



# Garment Supply Chain Governance Project

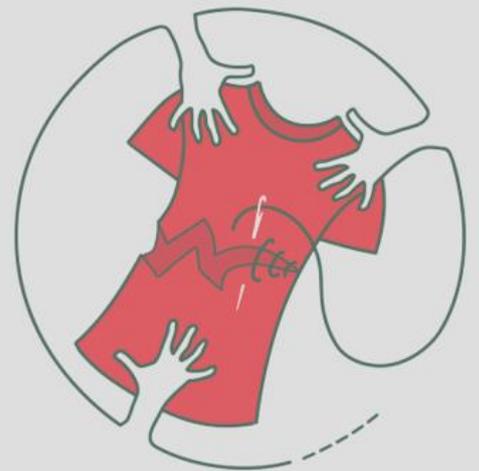
Garment Supply Chain Governance Project

Interim Report January 2019

Elke Schüßler, Stephen Frenkel, Sarah Ashwin, Naila Kabeer, Niklas Egels-Zandén, Lopita Huq, Rachel Alexander, Chikako Oka, Nora Lohmeyer, Shahidur Rahman, Kazi Mahmudur Rahman

Changes in the Governance of Garment Global Production Networks:  
Lead Firm, Supplier and Institutional Responses to the Rana Plaza  
Disaster (Version 1.1)

Berlin, January 2019





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## **Homepage**

[www.garmentgov.de](http://www.garmentgov.de)

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## **Changes in the Governance of Garment Global Production Networks: Lead Firm, Supplier and Institutional Responses to the Rana Plaza Disaster (Version 1.1<sup>1</sup>)**

Interim Report January 2019

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### **Introduction**

“Changes in the Governance of Garment Global Production Networks: Lead Firm, Supplier and Institutional Responses to the Rana Plaza Disaster” is an international, interdisciplinary research project that seeks to understand the challenges of improving labour conditions in global production networks. The project triangulates the perspectives of lead firms based in different home countries, suppliers and workers in the context of ongoing institutional innovations in the Bangladesh garment industry and on national and transnational levels.

During the second half of the 20th century the sourcing model of the garment industry was transformed, moving from predominantly nationally-based garment production to a global sourcing model that took advantage of lower production costs in countries predominantly in the Global South. In the 1990s, activists drew attention to poor working conditions in producer countries, with global brands in large consumer markets such as Germany and the United States in the spotlight. In response, brands and retailers developed codes of conduct covering labour standards (often incorporating ILO core labour standards), which they monitored by internal or third party auditing. Concerns about the efficacy of this model were growing from the mid-2000s. Its failings were starkly exposed in 2013 by the collapse of Rana Plaza, a building housing factories producing clothing for multiple international garment companies, killing 1134 garment workers. Building safety was absent from buyers’ codes of conduct, while supposed auditing of freedom of association did not give garment workers the voice to refuse to enter a building that had been evacuated by many other occupants. Rana Plaza was, in the words often repeated by respondents in our study, “a wake-up call” for the garment industry.

This report summarizes leading garment brands and retailers’ response to the disaster comprising individual firm actions and collective initiatives, as well as key changes experienced by Bangladeshi workers and Bangladeshi factory managers in the years following the Rana Plaza disaster. These changes have unfolded in the context of three major multistakeholder initiatives: the Rana Plaza Compensation Arrangement chaired by the ILO; the Bangladesh Fire and Building Safety Agreement (‘Accord’), also chaired by the ILO, and signed by over 180 apparel brands, retailers, and importers along with two global unions, IndustriALL and UNI; and the Alliance for Bangladesh Worker Safety (‘Alliance’), a smaller initiative signed by almost 30 brands and retailers, mostly from the USA. The Accord and Alliance aimed to transform the

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<sup>1</sup> An earlier version of this report excluded German brands in data presented on lead firms.

safety of the Bangladesh garment industry through a regime of inspection and remediation, coupled with promises that signatory brands and retailers would continue to source from Bangladesh. The overall aim of our research project is to assess the longer-term impact of the various policy frameworks on multiple levels developed in response to Rana Plaza.

