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TACKLING CHILDCARE: The Business Case for Employer-Supported Childcare in Vietnam

Case Study: Evervan

August 2020



Evervan

Footwear manufacturing, Binh Duong Province



Evervan's workforce profile 2019

Women represent:

- 69 percent of the overall workforce
- 55 percent of managers
- 66 percent of line supervisors
- 55 percent of office workers.

Evervan supports parents through:

- Onsite kindergarten for children, ages 15 months to five years
- Monthly childcare allowance
- Predictable hours and leave.

Key business impacts of providing childcare support:

- Reduced worker turnover
- Enhanced profile with buyer as a socially responsible supplier
- Better recruitment outcomes
- Increased productivity
- Strengthened worker-management relations and reduced likelihood of industrial action

Background

Evervan (also known as Saigon Jim Brothers) is the only Vietnamese factory owned by Evervan Group, a major footwear supplier to Adidas. Evervan is located in Binh Duong province, around 30 kilometers from Ho Chi Minh City. The factory was built in 1999 and began operations in 2000. It has supplied solely to Adidas since 2006 and currently produces one million pairs of sports and outdoor shoes per month. The Evervan Group also has operations in China, Indonesia, and Cambodia.

Evervan employs 7,350 workers in Vietnam, of whom 69 percent are female. Women account for 66 percent of supervisors and 55 percent of senior managers. The average age of Evervan workers is 31 years, and the average length of service is just over four years. 43 percent of workers have been at the company for more than five years. Around 90 percent of Evervan's workforce are migrants, mostly from the Mekong Delta and central Vietnam.

Evervan's production has significantly increased in recent years, with the workforce growing at an average of 7 percent per year since 2016. In 2019, the factory reached capacity for its current site. While it cannot expand its workforce any further, it has no immediate plans to increase the size of its facilities. Instead, Evervan is increasing productivity by investing in automation. Over the last four years, it has almost doubled output while increasing the workforce by only 28 percent. It has installed new machinery designed to improve environmental performance and reduce waste.

This case study looks at the impact of Evervan's support for its workers' care responsibilities, especially its investment in an onsite kindergarten.

The Business Context for Supporting Childcare at Evervan

There is a significant gap in care facilities for children under age three in Vietnam. Where they do exist, they are often of low quality and/or poorly regulated. In 2014, only 34 percent of the 16,000 private childcare facilities that provide care to children under three

were licensed (ODI, 2014). Most unlicensed facilities are household childcare centers, and unfortunately, reports of verbal and physical abuse at these facilities are not uncommon (see, for example, Tuoi Tre News, 2017).

The limited availability of high-quality childcare options for children under three was a key driver of Evervan's decision to open a kindergarten to accommodate children from the age of 15 months. Typically, factory-operated kindergartens serve children from age three, but Evervan saw a need to respond to the specific care needs of its employees, especially after the two-year-old child of two of its workers was severely physically abused in an unregulated household childcare center in 2011. Although there was no suggestion that the factory was to blame, the incident was the subject of considerable attention from national media, the labor inspectorate, and Adidas, and even prompted a meeting of the National Assembly on the issue of abuse at unlicensed childcare facilities. Evervan was uncomfortable with its name being connected to a national tragedy, and the management was upset on behalf of the child's parents.

At the time, the management also saw an opportunity to enhance relations with its workforce by supporting employees' childcare responsibilities. According to Emil Lin, CSR and Compliance Manager, the company was experiencing difficulties with respect to worker-management communication and worker recruitment. The management realized that a culture change was needed to meet these challenges, including a greater focus on engaging with, and taking care of, workers. The high proportion of migrant workers at Evervan made a case for employer-supported childcare particularly clear: migrant workers often have difficulties sending their children to local public kindergartens due to their household registration status and are more likely to rely on private childcare providers in the absence of local family networks.

Evervan's investment in childcare for its workers also aligns with its new focus on automation. The company's workforce strategy is now increasingly concentrated on retaining workers with the skills to operate complex machinery and perform tasks that machines are unable to do. It can take up to two years for a worker to become multi-skilled, and, in this context, Evervan sees its provision

of childcare support as invaluable to promote higher levels of retention. By providing a kindergarten that workers' children can attend for up to five years, Evervan provides a unique incentive for skilled workers to stay at the factory longer.

