Between Lead Firms and Institutional Ensembles: Labour and Safety Practices in Bangladeshi Garment Export Factories

Stephen J. Frenkel (University of New South Wales, Australia)
Kazi Mahmudur Rahman (University of Liberal Arts Bangladesh),
Shahidur Rahman (BRAC University)
Jaco Fourie (University of New South Wales)

Paper prepared for presentation at the “5th Conference of the Regulating for Decent Work Network”
At the International Labour Office Geneva, Switzerland 3-5 July 2017

We gratefully acknowledge funding from the Volkswagen Foundation and thanks to Nora Lohmeyer for providing helpful comments on a previous draft.
Corresponding author is s.frenkel@unsw.edu.au)
Copyright 2017 by author(s). All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies

Abstract
The tragic 2013 Rana Plaza building collapse in Bangladesh represented a focusing event (Birkland, 1998) that galvanized key transnational and national stakeholders into developing and implementing policies aimed at improving factory safety in Bangladesh while being cognizant of the need to uphold related international labour standards. Drawing mainly on a survey of 50 Bangladeshi garment factory managers -- part of a larger project that includes lead firms based in Australia, Germany, the UK and Sweden--we investigate three aspects of contemporary supply chain governance. These are: 1) relationships between lead firms, mainly based in the developed countries, and factory management regarding business in general and labour standards in particular; 2) factory responses to a new institutional ensemble of organizations requiring improvements in building safety; and 3) relationships between factory management and employees, both in terms of procedural (worker representation) and substantive (pay and working conditions) aspects. While progress had been made in improving building safety and lead firm-factory relations appear to be positive and durable, questions remain regarding treatment of employees.

Key words: Bangladesh, garment factories, global supply chains, labour relations, retailers and brands
**Introduction**

This paper is about the labour relations and related standards and building safety in factories that produce garments for export mainly to developed Western countries. The factories are situated in Bangladesh, where in April 2013 the Rana Plaza building collapsed causing the death of 1,137 garment workers, leaving some 2,000 persons badly injured (Burke, 2013; Donaghey & Reinecke, 2015). In the aftermath of this human tragedy, mainly European brands, retailers, and two international unions, together with the ILO, local unions and NGOs established a five year, legally binding agreement known as the Accord on Fire and Building Safety in Bangladesh. This agreement aims to improve building safety and awareness of safety issues in the factories supplying Accord signatory lead firms. Meanwhile, a smaller number of US firms established the Alliance, a similar, non-legally binding five-year initiative (Donaghey & Reinecke, 2017). The Bangladesh government instituted a National Tripartite Plan of Action (NTPA) later that year to improve safety in the 3,497 registered export garment factories not covered by either of the two above-mentioned arrangements (Labowitz & Baumann-Pauly, 2014: 34).

In short, following the focusing event (Birkland, 1998) of the Rana Plaza factory collapse, stakeholders moved swiftly to create an ensemble of institutions designed to improve and regulate building safety. So far, we know little about their impact at the factory level: has management improved building safety? How has this been achieved? Has a focus on safety encouraged worker representation in speaking up about issues that vitally affect their interests?

Next to the number of initiatives instituted in this country, a second reason for focusing on Bangladeshi garment export factories is that these workplaces matter in three additional ways. First, they are the engines of the Bangladeshi economy, contributing an estimated 80 percent of total exports and accounting for 3.6 million employed persons, an estimated 5 percent of the country’s urban workforce. Second, on average, Bangladeshi factories pay the lowest wages of all garment exporting nations and there is a record of violent antagonism towards trade unions (Rahman & Rahman, 2016).

In short, there is the possibility that international labour standards are routinely violated in spite of claims by many prominent developed country lead firms that procedures are in place to ensure that their sourcing factories uphold international labour standards. A third reason is the prospects for learning from addressing painful problems in a rapidly growing industry that is vital to lifting the country out of poverty and deprivation. Are there patterns of practice at the factory level that suggest pathways to a brighter future for both management and employees in the garment industry?
Our paper proceeds as follows. In the second section, we develop several propositions based on the literature. These are addressed later following presentation of relevant data. In the third section, we describe our theoretical framework and methodology and in the fourth section factory and workforce characteristics provide background detail for our analysis of lead firm and institutional influences on factory labour relations and building safety initiatives. These are the subject-matter of the fifth and sixth sections respectively. In the penultimate section, we discuss our findings in the light of the propositions advanced earlier. The paper concludes by identifying several issues that we will be pursuing as our project unfolds.

**Key themes in the literature**

Mainly relying on data recently collected in a survey of Bangladeshi garment factory managers, we address four widely discussed themes as part of an ongoing research project that includes lead firms in Australia, Germany, the UK and Sweden that buy garments from factories in Bangladesh and other Asian countries. ¹ These themes are: the power of first-tier supplier factories in global production networks (GPNs); the extent to which GPN governance relationships uphold or undermine international labour standards; the incidence and effects of factory capacity-building by lead firms; and the prevalence of worker exploitation in supplier factories. Our intention is to summarize and assess the relevant literature in a series of propositions concerning these themes in the light of data emerging from a survey of garment factory managers in Bangladesh. Before proceeding, there are two caveats: our attention is restricted to first-tier garment suppliers, and except where specifically addressed, building safety standards are included in the concept of labour standards.