A key finding is that workers in Bangladeshi garment factories report improved working conditions since the Rana Plaza. These changes are larger in factories associated with the Accord and the Alliance. Auditing for the Accord and Alliance is far more rigorous and better enforced than anything that preceded it. As reported below, factory managers now realise that non-compliance threatens the ability to export to Europe and the US. It may be this development has had spillover effects on improving compliance in areas not covered by these safety focused initiatives. Legal changes that followed Rana Plaza in areas such as worker voice and minimum wages may also be a factor leading to improvements, as well as the influence of other labour focused initiatives such as the ILO's Better Work programme. This report also highlights changing practices among global buyers seeking to improve labour standards in their supply chains. Changes experienced in Bangladesh by export-oriented factories may also be connected to effects of the range of new initiatives being adopted by these companies, many of whom are also members of the Accord and the Alliance. The improvements found in this study show that concerted action can check the pressures towards a global 'race to the bottom'.

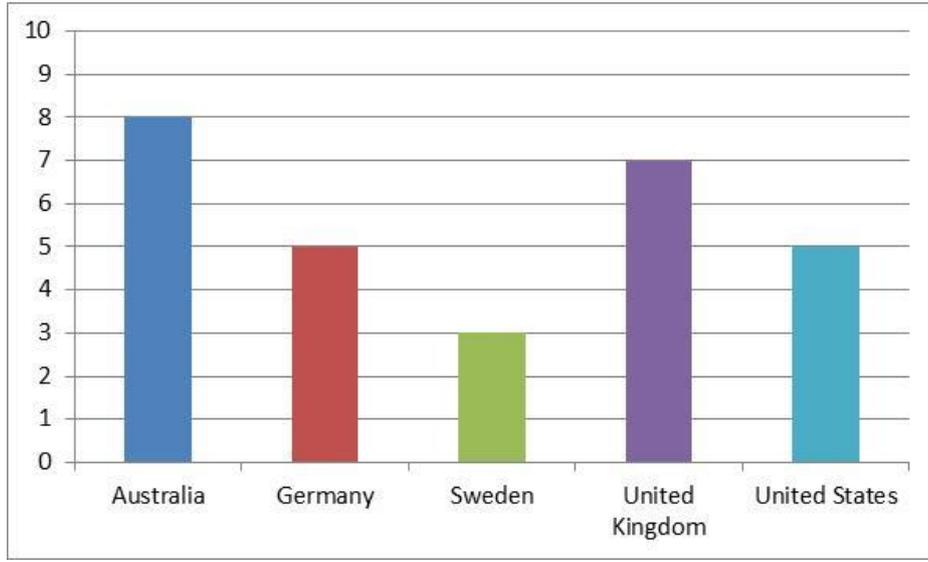
## **Global Garment Buyers: Experimenting with New Approaches**

Looking at the behaviour of large global garment buyers in five countries (Australia, Germany, Sweden, the UK and the US), we find that they are experimenting with a variety of new approaches for managing labour standards that reach beyond the compliance model of auditing. Important changes include increased transparency, a consolidation of supply chains and the formation of collective governance initiatives.