How the Company Supports Childcare for its Workforce

Onsite kindergarten

In 2011, Evervan started building a kindergarten for the children of its workers—the first factory in Binh Duong Province to do so. The kindergarten opened in 2013, with a capacity for 420 children age 15 months to six years.

The factory made an initial investment of VND 12.8 billion (\$550,000) and covers ongoing annual costs of VND 1.2 billion (\$51,500). Costs include teachers' salaries, which range from VND 5.5 million to 8 million (\$236 to 344), bills, maintenance, and security. Parents contribute VND 1 million (\$43) to cover four meals per day plus milk. The day-to-day running of the kindergarten is managed by the principal, Ms. Hien, but senior factory staff are closely involved. Evervan's General Affairs Manager, Hanson Hoang, devotes around 25 percent of his time to the kindergarten, including recruiting and paying staff and liaising with the local authority. Factory management oversaw the design and construction process.

"We can see that our workers' main focus is their children, so we want to support that."

Emil Lin, CSR and Compliance Manager

Currently, 386 children attend the kindergarten, with around 40 more children set to join by the end of 2019. Although this is slightly under capacity, there are still around 50 workers with children on the waiting list as there is both higher demand and less space for children under three (due to the limited availability of quality childcare for this age bracket in Vietnam). Priority is given

to workers with the longest service at the factory, followed by migrant workers. There is no space to expand the kindergarten on the current site.

Children are divided into ten classes. Two classes for children under age three, four classes for children age four to five, and four classes for children age five to six. There are classes to accommodate older children, and the kindergarten is accredited as an official pre-school for children age five to six.

There are 23 teachers: two per class and a further three who act as supervisors for three or four classes each, as well as two trained caregivers to provide general support. Of the 23 teachers, 17 are university graduates in kindergarten education. All staff members undergo training organized by the local government. Around 20 percent of the teachers attend additional training every year on a rotational basis. They pass on their learnings to the remainder. While teachers are away for training, supervisors, and members of the management board stand in to provide care. According to Hoang, it was initially difficult to recruit good teachers, but now the kindergarten's excellent reputation makes it much easier.

Children follow the national curriculum from age three. The kindergarten is one of five in the province accredited to teach English. For an additional VND 50,000 (\$2.15) per month, children are taught English during overtime hours. Children have a daily nap from 11.30 a.m. to 1 p.m., and parents appreciate that each child is given her/his own mattress, which is often not the case in other kindergartens.

The kindergarten matches the hours of the factory—opening from 6.30 a.m. every day and closing when production (including overtime) finishes. Closing varies according to the production schedule—which is delivered to the kindergarten daily—but is never later than 5.30 p.m. There are no extra fees for care during overtime, and the kindergarten is open on Saturdays, unlike the public and private childcare facilities in the area.

Evervan's management has a zero-tolerance policy for abuse at the kindergarten. There are CCTVs in all classrooms, which parents can review if they have specific concerns. A parents' committee carries out random checks on the kindergarten to ensure children

are well looked after. Evervan communicates its child safeguarding policy clearly to teachers and parents and does not hesitate to enforce it in the rare cases when it is necessary. To date, there has only been one reported case of mistreatment by a kindergarten teacher, which resulted in the dismissal of the teacher in question.

Parents value the high level of care and education in the kindergarten, citing the diverse range of toys and activities, nutritious meals, large campus, and good teachers as the main advantages. Workers with children in Evervan's kindergarten have no concerns about their children not receiving appropriate levels of psychological care. Unlike migrant workers, with children left behind with grandparents in their hometowns, who cite this as a concern. Parents also appreciate the price—which is around VND 700,000 (\$30) less per month than other local kindergartens—and convenience. When a child is sick, the kindergarten calls the supervisor of the parent directly, so they can go and pick up their child.

Evervan's kindergarten has been visited by representatives from the national Ministry of Education and Training and the Ministry of Labor, Invalids, and Social Affairs. Both have deemed it a “national benchmark for childcare” in an industrial setting. It has also received awards from the provincial government in recognition of the quality of its construction and teachers.

