat in the way that we talk to our people. We don't go in there and take on that hierarchical attitude...A lot of our new staff aren't used to it. When we have got new machinists, we would wander through the plant, say hello, ask about their children, that sort of thing. The new machinists just have their heads down because they wouldn't expect the bosses to talk to them."

It is a culture that Westerners used to flatter, participatory cultures can find frustrating. Hi-

erarchical culture can also impede the flow of information within a company. Young says that this could mean that "Somebody has a great suggestion about how to improve things, but they won't make it because it is stepping above their rank. They won't go above their leader." Managers themselves may also protect their status, potentially leading them to suppress good ideas from their subordinates.

Communication styles can also be different when it comes to making decisions in a formal way. In New Zealand, a team discussion might lead to a verbal agreement to make a change, which would typically be acted on. In Vietnam, however, such an expectation could easily go unmet, with the Vietnamese party not recognizing that, in the absence of a documented decision, a change had indeed been decided on.

It would be wrong, however, to think that a culture that emphasizes formality and deference is one lacking in initiative. As Vietnam's economy has grown, new opportunities have opened up for local employees. This can make employment relations at the factory quite fluid. For example, an employee who found they could earn a bit more at a different factory nearby might come in and say they needed time 'for family reasons' in order to try it for a few weeks. They might resign and work somewhere else for a few months – and then ask to return. It is an employment culture "quite different to what would happen here," says Brewer.

Regulatory requirements

Vietnam's regulatory requirements mean that many areas of the company's operations are subject to complex and potentially demanding regulations, from establishing as a wholly-owned foreign company to employment law and meeting exacting requirements around importing supplies. In order to avoid paying prohibitive import taxes on the materials it sources from around the world, Global Safewear has to account for absolutely everything it brings into Vietnam: every zip, every metre of fabric. "We have to account for it when

the finished product exits the country,” says Young. “It’s almost a system that is set up to fail, because it is not an exact science – you always have variances when you are manufacturing. But that is what we work with.”

The regulatory environment can be ‘finicky’ and the administrative system can be both slow in issuing approvals and also subject to sudden change. “Overnight there could be a new decree that comes out that changes the landscape. So, you have been working to the previous system, and now you work to the new one.”

The bureaucratic environment can be challenging. For example, when the company decided to establish its own factory in 2006, the directors found they needed to gain multiple approvals in order to establish a different company form, which was necessary in order to set up a wholly-owned factory. A crucial signature might only be able to come from one particular official, and you could find that that person is ‘at training’ for two weeks – and then on leave for two weeks. For those used to efficient, streamlined government services, Vietnam does have not a customer-centric bureaucracy. And despite much liberalization, it is still a highly regulated economy with complex rules.

One option pursued by some foreign companies in Vietnam is to operate out of an international business park. These are facilities that provide turnkey operations to foreigners wanting to get things done in Vietnam; the business park will solve issues relating to logistics and regulations for its clients, who will operate from premises within the park’s perimeter.

The services, however, come at a high price. Not only are the fees and rental charges “very much more expensive” than outside the park, they also create competition for labour, meaning that wages can be higher too. Because of government pressure to bring industrial jobs to the countryside, some parks are being located in more rural areas, where wages are lower, but the facilities are further from transport hubs and other services. The parks also tend to offer full-service packages, handling their client companies’ import and export services. For Global Safewear, this would mean

that they would lose their ability to control things themselves, with the additional flexibility that comes from being autonomous.

STRATEGY

Local representation, from the start

The keystone of Global Safewear’s strategy in Vietnam has been to locate an employee permanently on the ground right from the start. Brewer considers this was “a necessary decision...the only way we were going to be able to work.” Young elaborates that “The first lesson we learnt was to put a representative in the country. We had an office and a representative, because we were shipping large amounts of fabric, worth lots of dollars to us as a small company. You heard stories about how a manufacturing factory could close overnight and take the fabric, that sort of thing.”

So even during the early years when they used a Vietnamese contract manufacturer, they had a direct employee as country manager, to keep a close eye on manufacturing standards, take care of quality control, and be physically present to keep track of the fabric and supplies. This person was a New Zealander, who spoke initially “a little bit of Vietnamese” and then worked to become fluent in the language. It is, says Young, “critical to have someone who can speak the language. You cannot rely on your local partners, you need to know what is being said and written.”