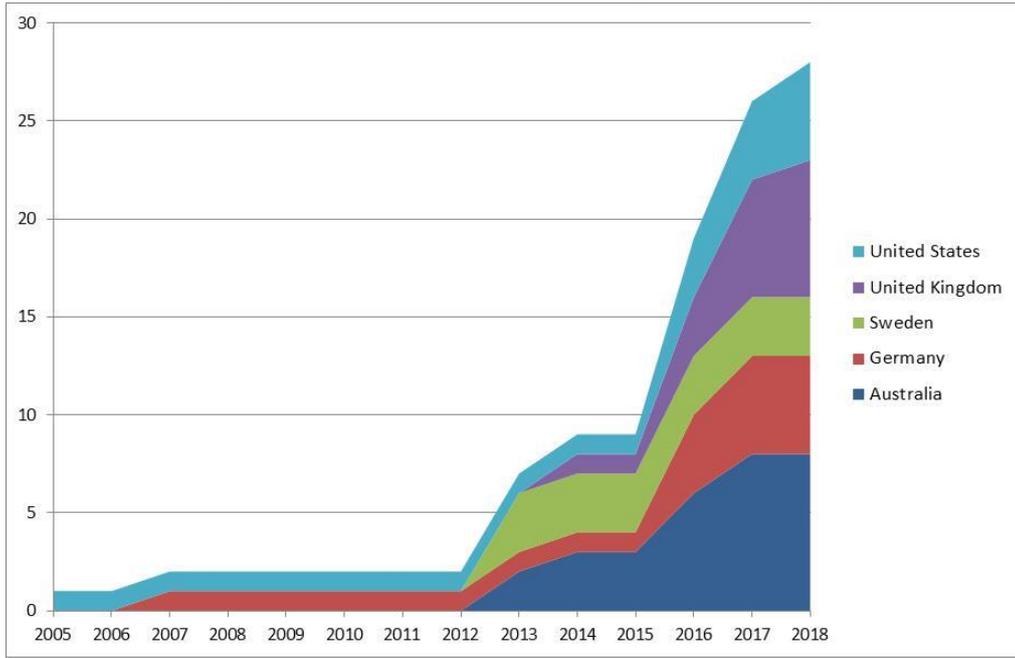
### ***Growth of Transparency***

Brands and retailers are increasingly publicizing the identities of their suppliers. For some firms, this includes lists of names and address; for others it also involves providing additional information about supplier businesses, which can include numbers of workers, gender breakdown and factory ratings based on a number of criteria, including labour standards. Transparency has been embraced by more lead firms based in Australia, the UK and the US compared to top German and Swedish firms.

**Number of Top 10 Brands and Retailers<sup>2</sup> Disclosing Supplier Names in 2018**



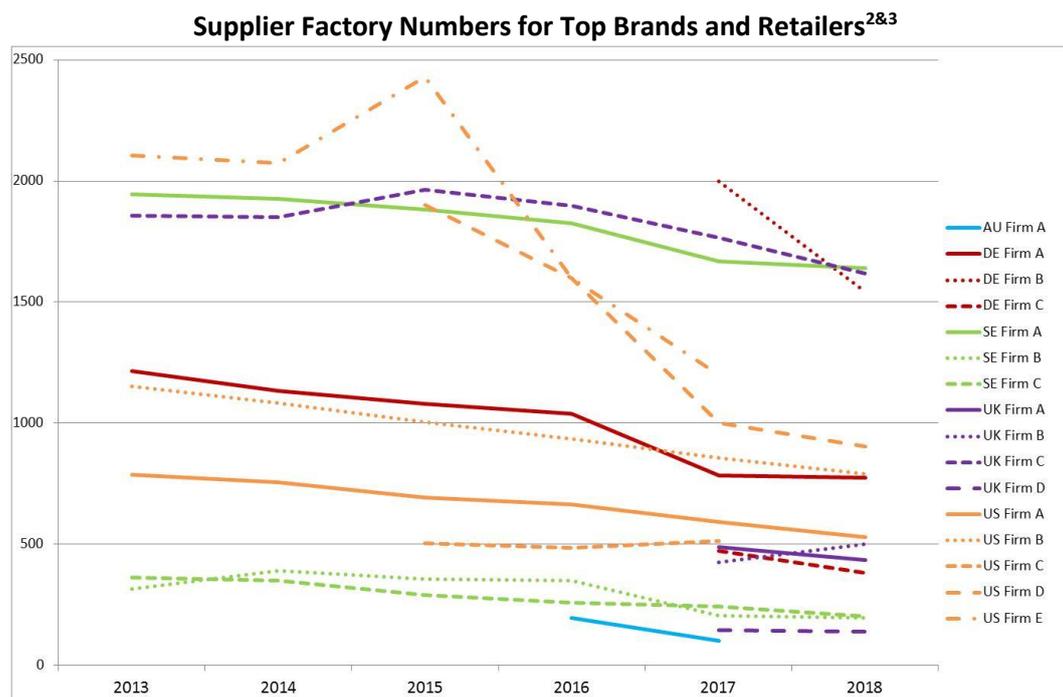
**Years that Top 10 Brands and Retailers<sup>2</sup> Publicly Disclosed Supplier Names**



