Social Responsibility in the Supply Chain of the Garment Industry: Practical and "Systems Changing" Approaches

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STUDENTS

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Please note: This document has been modified by Amy Blyth since its presentation at EOI. All changes from the original version reflect the opinions of Ms. Blyth.

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List of Abbreviations and Acronyms:

AFL-CIO: The American Federation of Labor-Congress of Industrial Organizations **-** A federation of U.S. unions. The group includes 57 unions representing more than 12 million working men and women. www.aflcio.org

AFP: Agence France-Presse - One of the three largest news agencies in the world along with Associated Press and Reuters. Agence France-Presse is a French news agency. www.afp.com/en

BGMEA: Bangladesh Garment Manufacturers and Exporters Association - Lobby Group for Factory owners in Bangladesh. They represent "the export oriented garment manufacturers and exporters of Bangladesh". www.bgmea.com.bd

BSR: Formally known as *Business for Social Responsibility* - A non-profit that promotes social responsibility in businesses. www.bsr.org

CR: Corporate Responsibility - Abbreviation used to the Corporate Responsibility department within a Company. Sometimes referred to as Corporate Social Responsibility (CSR)

CSR: Corporate Social Responsibility - Abbreviation used to the Corporate Responsibility department within a Company. Sometimes referred to as Corporate Responsibility (CR)

EA: Enterprise Advisor - Trained Staff that work in the Better Work program. They perform audits and advisory to factories subscribed to the program.

EPZ: Export Processing Zone

FLA: Fair Labor Association - A coalition of business, civil society organizations, and colleges and universities offering tools and resources to companies, delivering training to factory workers and management, and conducting due diligence through independent assessments, among other activities. www.fairlabor.org

IFC: International Finance Corporation - A member organization of the World Bank Group, the IFC is a global development institution focused exclusively on the private sector in developing countries. www.ifc.org

ILO: International Labor Organization - The UN specialized agency which "seeks the promotion of social justice and internationally recognized human and labour rights". www.ilo.org

IUTC: International Trade Union Confederation - A major international trade union organization that represent "the interests of working people worldwide". www.ituc-csi.org

MNC: Multinational Corporation

NGO: Non-Governmental Organization

OECD: Organisation for Economic Co-operation - International organization helping governments to "promote policies that will improve the economic and social well-being of people around the world". www.oecd.org

PICC: Performance Improvement Consultative Committee - Committee that is created during the advisory process in the Better Work Program.

SAC: Sustainable Apparel Coalition - Coalition that brings together multinational companies in order to come up with shared solutions for "measuring and evaluating apparel and footwear product sustainability performance." www.apparelcoalition.org

SAI: Social Accountability International - A non-governmental, multi-stakeholder organization that works to build local capacity and develop systems of accountability through socially responsible standards. They established the social standard SA8000 standard for decent work. www.sa-intl.org

SEDEX: Suppliers Ethical Data Exchange - Non Profit Organization which offers a collaborative platform for sharing ethical supply chain data to its member companies. www.sedexglobal.com

UN: United Nations - An international organization "committed to maintaining international peace and security, developing friendly relations among nations and promoting social progress, better living standards and human rights". www.un.org

1. Introduction

This paper provides an in-depth analysis of the current status of the social issues related to the supply chain in the apparel industry and offer solutions to how the key stakeholders in this sector can work to improve their social responsibility. We were motivated to take on this analysis because we hoped to contribute to a concrete and effective evolution towards a more responsible supply chain in this industry.

On April 24, 2013 - few weeks after we began our research - a factory building known as Rana Plaza collapsed in Dhaka, Bangladesh. This accident resulted in the deaths of approximately 1,127 people and has been called the biggest industrial accident since Bhopal, India in 1984 (Burke, 2013). While this accident is tragic and has brought to light the issues related to health, safety, and workers rights within the garment sector, these questions are not new. The apparel industry, non-governmental organizations (NGOs) and international organizations have been working on these issues for over four decades. We were motivated to write this paper because we felt that much of the activity we were seeing by companies around Corporate Responsibility (CR) hasn't truly focusing on improving their core business activities. Rather, many CR initiatives have focused on minimizing the symptoms, rather than solving the underlying issue. For this project, we were interested in looking more closely at ways to improve a company's own business activities - from the inside, out.