**Position and power of first-tier suppliers in GPNs**

An influential analysis of GPN governance by Gereffi et al. (2005) inspired the development of a theoretical framework that places lead firm-supplier relations at the centre of an explanation of variations in labour standards in supplier factories. Assuming the prevalence of global supply chains (GSCs) in international trade and the relative weakness of government regulation in many developing countries from which supplies are sourced, Lakhani et al. (2013), argue that lead buyer firms influence

---

¹ For details of the project see [www.garmentgov.de](http://www.garmentgov.de)
to a variable extent suppliers’ labour relations practices and standards. Influence depends on the form of private regulation, typically codes of conduct whose application are regularly audited, and the type of lead firm-supplier relationship which in turn depend on particular work characteristics in the supplier firm (task complexity and codifiability). The framework also acknowledges the impact of other factors such as the prevailing public regulation system and labour market features in the country where suppliers are located. Regarding the global garment industry, Anner et al. (2013: 41) argue that suppliers are in effect, in a captive type relationship with buyers (brands and retailers) who, because of global competition, can enforce their demands on suppliers. Underpinning this asymmetrical power relationship is a transactional approach where lead firms’ buying strategies are based on short-term considerations of price, quality and fast delivery with adverse implications for labour standards in supplier factories. Contra this argument, there is some evidence of relational type contracting entailing longer-term, trust-based relationships among suppliers to Swedish and German firms (Palpaceur, Gibbon & Thomsen, 2005; Lane and Probert, 2009) with possibly less damaging consequences for workers in supplier factories. Nevertheless, the main proposition arising from this literature is that: *Garment supplier factories will be captive to the demands of lead firms. This will be expressed mainly in short-term, market-based relationships. Longer-term, trust-based relationships will be rare.*

*The extent to which GPN governance relationships uphold or undermine international labour standards* Lead firms exercise influence over suppliers through the requirement that they follow a code of conduct specifying international labour standards and agree to regular auditing by the lead firm and/or a third party. There is widespread agreement that this system has significant shortcomings in part because of the assumptions on which it is based (Locke 2013), but also because of resourcing and procedural failures (Frenkel et al. 2016). The codes system is especially weak in upholding worker’s rights regarding trade union membership and collective bargaining (Anner 2012; Barrientos & Smith, 2007). However, Egels-Zandén (2014) and Bartley and Egels-Zandén (2015) have identified conditions under which codes work more effectively and there is a growing body of work exploring new initiatives that go beyond codes. One stream is the creation of regulatory regimes combining public and private regulation in a complementary manner (Amengual, 2010; Amengual & Chirot, 2016; Locke, 2013). Bair’s (2017) study of the ILO’s Better Work programme in the Cambodian garment industry emphasizes the role of transnational and national stakeholders in shaping the context in which both
formal an informal private and public regulation processes occur and hence determine the success or failure of the program. She notes that providing incentives for suppliers to join such schemes remains problematic so long as lead firms are not prepared to commit to longer term relations with their suppliers. A second stream is the development of international collective bargaining, the most notable example being the Bangladesh Accord for Fire & Building Safety mentioned earlier and discussed below. These observations lead to the following proposition: Although codes of conduct are widely viewed as an ineffective means of upholding labour standards and ensuring harmonious labour relations, this form of private regulation predominates in the garment industry, while at the same time new, broader initiatives are being introduced that typically include either the state and/or other stakeholders.

Capacity-building by lead firms vis-à-vis supplier factories sometimes occurs as a complement to code of conduct compliance

Capacity-building directed towards technical and social upgrading may be direct and/or indirect (Yawar & Seuring, 2015). Direct forms include training and development and providing technical assistance to factories. Indirect capacity-building include assistance with factory performance evaluation and auditing. Training and development can help improve factory managers’ understanding of labour relations and standards (Mamic, 2004) and assist with employee retention (Newmann, Thanacoody & Hui, 2011). Indirect capacity-building is often linked to improving factory performance in supply chains (Harms et al, 2013). According to Locke (2013: 102-103) these programs are often limited by unrealistic assumptions such as: technical upgrading leads automatically to social upgrading (new technology may displace workers); the factory community will support capacity-building (not all occupational groups are likely to benefit); and upgrading using a particular technique such as lean production may not proceed as planned and may have unintended consequences (perhaps give an example of these unintended consequences?). Success will depend on the presence of longer-term, trust-based relationships, supported by public regulation (Locke, 2013) and employment that is relatively secure, well-paid and undertaken in a safe, non-discriminatory, and empowering environment (Barrientos, Gereffi & Rossi, 2011). These and earlier observations suggest the following proposition: Given the predominance of short-term, market relations in garment factories, capacity-building initiatives by lead firms are likely to be rare and their success will depend on the presence of favourable conditions.
Prevalence of worker exploitation in supplier factories