Predictable hours and flexibility

Nearly one-quarter of Evervan's workforce lives with dependent relatives, either children or elderly family members, and the factory understands the importance of predictable hours for workers who balance work and care responsibilities. Although core shift times are fixed, a notice of overtime is always given well in advance, and workers can request to work without overtime on a month-by-month basis. Supervisors say that production is managed efficiently so that the factory has the flexibility to allow some workers to decline overtime in any given month.

Workers start shifts at 7 a.m. and, even with overtime, never have to stay past 5.30 p.m. According to workers, this compares very favorably with other factories in the area, where shifts frequently finish at 9 or 10 p.m. In focus group discussions, workers cited the

predictable hours and limited overtime among the things they most value about working at Evervan.

Workers believe that the factory is flexible about them having to take leave for family reasons and supervisors agree that workers can take leave to look after family members whenever they need to.

Monthly childcare allowance

All workers with children under six that do not attend the factory kindergarten are entitled to a monthly childcare allowance of VND 80,000 (\$3.44) per child. This is payable to both men and women, but only to one parent if both parents work at the factory. The childcare allowance is valued by workers, although some suggest that the factory could help more by making the allowance available to both parents, if both work at the factory, as some companies do.

Support for workers' families

Workers are encouraged to bring their families to the site in their free time to make use of the football pitch, basketball court, playground, coffee shop, and green spaces. The site is open to workers and their families on weekends, and for the hour before shifts start. The factory also hosts several events for workers' families throughout the year, including a family day designed to foster understanding between teenagers and their parents. Emil Lin, CSR and Compliance Manager, believes that this after-hours access to the site and the family events help workers feel loyal to Evervan and keep them engaged throughout the year.

Evervan carries out visits to workers' homes and hometowns to better understand their lives and see if they can offer support to those who need it. It also provides scholarships every semester for employees' children, who are in the top three of their class, from primary school through to university. One of the factory's most popular initiatives to support workers is providing a system to provide clean drinking water; many workers bring large containers that they fill to take home for their families.

The Business Benefits

Benefits for employee retention

To increase production levels without growing the workforce, Evervan needs to retain more experienced, higher-skilled workers, who have been at Evervan for several years. The factory encourages all workers to become multi-skilled, a process that can take up to two years. The management believes that a multi-skilled workforce is beneficial for productivity—it helps the workforce be flexible and adapt to worker absences and changes to production schedules, and it makes workers more interested in their work, and consequently more likely to stay at the factory.

However, worker retention is an ongoing challenge in the context of an increasingly constricted labor market in Binh Duong. Many new factories are setting up in the area, notably in garments, electronics, furniture, and food and drink processing, bringing new pressures on recruitment. In 2019 alone, global packaging company Tetra Pak (Tetra Pak, 2019) and Danish shoe brand Ecco (Vietnam Economic Times, 2019) opened factories in Binh Duong. TCL, one of the largest televisions and consumer electronics brands in the world, announced plans to open a major manufacturing base in the province (PR Newswire, 2019). Some nearby factories can pay wages up to 20 percent higher than Evervan, and in this context, retaining workers is a big challenge.

One of the unanticipated benefits of the kindergarten is the impact that it has had on reducing employee turnover, bringing substantial cost savings for the factory. Since Evervan started construction of the kindergarten, worker-turnover rates have decreased by more than half, from a monthly average of 4.1 percent in 2011 to 2 percent in 2018. The factory is saving up to VND 12.5 billion (\$537,000)¹ per year by maintaining productivity levels and from reduced training costs, based on the 2018 workforce and wages data. In other words, nearly the same as the one-off costs of constructing the kindergarten.

¹ This figure is calculated on the basis of labor inputs alone and does not take into account overhead costs such as energy use, materials, building maintenance, and government taxes. The figure is based on the costs of reduced productivity associated with an average three-month trajectory for workers to gain 100 percent productivity (60 percent in month 1; 75 percent in month 2; 85 percent in month 3) and costs associated with recruitment and training.