The country manager now acts a translator for the directors on their frequent visits to Vietnam and the company has also used the services of a close personal contact in country, “so there was always somebody in our camp – on our side - that could speak Vietnamese.”

Adapting to local culture

The company has benefited from its willingness to understand and work with Vietnamese culture. Employees who left the company to try an alternative employer, for example, have

been welcomed back. Brewer acknowledges that this fluid employment culture is different from New Zealand’s, but such employees are welcomed back if they ask to return “because once they have been away and come back, they are going to stay with you.”

This adaptation to local expectations has earned Global Safewear the loyalty of many employees: each year they hand out awards for ten years of service at the annual Chinese New Year party. Brewer notes that some of their machinists have worked for a few years, left to have a child, and returned. “We have even got the second generation coming through now to work for us.”

The company has managed the hierarchical nature of Vietnamese culture with a mixed strategy of adaptation and education. They have introduced a flatter system and directly encouraged open communication. But they have also accepted some local needs for status, for example in job titles. Sometimes the directors need to provide an extra layer of symbolic support.

As Brewer puts it, “We are a guest in their country. Whilst we bring this flavour to our business, we need to work in a way that it is going to work out there. It is not our way to go in with a big stick, but whereas here you might be far more informal, we have learnt to operate a bit differently there.” For example, when instituting a change, it was not enough to discuss verbally. They also need to follow up with a formal directive.

Staying informed

Because of the challenges of Vietnam’s complex and fluid legal and regulatory environment, it was critical for the company to stay abreast of local requirements. They did not attempt to be self-sufficient in this respect, but they have used a variety of consultants and legal advisors as well as their local staff. “It is their job to keep us informed of all the latest decrees and regulations,” says Brewer, who notes they use a mixture of international and Vietnamese consultancy firms.

While Vietnamese consultants know the detail of the local regulatory environment, the company has also found it important to use the services of international consultants. Brewer says, “Even though we manufacture in Vietnam, we consider ourselves a global company so we need to consider outside factors, not just factors that are in Vietnam. We are looking at our business as a whole. From that perspective, an international company is good because they can take a more macro look and can consider the whole business environment we are dealing in and not just the Vietnam piece. But there is a lot of detail in the actual Vietnam piece and if you are with a local company they know all the local regulations and details and they understand how you can make things work in the local environment.”

The usefulness of outside advice, of course, depends on finding the right consultant. For that, the Global Safewear team has relied greatly on personal referrals, either from an existing consultancy firm that they already know, or by leveraging the networks they have built up in Vietnam over the years. For example, recalls Brewer, they recently needed an employment lawyer and turned to the agency they already used for some of their employment payment services to ask for a recommendation. In this case, it turned out the recommendation for a local law firm was highly appropriate, given that employment law is an entirely local matter. But for more outward-facing needs, they would turn to an international firm.

Young’s advice to new-entrant foreign firms is to use international consultancies, given their familiarity with Western communication styles and expectations. Even if language is not an issue, different communication styles in Vietnam can mean that a Vietnamese consultant might think you are looking for one thing, but actually you are looking for another. At least at first, she says, you need someone who understands where you are coming from and what you are looking for. The cost of the ‘big four’ consultancy firms can be prohibitively costly for a small company, but mid-tier ones can be much more affordable.

Four Cs: controls, coordination, constant communication

Even when Global Safewear used a contract manufacturer, it adopted a strategy of close monitoring and high engagement. The directors emphasise the importance of being on the spot. “You have to be up there to manage things. Day-to-day there are problems. Apparel manufacturing has an enormous number of processes and components. Everything has to come on time, everything has to be accounted for; you have to manage every single part.”

A close eye on supplies, machinery and costs requires tight control systems that span both New Zealand and Vietnam. While avoiding waste is an obvious reason, Vietnam’s import regulations require an extraordinary degree of monitoring. “Every metre of fabric we bring in has to be accounted for on the way out. If we import a zip, we have to account for that zip on the way out. We get audited on it, and you can’t outsource it.” Paralleling the company’s supplies and inventory management systems are tight financial processes. Everything is double-checked. This requires constant communication, both online and in person.