It is commonly argued that in the garment industry there is a ‘race to the bottom’ in workers’ pay and conditions as lead firms pressure supplier factories to continuously reduce prices and shorten lead times without sacrificing quality (Raworth & Kidder, 2009). This tendency however produces a counter-tendency to regulate, which, in the absence of effective public regulation, has resulted in the prevailing system of private regulation featuring codes of conduct and social auditing. If codes are mainly ineffective are garment factory workers employed under exploitative conditions? In the case of Bangladesh, where our study is located, Anner (2015) claims the existence of a despotic market form of factory regime in the garment industry characterized by outsourcing of work, informality, very low pay, forced, excessive and underpaid working hours and bad factory conditions. This view is echoed by Labowitz & Baumann-Pauly (2014) in a recent study of the industry where they report the widespread use of the indirect sourcing model defined as “the routine practice of subcontracting, often through purchasing agents, and in a manner that is not transparent to buyers or regulators;” (p.17) and to which they attribute the goal of achieving lowest cost production. This results in widespread worker exploitation where “…regulations that apply at the top of the sector… are much less likely to extend to this network of suppliers.” This echoes Barrientos’ (2008) view that sub-contracting constitutes the achilles heel of code of conduct implementation. However, the authors also note the emergence of a direct, strategic sourcing model in Bangladesh, characterised by longer term, trust-based, relationships and order forecasting; technical and social upgrading, and incentives provided by the buyer for improvements in working conditions. This model is expected to produce improvements in labour standards (Labowitz & Baumann-Pauly, 2014: 26). This discussion leads to the following proposition:

Worker exploitation in the form of labour standards below acceptable international levels are likely to predominate except in a minority of factories where strategic direct contracting has been introduced.

Theory and methodology

To assist in examining evidence related to the above-mentioned four propositions we summarize our explanatory framework in Figure 1, followed by a brief description of our methodology.
Figure 1: Theoretical framework

**Lead firms:** supplier relations, compliance with codes of conduct

**Supplier factory structural & workforce characteristics:** ownership, structure, size, strategy, products & production system; distribution by occupation, gender & employment status

**Institutional ensembles:** agreements and initiatives that include lead firms, govts., unions & NGOs

**Factory labour relations & standards:** Employee relations, worker representation; wages, hours of work, labour turnover, absenteeism; factory productivity

**Building safety:** most important change; participation in rectification (CAPS), value of institutional ensemble participation

*Note:* Curved arrow denotes role of lead firms in institutional ensembles.

The framework highlights the potential importance of lead firms in explaining outcomes, i.e. factory labour relations and standards, and building safety but not to the exclusion of other factors. Through their direct relations with factories, lead firms influence suppliers, particularly via interactions between managers of firms and factories and via codes of conduct with which factories are expected to comply. In addition, these firms influence factory outcomes indirectly through the role they play in institutional ensembles which, in Bangladesh, includes initiatives aimed at regulating labour relations and improving building safety. Here the Accord and Alliance are important. There are also institutions where lead firms are less influential: the NTPA, which includes factory owner representation through their employer organisation, the Bangladesh Garment Manufacturer and Exporter Association (BGMEA). In addition, the Bangladesh Labour Law, 2006 as amended, formally regulates pay and conditions in the industry, however implementation remains problematic in part because the law lacks support from factory owners represented by the BGMEA and is poorly enforced (Rahman & Rahman, 2016; Rahman, 2014). In sum, the governance system regulating factory labour standards in the Bangladeshi garment industry is complex and dynamic involving national and international stakeholders.
Figure 1 shows that the direct and indirect influence of lead firms is mediated by the factories’ structural and workforce characteristics. These and other related aspects of the enterprise and the workforce will determine factory attractiveness to buyers and factory capacity to fulfil commercial and code of conduct contract obligations, including shaping the pattern of factory labour relations.

For evidence, we draw on a limited number of secondary sources but rely mainly on a survey of garment factory managers in Bangladesh that was piloted prior to administering to 150 factory managers. Data collection is ongoing; in this paper our analysis is based on a restricted sample of 50 managers drawn from factories of varying sizes (see below), located mainly in three districts: Dhaka city (26%); Chittagong (24%) and Narayanganj (22%). A single senior manager at each factory was interviewed by two researchers for approximately 1.5 hours. The interview schedule contains mainly forced-choice questions complemented by several open-ended questions. These were answered mainly in Bangla. Data were checked by a senior researcher and entered in an SPSS spreadsheet for subsequent analysis. Open-ended questions were translated into English and examined for consistency by at least one other researcher fluent in both Bangla and English.

When reporting survey results we include the sample number only when there are missing values of 5% or more. In some cases this is important as it may suggest sensitivity to particular questions (e.g. on overtime hours). We report the median and mean responses to survey questions because the sample includes several very large workplaces thereby skewing the data (see below).