**Consolidation of Supplier Bases**

With increased pressure to be publically accountable for working conditions and other sustainability criteria during production, large brands and retailers are consolidating their supplier bases. Available data about buyers in this report shows an average reduction of 8% of supplier factories per year from 2013 to 2018. Many brands and retailers have developed rigorous onboarding processes related to quality and labour standards which have increased the costs of working with new suppliers.

<sup>2</sup> Top 10 brands and retailers by revenue are considered for each country.



### Development of New Governance Initiatives

New approaches to regulating labour standards also include the growth of cooperation, promotion of collective bargaining, and running programs intended to support capacity building for factory managers and workers.

The experience of the Accord has demonstrated the efficacy of a collective approach towards addressing the safety of garment workers and some brands are experimenting with collective action in other areas of labour standards regulation. A prominent example of this is the Action Collaboration Transformation (ACT) living wages initiative, which brings together global brands and unions to promote collective bargaining in garment exporting countries.

*“I think the Accord’s a good example to where brands have woken up to the fact that actually working together, not just brands working with brands, but brands working with trade unions and civil society can create more change potentially ... I think we’re still learning but I think the leverage that comes with working together is an important factor in getting people started on the journey.”*

CSR Manager, UK-based Garment Retailer

A notable development across many new private governance initiatives, particularly among European companies, is greater cooperation with unions. Garment brands and retailers are increasingly embracing arrangements that involve formalized industrial relations, both through signing global framework agreements with commitments covering their own supply chains and through broader agreements, such as the Accord and ACT that involve multiple brands and retailers making collective agreements with global unions.

<sup>3</sup> First-tier supplier factories based on publicly available data.

## Garment Factory Managers in Bangladesh

Using excellent access to Bangladeshi garment factories, our survey of 152 managers of export-oriented factories provides a unique insight into managers' experience of post-Rana Plaza changes in the industry. We observe a stronger concern for worker safety and labour standards on the one hand and continued tensions between buyers' demands for low production costs and speed on the other.

### *Embedding a New Safety Culture*

Despite challenges with adhering to new regulations, a new safety culture is emerging in the Bangladeshi garment industry. The overwhelming majority (81%) of factory managers said that the most important change in the industry since Rana Plaza was the improvement in safety:

*"It is a lesson for us. Accord-Alliance taught us how to improve and maintain standards."*

Factory Manager, Bangladesh

*"I think it's a competitive advantage because the Bangladeshi manufacturers are able to say that we are the safest garment industry in the world."*