In this paper, we first look at the drivers, pressures and incentives that motivate the main stakeholder groups. Second, we examine the current practices that these actors are implementing today. Third, we highlight some of the so called "best practices" - as recognized by practitioners and academics - that are currently being implemented. Case Study examples have been highlighted throughout this paper, with a significant emphasis given to current practices and actions taking place within the Bangladeshi garment sector, given its relevancy at the time of this investigation. The research for this paper was carried out through an extensive literature review of the topic in addition to six personal interviews with practitioners who have experience in this industry. This information allowed us to then propose two different strategies that we consider to be the most effective solutions for the sector - each taking into consideration a different level of innovation and disruptiveness.

It is important to mention that the magnitudes of both the environmental and social impacts that are brought about by the apparel and footwear industries are immense, and that these issues influence each other. Therefore, although this paper is focused on the social performance of the supply chain, we will at times briefly mention environmental aspects.

2. Drivers that Influence the Decisions of the Main Stakeholder Groups

In this section, we will look at the main drivers and incentives that affect the decisions made by the four main stakeholder groups involved in the supply chain of the apparel industry: Suppliers, Multinational Companies, Employees, and Governments. These stakeholders are the main actors involved in the success of the supply chain. Their decisions are influenced by a multitude of pressures both coming from one another and from other external actors. By looking at these groups, we provide a detailed evaluation of the incentive structures that are helping, and hindering, these actor's decisions to act in a more socially responsible manner.

The involvement of other stakeholder groups, such as Customers/Consumers, Investors, and Non-Governmental Organizations, is discussed within these four main groups; they are considered actors that influence these four main groups, rather than players who make decisions about the outcomes of the supply chain.

2.1 Multinational Companies (MNCs)

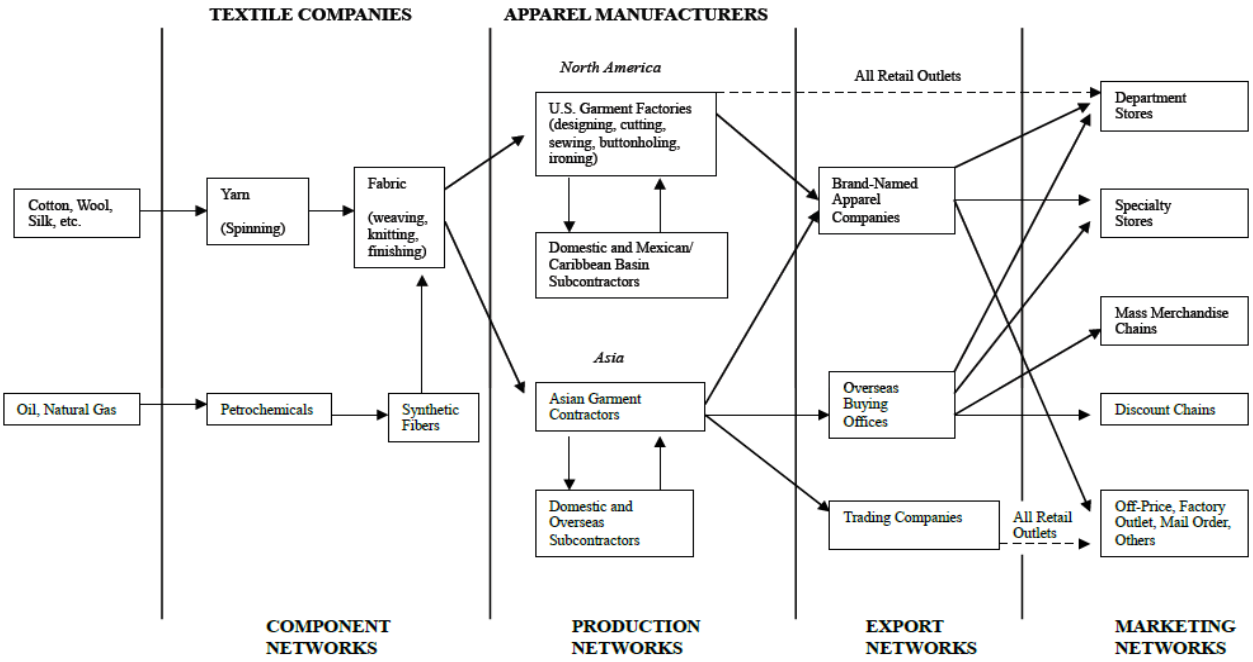
Multinational Companies (MNCs) form the most powerful and influential stakeholder group involved within the apparel supply chain. As major economic engines, their capacity for wealth generation provides them with significant leverage to promote change towards a more socially responsible supply chain. However, despite their significant power and influence, they are also affected by pressures from their stakeholders.