**Supplier factory structural and workforce characteristics**

According to our survey, exports accounted for all the factories’ revenue and almost all these facilities (90%) were locally-owned, the remainder comprising joint ventures (6%) and foreign-owned subsidiaries (4%). Reported profit margins were thin: over the past 12 months, 31 percent of managers claimed their profit rate had been between 0 and 2 percent, 47 percent between 2 and 5% and most of the remaining 22 percent between 5 and 7 percent. Half the factories were controlled by multi-plant enterprises. Regarding their main competitive advantage(s), 42 percent of managers referred to product quality either on its own or in conjunction with labour standards’ compliance while a further 30 percent
mentioned quality and price or quality and timely delivery. As one manager explained, “the factory aims to consistently provide products that exceed the requirements and expectations of our customers. Our main advantage is to deliver ready-made garments, within the scheduled time…” Another manager noted that “the company has taken very consistent quality policies in line with its mission and objectives. We are maintaining quality standards in every step. To ensure the active participation of the workers in the quality process the company has implemented the “Total Quality Management” concept of Japanese Management.” The emphasis on quality is noteworthy in view of the finding that most factories were producing basic garments with some high-end (more complex, higher priced) products (44%) or basic (simple, lower priced) plus medium-end garments (36%). Only two percent of factory managers claimed to be exclusively producing high-end garments. Production was undertaken mainly using the conventional straight line (76%) and chain systems (22%) both of which are characterized by high sequential work task interdependence making piece-work unsuitable. Unsurprisingly, almost all managers claimed that workers were paid on a time rather than a piece-rate basis (97% n=37).

Garment factories mainly employ manual workers divided into skill grades with less than 5 percent employed on temporary and/or part-time contracts. Key workforce distribution are shown in Table 1.

<table>
<thead>
<tr>
<th>Total employees</th>
<th>Managers</th>
<th>Supervisors</th>
<th>Skilled</th>
<th>Manual workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median no. per factory</td>
<td>958</td>
<td>10</td>
<td>30</td>
<td>595</td>
</tr>
<tr>
<td>Mean</td>
<td>2,366</td>
<td>24.86</td>
<td>57</td>
<td>1276.64</td>
</tr>
<tr>
<td>Std Dev</td>
<td>3,334</td>
<td>41.79</td>
<td>112.10</td>
<td>2083.67</td>
</tr>
<tr>
<td>Average % female</td>
<td>7</td>
<td>9</td>
<td>70*</td>
<td></td>
</tr>
</tbody>
</table>

Source: Factory Manager survey.
Note: N = 50 factories; 30* denotes 30% of total manual workers

The median factory size is considerably smaller than the mean indicating the existence of much larger factories and relatively few small establishments (4% < 250 employees). Skilled workers comprised the
majority of manual employees with 70 percent being women, in contrast to the under-representation of women among managers and supervisors.²

**Lead firm and the prevailing institutional ensemble influence**

We begin this section by reporting on lead firm relations with the factories followed by factory managers’ perceptions of influence and how codes are implemented. This is followed by a summary of the complex institutional ensemble which can be expected to influence managers’ behaviour.

*Lead firm-factory relations and regarding labour standards’ regulation*

Few factories (27%) worked indirectly with lead firms through intermediaries (e.g. buying houses and agents). The majority had direct relations with lead firms. The median and mean number of buyers per factory (indirect and direct) was 6 and 8.7 respectively and the median and average duration of the relationship between factories and their main buyers (who account for 20-30% or more of current sales revenue) was 6 years and 7.3 years respectively. Table 2 provides data on country of origin of the factories’ current two main buyers and the proportion of sales accounted for by these buyers.

**Table 2: Most frequent combinations of countries of first and second largest buyers and proportion of sales**

<table>
<thead>
<tr>
<th>Two country combinations</th>
<th>N Factories (47)</th>
<th>Average % of sales to 2 largest buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden UK</td>
<td>4</td>
<td>66.5</td>
</tr>
<tr>
<td>Sweden Germany</td>
<td>4</td>
<td>67.5</td>
</tr>
<tr>
<td>Netherlands Italy</td>
<td>2</td>
<td>85.0</td>
</tr>
<tr>
<td>Germany USA</td>
<td>2</td>
<td>72.5</td>
</tr>
<tr>
<td>USA UK</td>
<td>2</td>
<td>85.0</td>
</tr>
<tr>
<td>Canada USA</td>
<td>2</td>
<td>77.5</td>
</tr>
<tr>
<td>Other country combinations</td>
<td>31</td>
<td>79.0</td>
</tr>
</tbody>
</table>

*Source: Bangladesh Factory Managers’ survey.*

² Workers may be classified as skilled without formal qualifications. Experience is likely to be important in developing expertise which is rewarded by workers being allocated to skilled worker grades that attract higher pay.
Table 2 shows that buyers from Sweden, Germany, the UK and USA feature most frequently, albeit in different combinations. More generally, the factories supply buyers that comprise 37 sets of different countries. Regarding the relative power of the factories vis-à-vis the lead firms, nearly two thirds (63%) of the managers agreed with the statement that: “as a supplier I have very little influence,” and a further 23% preferred the statement: “I must do what foreign buyers want if I am to succeed in business.” Only 12% claimed that “I have some influence as I am able to choose which buyers to do business with.”