Although the company has introduced other initiatives to improve worker welfare over the period, Evervan's management considers that the kindergarten has been one of the most significant factors in maintaining worker loyalty and bringing down worker turnover. According to Phuong, 25, who works on the production line: "The availability of the kindergarten—as well as its good working hours and conditions—are the reasons people stay at the factory."

Worker turnover has been cut in half since Evervan built its kindergarten, bringing cost savings of up to **\$537,000** per year.

Although the factory does not disaggregate turnover data according to whether workers have children in the kindergarten, HR believes that it is rare for workers to leave the factory while their children are enrolled. "If workers send their kids to the kindergarten from the age of 15 months, we're very likely to keep those workers for five years," says Lin. But as only around 8 percent of the factory's workforce has children of kindergarten age, the retention of those workers alone does not entirely explain the reduced turnover. What's equally important, according to Lin, is that the kindergarten helps to show workers, even those without children, that the company cares about them and is willing to invest in supporting their needs. "It's about fostering a sense of loyalty by winning their hearts," says Lin.

According to Thao, 32, who works on the production line: "When people leave the factory it's never because they are dissatisfied. Usually, it's because they have to go back to their hometowns to care for older relatives."

Benefits for recruitment

Evervan's current focus is to improve retention outcomes, rather than expand its workforce. Nevertheless, in light of worker-turnover rates, the factory still needs to recruit a substantial number of new workers every year to maintain current staffing levels. For instance, in 2019, Evervan needed to recruit over 2,500 workers.

"Because of our commitment to supporting our workers' family lives, they have confidence to tell their relatives and friends that this factory is a good place to work."

Emil Lin, CSR and Compliance Manager, Southeast Asia

When it is time to recruit, the management considers the kindergarten is an important selling point and an easily communicated symbol of Evervan's commitment to its workers and their families. All recruitment is done through word-of-mouth, mostly by Evervan's existing workers, who draw attention to the kindergarten, stable hours, and flexibility of supervisors, when talking to potential new recruits.

Enhanced relationship with buyer

Adidas has high expectations from strategic suppliers like Evervan, ensuring it meets these expectations is critical to Evervan's success.

Adidas has a framework for scoring its suppliers on a range of key performance indicators (KPIs) for social and environmental sustainability. In 2019, Evervan achieved the highest rating (5C) for the first time. It is one of only three Adidas suppliers in Vietnam to currently hold this rating. To attain a 5C rating, suppliers must achieve scores of 90 percent on KPIs across the board, showing improvement on the previous year's baseline or convincing evidence for lack of improvement. Having a 5C rating means that the compliance audit is waived for one year. This reduces administrative costs for the factory and enables Adidas to support it with other initiatives to benefit its workforce and, in turn, improve productivity.

While having a kindergarten is not a KPI per se, according to Vu Tu, Director, Social and Environmental Affairs for South East Asia at Adidas, factories that invest in well-managed kindergartens for workers are more likely to get a high score on the Leadership and Commitment category of the scorecard. And as setting up a kindergarten can have a positive impact on turnover and absenteeism rates and recruitment outcomes, it can also indirectly influence the score for those KPIs. Evervan's management believes

that the kindergarten helps them have a good relationship with Adidas and elevates the factory's status as a case of best practice. This is supported by Tu, who says that the handful of suppliers in Vietnam with kindergartens is considered top-class by Adidas.

Since Evervan built the kindergarten, Adidas has been impressed by the results and has encouraged other suppliers to do the same. Representatives from other suppliers have visited to learn from Evervan's experience. "After we set up the kindergarten, the game changed, and Adidas encouraged two local factories to set up kindergartens," says Emil Lin.

"We absolutely see the benefits of investing in worker welfare so that we can improve retention and productivity. When workers are confident that their children are in good hands, they are likely to be more productive and stay with the factory."

Vu Tu, Director of Social and Environmental Affairs for Southeast Asia, Adidas

Higher productivity and greater stability

Evervan has strict production targets, and workers are better able to focus on meeting these targets if they know that their children are safe and well-cared for. According to one supervisor, "The kindergarten makes workers more productive because they do not have to worry about care for their kids or last-minute overtime."