The challenges relating to control and coordination have in some ways eased as the company has grown. More staff has enabled a separation of duties in some cases, which has improved the governance structure by enabling checks and balances. The well-functioning governance system underpins the business strategy, and a key source of competitive advantage for Global Safewear is having their own in-house import and export office. With in-depth knowledge of logistics in and out of Vietnam, the company is able to manage all aspects of customs clearance for their customers, which also draws on long-standing relationships with major freight forwarders. These systems and relationships ensure smooth delivery to international clients.

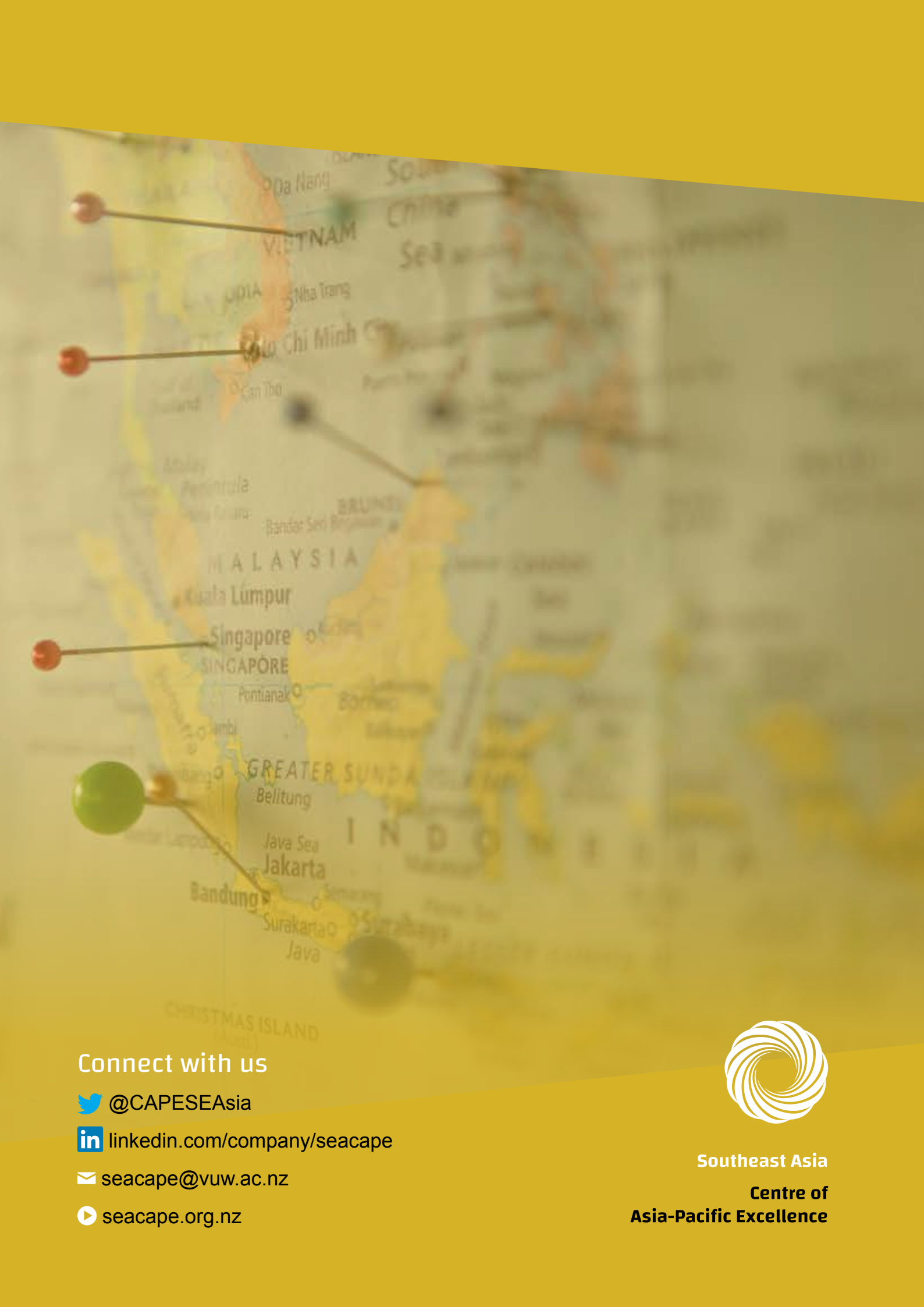
RESOURCES:

Interview with Pam Brewer and Andrea Young, Auckland, 7 June 2019.

Global Safewear. <http://www.globalsafewear.com/en/news/>

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