Figure 1: Types of Lead Firms and Brands (Fernandez-Stark et al. 2011)

Lead Firm Type	Type of Brand	Description	Examples	
			United States	EU-27
Retailers: Mass Merchants	**Private Label**: The retailer owns or licenses the final product brand, but in almost all cases, the retailer does not own manufacturing.	Department/discount stores that carry private label, exclusive, or licensed brands that are only available in the retailers' stores in addition to other brands.	Walmart, Target, Sears, Macy's, JC Penney, Kohl's, and Dillard's	Asda (Walmart), Tesco, C&A, and M&S
Retailers: Specialty Apparel		Retailer develops proprietary label brands that commonly include the stores' name.	The Gap, The Limited Brands, American Eagle, and Abercrombie & Fitch,	H&M, Benetton, Mango, New Look, and NEXT
Brand Marketer	**National Brand:** The manufacturer is also the brand owner and goods are distributed through multiple retail outlets.	Firm owns the brand name but not manufacturing, "manufacturers without factories." Products are sold at a variety of retail outlets.	Nike, Levi Strauss, Polo, and Liz Claiborne	Ben Sherman, Hugo Boss, Diesel, and Gucci
Brand Manufacturer		Firm owns brand name and manufacturing; typically coordinate supply of intermediate inputs (CMT) to their production networks often in countries with reciprocal trade agreements	VF, Hanesbrands, Fruit of the Loom, and Gildan	Inditex (Zara)

The table above shows the complexity of the international apparel industry. For the purpose of this paper, a Multinational Company encompasses all types of firms and brands in the table above - ranging from Brand Manufacturers to Retailers. In their work "The Apparel Global Value Chain: Economic Upgrading and Workforce Development", Karina Fernandez-Stark, Stacey Frederick and Gary Gereffi (2011) generalize MNCs as those that "outsource manufacturing to a global network of contract manufacturers in developing countries that offer the most competitive rates. [MNCs] include retailers and brand owners and are typically headquartered in the leading markets—Europe, Japan, and the United States. These [MNCs] tend to perform the most valuable activities in the apparel value chain—design, branding, and marketing of products—and in most cases, they outsource the manufacturing process to a global network of suppliers."

Figure 2: The Apparel Global Value Chain (Fernandez-Stark et al., 2011)



MNCs are driven by profit maximization and economic growth. This incentive leads them to focus their efforts on improving the design of their products, marketing campaigns, etc., while also lowering their costs and minimizing risks. For MNCs, it is crucial that the supply chain is constant, efficient, and timely. In order to lower costs, they outsource their production to factories in countries where the workforce is cheaper. To better secure their supply, they often place many relatively small orders to several suppliers so that, if one fails, they do not risk their entire supply chain. Therefore, one supplier typically works for several MNCs.

2.1.1. Reputation and Brand Management

Reputation and Brand Management are some of the key reasons that drive companies to enact social responsibility initiatives. Apparel companies are very much aware that the social aspects of their supply chain are a reputational risk and must be managed. When asked about the effect supply chain management has on reputation within the garment sector, Beverly Nanini (2013), Director at Reputation Institute Spain, explained that she does not believe that it is "a major factor in building reputation among society, but it definitely is one that can destroy it."

Each stakeholder can influence a Multinational's reputation; however, their impacts may not always be obvious. Nanini (2013) notes, "Each stakeholder has influence on other stakeholders and that while a company may be located in the center of the ecosystem mapping, there are conversations being held, actions taken, and perceptions built that do not necessarily come from or go to the company as a direct point. Therefore each interested party can affect reputation in a variety of ways and degrees." The following sections describe the different stakeholder groups' view of social responsibility in the supply chain and how their actions impact MNCs' behavior.