Their relationship with their main buyers was overwhelmingly positive (92%). Responses referred to long-term duration, reliability, certainty, commitment, trustworthiness and information sharing, formality, professionalism and the business-like approach of their buyers. As one manager explained “we maintain a good relationship with the buyers; we are always aware of their requirements and do the job professionally.” In a similarly positive vein another manager noted that “trust was the most important thing for keeping a good relationship with buyers… And both parties engage in discussion around producing the final product without any party having complete authority.”

The most common operational problems managers had with buyers were requests for shorter lead times. These data suggest that although factories lacked power relative to buyers, relationships between these organisations in the supply chain were durable and amicable. Does this somewhat positive picture extend into the area of labour standards’ governance or is there evidence to the contrary? Factory and lead firm managers commonly refer to labour standards’ regulation as ‘compliance,’ a short-hand for extant codes and auditing practices. This observation raises the following question: Is compliance viewed as both legitimate and of positive value to factory managers or as a negative imposition of rules by mainly western corporations? Presented with a series of statements from which to choose, 78% of respondents agreed with the statement “Compliance is a way to do? good for our workforce, improve productivity and increase business.” This contrasts with 10% who preferred the more neutral statement that “Compliance is required by foreign buyers. It is just something we have to do to keep in business.” Only 2% of managers agreed with the critical view that “Compliance is unnecessary; we have our own laws in Bangladesh and don’t need foreign firms and governments telling us what to do.” These data suggest that managers see value in continuing with this form of regulation. However, they were dissatisfied with code administration which includes an average presence of slightly more than 3 codes per factory and 10 audit visits per year by lead firms or third party auditors employed by these firms.
When asked about the consequences of code arrangements, managers’ responses were negative or neutral in tone. Negative responses by 55% of respondents highlighted the burdensome investment of time and energy required. As one respondent explained “a unified code of conduct would be better and often we are overburdened by their [lead firm] visits both by their frequency and by their level of involvement as this requires documentation and effort.” Neutral responses, which accounted for 42% of responses, noted that although several codes were being applied in the factory this did not present much of a problem as the content was mainly the same, although management preferred a single code.

Positive, long-term supplier-lead firm relations indicated above provides a foundation for capacity-building, suggesting a high incidence of this activity. Surprisingly, this was not the case. In response to a question: “Do you work together on issues such as product development, logistics, quality and other matters?” only 10% of managers responded affirmatively, 50% answered in the negative and 40% did not answer. These responses indicate that positive lead firm-supplier relations do not automatically translate into capacity building. Hence our preliminary conclusion that despite participating in an asymmetric power relationship with lead firms underpinned by both common and conflicting interests, relationships between factories and lead firms were largely positive and durable, both in general terms and regarding application of codes of conduct that regulate factory labour standards, but they did not extend into efforts by lead firms to improve local factory performance.

**Institutional ensemble as a source of change in the factories**

As noted earlier, the Rana Plaza disaster encouraged the creation of three new regulatory institutions focused on assessing and improving building safety including worker training in occupational safety and health (OSH), establishment of democratic OSH committees in factories (see later) and related grievance mechanisms (Accord, 2013). In addition, the *Bangladesh Labour Act, 2006* was substantially amended in July 2013 with new provisions concerning OSH, freedom of association and collective bargaining.³⁴

---


⁴ There is now a requirement to employ safety welfare officers in workplaces with more than 500 employees and workplace health centres in workplaces exceeding 5,000 employees. Regarding freedom of association, the Registrar of Trade Unions was no longer required to provide employers with the names of union officials prior to
These innovations receive the continued support of foreign governments through trade agreements and aid programs. For example, as a partner in the Bangladesh Sustainability Compact, the EU, the government of Bangladesh, the US, Canada and the ILO -- regularly assess progress regarding implementation of this trade agreement while at the local level, implementation of the Compact is regularly reviewed by three high level Bangladesh government civil servants together with ambassadors of the EU, the US, Canada, and the United Kingdom including one representative each of another EU member state and the ILO. The German, Danish and UK governments have introduced major aid initiatives that focus on, or include, the Bangladeshi garment industry.\(^5\)

From the standpoint of factory managers, the most important external institutions are the Accord, the Alliance and the National Tripartite Plan of Action for Fire and Structural Integrity (NTPA). The Accord currently includes 200 signatory lead firms, 87% percent based in Europe.\(^6\) The Alliance has 29 member firms, all but 24 of which are US-based. The NTPA has 1,549 local member firms who are factory owners.\(^7\) These organisations share a similar purpose but are constituted differently. All are concerned with factory building remediation however the Accord is a multi-party collective agreement, the main stakeholders being the lead firm signatories, two international unions, eight local unions and four NGO supporting ‘witnesses.’ Additional stakeholders include local and international NGOs, the ILO being particularly important. The Alliance is an initiative dominated by US lead firm signatories while the NTPA is a national agreement signed by the Bangladesh government and representatives of workers and factory owners facilitated by the ILO (Kahn & Wichterich, 2015).