Factory Manager, Bangladesh

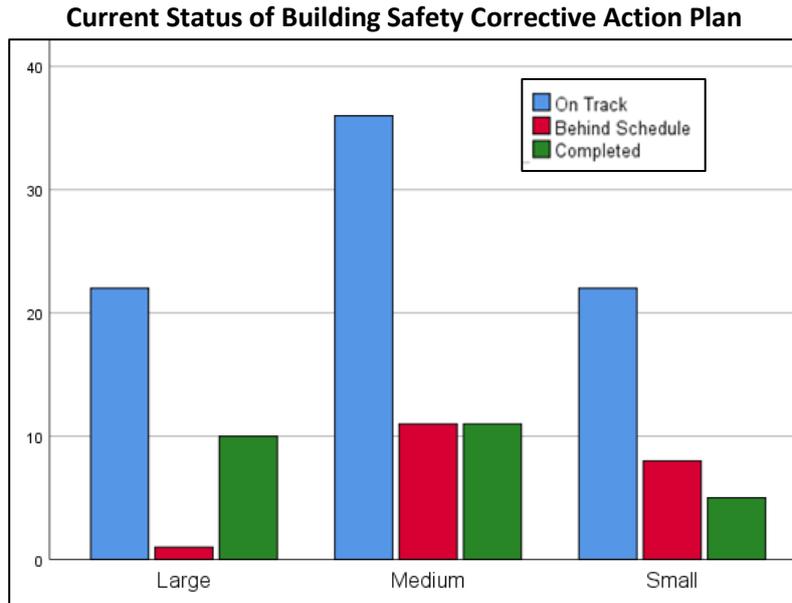
Overall managers reported that participating in building safety related initiatives had been a valuable experience, although 11% of medium and 9% of small factories claimed it had not been valuable. Having a factory certified by the Accord or the Alliance was perceived by the majority of factory managers to be essential, with 60% believing that the continuation of orders from buyers depended on such certification.

### *Coercive Compliance and Lack of 'Shared Responsibility'*

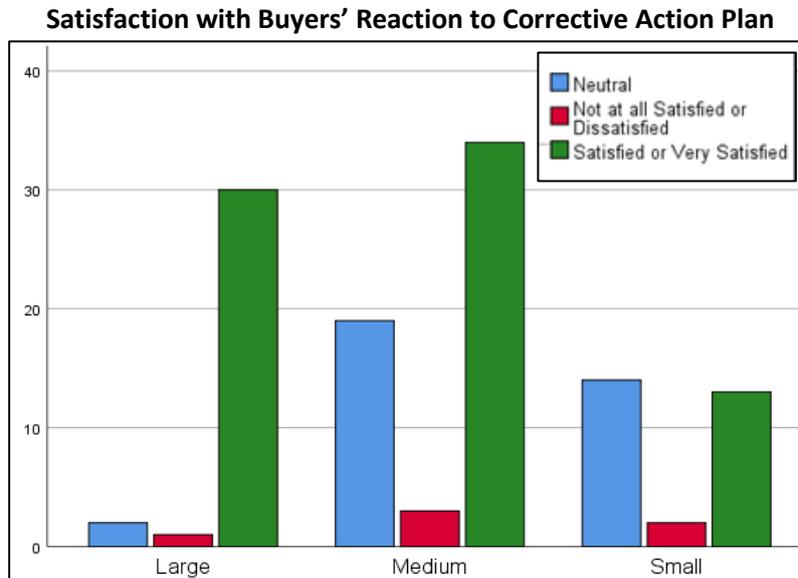
Suppliers are experiencing difficulties in meeting the demands of global buyers. They found the inspection process to be problematic for reasons including receiving multiple inspections by multiple inspectors, miscommunications and unplanned inspections. Some challenges were experienced disproportionately by smaller factories. While only 3% of large firms reported being behind schedule on building safety corrective action plans, this challenge was reported by 19% of medium firms and 23% of small firms.<sup>4</sup>

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<sup>4</sup> In this study small factories had under 600 employees, medium from 600 to 2499 and large over 2500.



Smaller firms also felt higher levels of dissatisfaction with how their buyers reacted to their corrective action plans. Only 3% of managers from large factories reported dissatisfaction compared to 7% at small factories.



Another concern was that some factories in shared or non-purpose built premises needed to relocate. Firms in such premises which were not able to meet the new standards had to move and often ended up in more remote regions. They also did not receive financial support with relocation costs from buyers, the government or their industry association. Relocation also created problems of employee retention.