Supervisors observe that workers with children in the kindergarten are markedly more engaged and willing to work overtime (even if they do not always notice a direct effect on their lines). This is in contrast to workers with young children that are not in the kindergarten. They often need to leave their workstations to make phone calls when their child is ill or if they need to make last-minute care arrangements.

It is the same case with migrant workers who have left their children behind in their hometowns and suffer from separation anxiety. Canh, 31, says: "My kids live in my hometown with

my parents. I worry about them a lot, especially when they are sick. When this happens, I try to take time off to be with them. I make up by performing at my best the rest of the time so that my supervisor will be understanding. But it is a challenge."

Enhanced industrial relations

The management strongly believes that the kindergarten and other supports for workers with families are critical in establishing a sense of loyalty to the company and that this has led to a higher quality of worker-management relations and reduced likelihood of disruptive industrial action.

The strike rate in Vietnam's garment sector is one of the highest in the world (Better Work, 2017). However, even during a particularly severe period of industrial unrest across Vietnam in 2014, Evervan only experienced one day of industrial action. At the time, at least 15 factories in Binh Duong were set on fire, causing losses of hundreds of thousands of dollars (Tuoi Tre News, 2014). Other factories lost many worker days to strikes, and the strikes caused heavy losses to Taiwanese-owned companies in particular (Reuters, 2014).

Evervan's workers, on the other hand, organized themselves to protect the factory, taking shifts to sleep across the entrance. Without such a high degree of worker loyalty to the company, and good relations between workers and management, the costs to the business in terms of both damage to property and lost productivity could have been substantial.

Lessons Learned

Evervan's management is convinced that the kindergarten has been a worthwhile investment, and workers and management alike clearly take pride in it. However, there were some early challenges, including permit applications. Evervan was the first factory in Binh Duong Province to set up a kindergarten. Consequently, the local authority was not familiar with the process of setting up a kindergarten in an industrial zone, and it took two years to receive all the relevant permits, although construction was started before all permits were received. However, according to the management,

it is now much easier for local factories to set up kindergartens as the process is well established, and the local authority is supportive. Since Evervan opened the kindergarten, several factories in the area have followed suit, one of which received the required permits within five months.

Evervan’s management would advise other factories considering setting up a kindergarten to think carefully about the medium to long-term strategy for the business and workforce and how this might impact demand for the kindergarten in the future. For example, there are strict regulations for all aspects of construction and use of space, even down to details such as the correct surface area of bathroom per child. Factories should consider whether they are likely to increase future capacity before embarking on construction. “It’s much easier to think about these things at the beginning than have to demolish buildings later on,” says Lin.

In terms of the ongoing operation of the kindergarten, the management advises other companies to have a clear and comprehensive code of conduct and standard operating procedures. They say that having these policies and processes in place will help attract high-quality staff, ensure the safety and wellbeing of the children, and maintain efficient and transparent communication between the factory and the kindergarten. It is important to back these policies up with a generous remuneration package for teachers and a good monitoring system to ensure children’s safety—through CCTV, random checks, or other methods.

The management observes that there are specific challenges in running a kindergarten that accepts children from the age of 15 months. Such young children need a greater level of care and attention, are less adaptable to new environments, and are more prone to illnesses. This requires more financial resources and staff time. However, according to Lin, it is worth the investment to support the care needs of Evervan’s workers and secure the future of the business.

Apart from the kindergarten, Lin says the best way to help employees is by ensuring that shift patterns and overtime is predictable—this also benefits workers with older children and elder-care responsibilities.

Conclusion

When Evervan started building the kindergarten in 2011, one of its priorities was to turn negative publicity into a positive outcome for the factory by responding to the childcare needs of its employees. The management had not anticipated the extent to which it would bring other substantial business benefits, such as better retention of staff and an enhanced relationship with its sole buyer. Now, it is convinced that the kindergarten has been an important factor in helping to transform the culture of the factory, making Evervan a place where people are proud to work and more likely to stay on.



Photo credit: Ergon Associates, 2019



Photo credit: Evervan, 2019



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