---

\(^5\) For example, the German Society for International Cooperation (GIZ) through their PSES (Promotion of Social and Environmental Standards in the Industry (PSES) project, and the Danish International Development Agency (DANIDA) which supports a strategy for attaining sustainable development goals. The UK has several programs including the Trade and Global Value Chains Initiative (TGVCI) for partnerships between buyers, factory owners and civil society aimed at improving working conditions and UK aid is also supporting the ILO’s ‘Improving the Working Conditions in the Ready-Made Garment sector’ in Bangladesh’ program (DFID 2014).

\(^6\) http://bangladeshaccord.org/signatories/

\(^7\) http://database.dife.gov.bd/
Factories that supply lead firms who are members of the Accord and/or Alliance are required to register with these organisations and to be assessed for building safety and remediation. Remaining export factories fall under the auspices of the NTPA. Slightly over half (54%) of our factory sample were associated with solely Accord lead firm members, 12% Alliance members and 14% NTPA members. The remaining factories were associated with members of two of these three institutions with Accord membership being the most prominent (18%) so that 72% of our sample supplied to Accord members. Although there are differences in the examination and remediation processes between the three institutions there is consultation and co-operation between officials particularly where factories supply to both Accord and Alliance members. According to recent reports\(^8\) (April 2017), 1655 of Accord-related factories have been assessed, and 3.7% (61) percent remediated to the required standard. This compares with 665 of Alliance-related factories 81 of which have been remediated to a similar standard. There are 1549 NTPA-related factories around 20% percent of which have been remediated, allegedly to a somewhat lower standard. A total of 39 factories have been closed on safety grounds.

Remediation is typically undertaken by one of the three institutions requiring factories to agree to implement Correction Action Plans (CAPs) based on specialist engineers’ assessments of factory safety. Almost all our factories (96%) had, or were continuing to implement a CAP. Nearly three quarters (72%) said they were ‘satisfied’ or ‘very satisfied’ with their buyers’ reaction to the CAP even though 93% of managers were required to pay for the remediation with less than 5% reporting that lead firms contributed to remediation over and above their institutional membership levy. Asked whether participation in the building rectification process under the auspices of one or more of the above-mentioned institutions was valuable, 63% said that it ‘valuable’ or ‘very valuable’ while most of the remaining managers (31%) were indifferent (‘neither not valuable nor valuable’). Regarding the reasons for their evaluation, 60% of managers referred to business continuity/improvement, order consistency, and sustainability while a further 40% focused on building safety and maintaining high safety standards. A minority of positively inclined managers criticized the CAP process for inconsistencies and excessive requirements. Negatively inclined managers referred to the likely adverse effects of CAP such as the

\(8\) http://bangladeshaccord.org/progress/
cost of building investment, factory closures arising from an inability to meet standards, and factories having no guarantee of new business.

**Factory labour relations and standards:**
We begin with management’s approach to managing employees. Respondents were given several statements from which to choose. Each statement signalled a different approach including paternalism, hierarchy, bureaucracy, and consultation. Seventy per cent of managers opted for paternalism, claiming that they ‘treat[ed] the workers like family’ compared to a bureaucratic approach i.e. ‘we have rules that all workers are made aware of and they must follow’ (16%). A further 12% preferred the consultative option: ‘We consult regularly with the workers and/or their representatives in to get their commitment.’

What labour standards did management regard as most important? Answers indicated the following: (combining ‘very important’ and ‘important’ responses to a set of eight standards): providing a safe and healthy workplace (66%); paying a socially acceptable wage (56%); and seeking to ensure continuity of employment (40%). The emphasis on health and safety is noteworthy in the light of the question regarding the impact of the extant institutional ensemble on management behaviour.

Paternalism is consistent with an absence of workplace unionism but is compatible with the use of workers’ consultation committees. Thus, only 2% of factories were reported to have a union despite most codes of conduct committing lead firms and factories to supporting workers’ freedom to join unions and engage in collective bargaining. By contrast, 78% of factories in our sample had a workers’ participation committee (mandated by Section 205 of the Bangladesh Labour Act, 2006 for workplaces employing more than 50 workers) and 70% of managers in the factories with these committees claimed that the workers’ representatives were elected by employees rather than selected by management. Also of note is the finding that 97% of respondents stated that the committee was ‘effective’ or ‘very effective’ (n = 36).

Whether workers view these committees in the same positive way is a matter for future research. Absent data on workers’ attitudes in this paper (but not in the wider project), we rely on indicators such as
absenteeism, labour turnover, the number of disciplinary cases and strikes to see whether dissatisfaction and conflict exist in these factories. According to the managers (who may well be biased in this regard), all such indicators point to limited dissatisfaction and conflict or perhaps substantial suppression of such tendencies. For example, the median factory reported a labour turnover figure of 5.5% (mean 9.1%; SD 11.82) over the past 12 months and a monthly absenteeism rate of 4% (mean 4.5%; SD 2.9). Most factories (76%) reported having no disciplinary cases while 98% of factories had no strikes over the same period.