Factory managers argued that the burden of costs should be shared with buyers. Not a single factory in this study received financial assistance from buyers. Instead they had seen reduced prices. Buyers do not dispute this claim, but argue that they have invested resources through

providing inspectors and through the membership fees they pay to the Accord and the Alliance. The difference in perspective is captured by the following factory manager:

*“Everything that Accord has done is worthy of applause. I do not have any dissent with Accord in any way. But I resent the buyers for their insensitivity to the suppliers’ problems and for their reluctance to share the costs of complying with Accord requirements. The buyers have never come forward to help me on compliance issues. They always say, ‘it is your problem, not mine’. They do not advance us loans in order to carry out the CAPs or even commit to giving us guaranteed orders.”*

Factory Manager, Bangladesh

In short, factory managers perceive a lack of ‘shared responsibility’ in the Accord and Alliance models.<sup>5</sup>

Overall, the Accord and Alliance were perceived to have intensified the power imbalance between buyers and suppliers. Factory managers wishing to sell to major global buyers perceive that they have “no choice” but to comply with the demands of the Accord and Alliance but receive no support beyond intensified inspection in doing so. While factory managers agree that the Accord and Alliance have brought necessary improvements, suppliers’ difficulties with meeting standards have led to resistance in Bangladesh towards extending the Accord beyond its original five year timeline. Without some model of shared responsibility, increased pressure for improved standards by international buyers will likely lead to a concentration of the export industry, with small and medium sized enterprises finding it increasingly difficult to comply with the required standards.

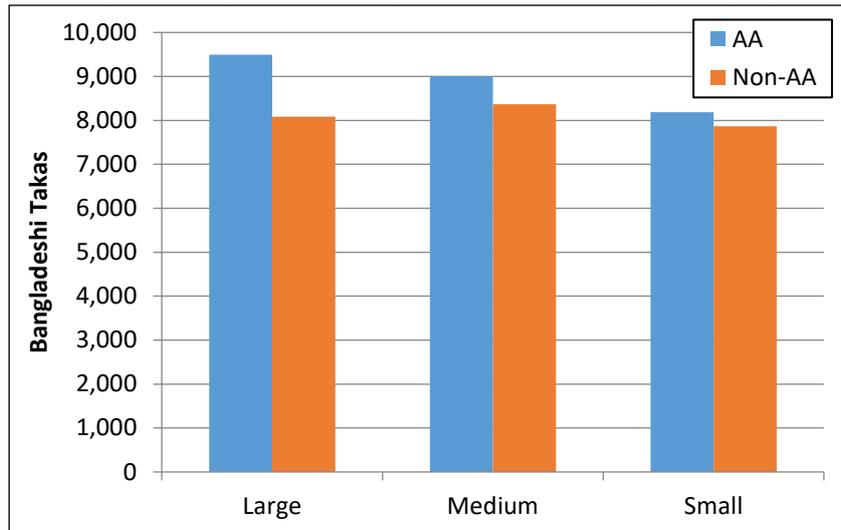
## **The Situation is Improving for Garment Workers in Bangladesh**

We carried out a survey of 1500 workers, 1000 women and 500 men, from 250 factories in and around Dhaka, the capital of Bangladesh. Most (83%) of the factories were affiliated either to the Accord or to both the Accord and the Alliance. Like the factory managers, workers reported that safety had improved. An overwhelming majority of (96%) workers in Accord and Alliance factories felt safe in their factory building, while 90% reported that they could refuse to go into the factory if the building was perceived to be unsafe. Also, the vast majority (90%) had received health and safety training. Accord and Alliance factories performed significantly better in this regard than factories outside these programmes. Similarly, while larger factories reported better wages, working conditions, health and safety as well as scope for voice than smaller factories, within each factory size, those affiliated to the Accord, the Alliance or both (AA factories in the below charts) performed far better than those that were not. Furthermore, according to the workers in the survey, most of these changes had occurred after Rana Plaza and were attributed by them to buyer pressure and, in some cases, very explicitly to factory affiliation to the Accord and the Alliance.