It is possible that the orderly system of labour relations contributes to factory productivity. Managers were asked how productive in terms of output quantity and quality their factory was compared to other similar factories in Bangladesh. Around a quarter (26%) stated that their factory was ‘much less productive; a third (32%) said ‘about the same,’ 38% believed their factory to be ‘more productive,’ and only 4% ‘much more productive.’ When asked about the reasons for this, a large majority of managers who reported their workers to be average or below attributed this to the workers. For example, one factory manager who viewed workers as ‘unproductive’ explained, “we provide the best facilities for the workers but still they are not efficient enough and not willing to pay enough attention to their work.” Another manager noted that, “although I am running CSR activities I am not happy with labour productivity… Workers are not attentive and whenever they get an opportunity to migrate to other factories [they will]. Generally, Bangladeshi workers are not skilled.” On the other hand, where managers claimed their factories to be above average this was almost always attributed to management. For example “… we provide the workers more facilities like a day care centre, 24-hour medical support along with a very good salary, [so] the workers are happy here and give 100% productivity.”

Regression analysis based on a model seeking to predict above average factory productivity indicates three significant independent variables: garment production not restricted to low end manufacturing⁹; the existence of a workers’ participation committee; and management perception that the committee is

---

⁹ It is possible that producing a growing proportion of medium and high end garments facilitates longer-term commercial contracts which provide workforce stability and enable workers to specialize in the production of particular types of garments. In this way, specialization fosters familiarity with work routines and dexterity and hence higher productivity.
These results point to the belief management has in the operation of worker participation committees, an observation that merits further research, particularly from the perspective of other stakeholders such as workers and supervisors.

We turn now to wages and working hours, two substantive aspects of labour relations that are governed by legislation, endorsed by codes of conduct, and in the case of wages, as noted above, prioritized by slightly over half the factories. Our survey results indicate that current median monthly total wage (includes overtime and other payments) of workers across the 50 factories in our sample was 12,000 Tk for skilled workers; and 8,600 Tk and 6,500 Tk for semi-skilled and unskilled workers respectively. These data compare favourably with the minimum monthly wage of 5,300Tk and estimates of the Bangladesh industry average: 6,420Tk (grade 4, semi-skilled) and 5,300Tk (grade 7 lowest grade, unskilled) respectively (Living Wage Benchmark Report, 2015-016). However, according to the same report, the estimated living wage ranges from 13,630Tk (Dhaka satellite town) to 16,460Tk (Dhaka city). Consequently, although most of the factories in our sample are paying above the statutory minimum and the industry average, the median pay for unskilled workers is only between 39.5% and 47.7% of the estimated living wage depending on where workers are living (74% in localities outside of Dhaka City).

Bearing in mind the recent establishment of institutions aimed at improving building safety standards and more effectively regulating health and safety in the industry, we would expect these concerns to be reflected in changes in factory practices. This is confirmed by managers’ responses to a question asking managers to rank the major changes that occurred at their factory since April, 2013. The three changes ranked most frequently as ‘important’ or ‘very important,’ were: building safety (79%), new technology (65%), and changes in management (64%). The corresponding proportion was 33% for labour relations/standards.

10 The model used to explain variations in factory productivity was informed by GSC and work systems theory. The former theory suggests a dominant role for buyer-supplier relations, while the latter highlights workers’ participation, worker training in compliance, management policy relating to labour standards, and the priority given by management to improving labour standards. Based on logit regression, the only significant explanatory variable apart from effective worker participation (p <0.001) was the priority given to improving labour standards (p <0.10).
Discussion

We now consider our findings in the light of the four propositions presented in the second section of the paper. Regarding the position and power of the factories relative to lead firms, our findings indicate that a large majority of factories view themselves as highly dependent on their lead firm buyers. Only a small minority stated that they had some flexibility in choosing buyers. But this seemingly captive relationship was not characterised, as anticipated, by short-term, transactional relationships. Rather, relationships with the main buyers were reported to be durable and positive, with criticism concerning supply chain operations restricted to lead firms frequently requiring factories to shorten their lead times.

When we look at factory-lead firm relations from a labour standards’ perspective, a similar picture emerges. Most factory managers seemed to believe that codes of conduct are a useful means of regulating labour standards (see below). Regarding building improvements and regulation, most managers held a positive view of extant institutions although a minority criticized the lead firms for not contributing to the cost of specific remediation efforts. We therefore conclude that while garment supplier factories in our sample appear to be captive to the demands of lead firms, their relationships are not expressed in short-term, market-based relationships. In fact, longer-term, trust-based relationships are the most common. Our analysis also suggests that the direct relationships between lead firms and suppliers is not only multi-dimensional but also multi-modal. Indeed, in the period following the Rana Plaza disaster the indirect relationships via the extant institutional ensemble, particularly the Accord, appeared to be as salient or more so for the factories than the direct relationship between them and the lead firms.