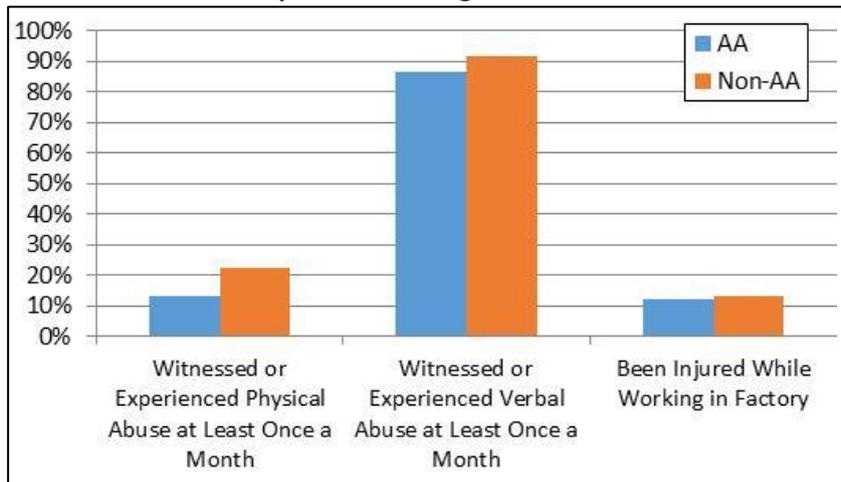
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<sup>5</sup> For a proposed model of ‘shared responsibility’ see NYU Stern Center for Business and Human Rights’ Commentary “Making the Bangladesh Garment Sector Safe and Sustainable: Setting the Future Agenda” by Dorothee Baumann-Pauly and Auret van Heerden (<https://bhr.stern.nyu.edu/blogs/setting-the-future-agenda>).

**Average Salary including Overtime Pay in Month Preceding Survey by Factory Size**

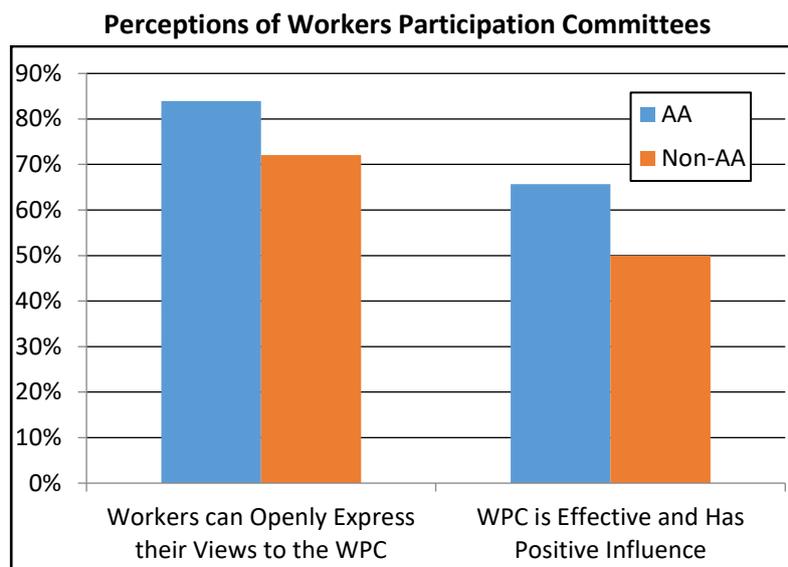


**Reported Working Conditions<sup>6</sup>**



Bangladeshi laws passed in 2013 and 2015 require factories with over 50 employees to have freely elected workers participation committees (WPCs). These committees, also known as safety committees, are designed to promote a safe workplace. In a largely non-unionised environment, these committees provide an opportunity for workers to express their concerns. The worker survey shows that WPCs are experienced positively. Respondents in Accord and Alliance factories are more likely to feel that workers can openly express their views when they take complains to the WPC and that their “WPCs are effective and have a positive influence on the work environment.”

<sup>6</sup> Worker injuries are only counted for workers who started in 2014 or later (1354 workers) as reported injuries by more experienced workers may have taken place before the Accord and the Alliance were implemented.



However, change had not occurred or had occurred very slowly in some areas. A large percentage of workers reported dissatisfaction with wages, which were on average lower than lower-end estimates of a ‘living wage;’ the vast majority reported that overtime was compulsory; and various forms of abusive behaviour, particularly verbal abuse, were common. Abuse was most often linked to failure to meet production deadlines, not working fast enough or making mistakes.

### Key Findings and Future Questions

The fundamental business model in garment supply chains is not changing. A large proportion of production for brands and retailers in higher wage countries is being conducted in low-wage countries. Garment production remains an industry with high levels of opportunity for countries to connect to global value chains, but this comes at a price for workers.

Nevertheless, our key finding is that working conditions in the Bangladesh garment industry have improved since Rana Plaza. Although precise causal attribution is difficult, this effect is stronger at larger factories, and firms affiliated to Accord and Alliance perform better across all factory sizes. Factory managers describe the inculcation of a new safety culture, and workers feel safe in their factories, particularly factories affiliated to the Accord or Alliance. Better working conditions and wages at Accord and Alliance factories may in part be a positive spillover from the rigorous enforcement experienced when buyers collaborated to ensure that suppliers have “no choice” but to comply.

We thus consider an Accord-type model entailing interfirm cooperation and cooperation with global unions as a promising route for sustained improvements in working conditions in the garment industry. Having said this, we recognize that such models can intensify the power imbalance between suppliers and buyers, as they also concentrate buyer power. This development needs to be mitigated by a commitment to shared responsibility across the supply chain, particularly including a larger role for worker voice.

Additionally, the diverse new initiatives that global brands and retailers are experimenting with have potential to create future improvements using different types of mechanisms. While the effectiveness of these initiatives is still unclear, innovative new approaches may grow to replace or be layered on top of auditing focused systems.

We also found that some labour rights abuses, such as forced overtime, low wages, and verbal abuse remain entrenched in garment factories, reflecting an unchanged business model in the industry. Indeed, fast fashion systems which involve production requiring quick turnaround and low prices are expanding. While the length of buyer-supplier relationships is growing, producers generally cannot be sure of maintaining order levels year on year. The fast fashion model often involves production taking place in facilities with weak labour regulation and businesses working under high levels of pressure to remain globally competitive. Thus, we suggest that national and international initiatives should not just focus on the point of production, but should also take into account possibilities for regulating consumption behaviour, for instance by enforcing increased transparency for buyers about working conditions in their supply chains and for governments to set an example through sustainable public procurement. Given intense competition in the industry, approaches which level the playing field through collective action or legislation appear most promising.

For the future, the following critical aspects remain to be addressed by brands and policy makers alike:

- Spreading collective action mechanisms including multiple brands, unions and other stakeholders beyond a small group of proactive leading brands
- Maintaining public scrutiny over labour standards beyond single catastrophic events
- Strengthening local labour representation in supplier countries without which higher wages and a less abusive work environment will be hard to implement
- Increasing transparency regarding working conditions for end consumers
- Finding adequate mechanisms for financially supporting factories' remediation processes and other forms of upgrading
- Transferring the governance experiments unfolding in post-Rana Plaza Bangladesh to other garment producing countries and other issues



## Garment Supply Chain Governance Project

The Garment Supply Chain Governance Project is funded by the VolkswagenStiftung as part of the “Europe and Global Challenges”-Program in cooperation with the Wellcome Trust and Riksbankens Jubileumsfond.

For further information

[www.garmentgov.de](http://www.garmentgov.de)

See also our Garment Supply Chain Governance Discussion Paper Series