Codes of conduct were found to be the dominant means of regulating general labour standards in these export garment factories. Codes were particularly valued since they constituted an important criterion for retaining and possibly expanding lead firm orders. However, we noted that managers were dissatisfied with several administrative aspects. Nevertheless, viewed mainly through the prism of ‘compliance’, auditing was a necessary bureaucratic process that could be anticipated and routinized. Indeed, most managers believed that code compliance benefitted the workforce as well as the business. On the other hand, our analysis also shows that building safety, which is both a physical and labour-related issue, pre-occupied factory managers leading to the following conclusion that differs from our earlier proposition: factory managers view codes of conduct as an acceptable means of regulating
labour standards and ensuring harmonious labour relations. Since early 2013 this form of private regulation has been complemented by a major building safety initiative resulting in the development of a novel institutional ensemble with a wide range of national and international stakeholders.

Our third proposition focused on capacity-building initiatives. We found that capacity-building by lead firms was rare, not because of the predominance of short-term, market relations but for other reasons derived from research currently underway with lead firms in the four developed countries referred to earlier. These reasons include: first, stronger priority given to limiting reputational risk rather than improving supplier efficiency; second, and related to this, an unwillingness to adequately resource this activity; and third, in many but not all cases, a lack of expertise in capacity-building. This picture of very limited capacity-building in the factories is however incomplete. We need to include the very substantial amount of remediation undertaken under the auspices of the Accord, Alliance and NTPA. For example, the estimated average cost of remediation stated by managers was over $150,000 (n=13). This leads to a different conclusion from the proposition advanced earlier: capacity-building initiatives by lead firms working directly with suppliers have been rare for a variety of reasons other than short-term, market relations. A major recent exception has been the multi-stakeholder initiatives that include many lead firms aimed at improving and regulating building safety and mainly reflecting the impact of Rana Plaza as a focusing event (Birkland, 1989).

Our fourth proposition is arguably the most important: the prevalence or otherwise of worker exploitation. Acknowledging that reliance on management data is problematic, we nevertheless found that management combined paternalism with worker consultation resulting in orderly labour relations. In addition, most of the factories reported substantial progress in improving building safety. On the other hand, the absence of unionism and collective bargaining over pay and conditions is inconsistent with almost all codes of conduct and although workers were paid above the minimum (required in most codes of conduct), and the average industry wage, the earnings of most workers, regardless of skill was below the living wage (included in a small minority of codes). Our data on hours of work, though limited, also suggested a rather bleak picture i.e. that in many cases workers were working longer than is legally permitted. These findings lead to the following conclusion which differs from our earlier proposition: at this first tier of the manufacturing supply chain some aspects of employment are
exploitative in the sense of being below acceptable international labour standards in spite of being embedded in lead firm relationships that are similar in most respects to strategic contracting.

Conclusion

Our analysis has been limited by data collected thus far. In this final section we identify issues that deserve further attention based on both a larger manager survey and a garment worker survey that is currently underway. Regarding factory relations with lead firms, it will be important to explore the extent to which supplier-lead firm relations are influenced by country of origin and type of firm (Fransen, 2013) and whether the firm is culturally vulnerable (Bartley and Child, 2014). Suppliers can also be expected to vary in influence according to size (resources), type of product, and use of advanced technology. When examining improvements in, and support for labour and building standards’ regulation we need to compare in terms of the above-mentioned variables and according to institutional membership, i.e. factories associated solely with the Accord, the Alliance, and NTPA respectively, relative to factories whose buyers are associated with multiple institutions. It is possible that Accord membership has wider effects, for example, on factory efficiency and labour relations/standards. This assumes that lead firm members interact frequently with each other exchanging knowledge and learning how to improve, particularly when sourcing from the same factory.

A larger factory manager sample will enable identification of factories where there is considerable variation in either technical and/or social capacity-building. We can then theorise and examine variables that might explain these different forms of innovation, including the extent to which they are related. Factories with a stronger record of technical upgrading may be more likely to pursue higher labour and environmental standards. An argument worth considering in future research is the ‘crowding out’ hypothesis: that forms of capacity building other than those related to building safety will increase over time as building safety remediation projects are completed. Some lead firms are already encouraging their suppliers to join the ILO’s Better Work program which offers advice on raising productivity and improving labour relations.

Finally, when considering worker exploitation, it is worth reiterating that in this paper we have focused on first-tier factories that manufacture solely for export, almost exclusively to developed Western
countries. Most of these factories are relatively large and able to pay higher than average wages. They are the tip of the iceberg. Hidden from view are the many smaller factories producing for local and regional markets, sometimes acting as unofficial sub-contractors to export firms. These smaller firms typically violate international labour standards (Labowitz & Baumann-Pauly, 2014). The policy challenge is how to encourage improvements when faced with relentless competition. A second important limitation is the absence of worker voice. Although some quantitative data can be obtained from management, it is necessary to ask workers about their terms and conditions of employment, their treatment by management, and whether they feel justly rewarded for their work. We need to explore variations in these and other dimensions of work seeking explanations for inter- and intra-factory differences. We hope to do this by combining data generated by lead firm, factory and worker surveys, complemented by case study evidence that examines the influence of relevant institutions and the indirect role played by lead firms in influencing factory labour relations and standards.

References