2.1.2. Media, Activists and NGOs

Multinationals have been feeling pressure from NGOs, media, and activist groups for many years in the fields of environment, human rights, and labor rights. For example, "apparel and footwear companies have been under significant pressures from student groups in recent years to meet ILO standards by avoiding child labor or abusive employment policies and implementing third party monitoring systems. This activism has pushed the industry forward, demanding changes that would otherwise be slow to take place." (Waddock et al., 2002) Indeed, NGO campaigns against child labor in the 1990s - when companies like Nike were found employing children in developing countries to manufacture their products - have proven to be very successful. Today, child labor in the sector has practically disappeared, and reported cases are very rare.

Although these activist groups have achieved small victories, NGOs have struggled to significantly push MNCs to make real transformative change within the sector. Kellie A. McElhaney, an expert on corporate social responsibility at the Haas School of Business at the University of California, Berkeley, has argued that NGOs are the only group putting any real pressure on companies to improve the situation; this pressure is not driving Multinationals to take real action on these issues. She argues that Multinationals "are not feeling it in the marketplace. I believe they're going to do the bare minimum. The NGOs need to make more consumers aware of this" (Greenhouse, 2013a). The recent accident in Bangladesh has tragically shown that problems in the supply chain of the apparel industry are far from being solved. This

accident made the headlines of the media because of its scale and tragic loss of human life, opening people's eyes to the poor conditions of those production sites. Unfortunately, this accident has not been an isolated event. Since 2005, at least 1,800 workers have been killed in Bangladeshi garment factory fires and building collapses (Burke et al., 2013).

2.1.3. Consumers

Consumers' position as the final customer of MNCs makes them potentially a powerful influencer; however, consumers' do not demonstrate these preferences with their purchases. Most of consumers demand two things: new clothes and low prices. In an article written for the *New Yorker* after the Rana Plaza accident, James Surowiecki (2013) argues:

> *Our insatiable demand for variety and novelty has led to ever-shorter product life cycles... The rise of fast fashion means that clothing stores get new products almost every week. Richard Locke, a political scientist at M.I.T. who is an expert on global supply chains... states that 'instead of buying lots of inventory with long lead times, brands wait as long as possible before ordering.' That way, they can ramp up production if a product takes off or shut it down if the product bombs.*

Consumer's habits directly impact the multinational's decisions regarding supply chain management; consumers are demanding this type of behavior in the marketplace. In May 2013, *The Guardian* argued that, according to America's Research Group - which interviews 10,000 to 15,000 consumers a week mostly on behalf of retailers - even in the aftermath of the Rana Plaza accident, American consumers seemed more concerned with fit and price than whether the working conditions of the factories where the clothes they buy were safe, or whether workers received a reasonable retribution for their job. In an article written for *The Guardian*, Christine Bader (2013) – who worked at BP in roles dedicated to corporate responsibility from 1999 to 2008 - argues that "customers don't care. Shoppers say they'll pay more for ethically made products but don't. So it falls to brands and manufacturers to fund decent wages and safety measures. Enlightened companies know they'll recoup that expenditure in employee retention and business continuity. But upfront costs can be daunting."

There are several small niche markets that are willing to pay more for ethically made products; there are also signs of a slow trend in other markets towards increased awareness. For example, some apparel companies have seen an uptick in consumer awareness in European markets. Helena Helmersson, Head of Sustainability for H&M stated in an interview last year that the company was adding sustainability value to its products as a way of strengthening its customer offering because European consumers were

increasingly showing an interest in sustainability (Godelnik, 2013a). Additionally, some more high-end labels, such as Nike, have been able to add value to their brand through their sustainability practices. However, this trend has not affected the majority of markets and consumers. In an article for *Harvard Business Review* Simon Zadek (2004) argues that "value customers focus on price and are generally less responsive to ethical propositions — particularly those involving faraway problems like worker conditions in Asia or Latin America".

2.1.4. Investors

Investors have significant influence over the business decisions of multinationals due to the fact that latter is in constant need for capital and depend on share price evaluation. Over the last several decades, there has been in increase in socially responsible investing as evidenced by the increase in sustainability indices such as the FSTE4GOOD and the Dow Jones Sustainability Index. However, this interest has been relatively small compared to the overall size of the investor market. Investors are primarily concerned about the economic performance of the company and their return on investment.

Many investors state that they are concerned about the social and environmental risks of a company, yet, their actions, on the aggregate, do not reflect these statements. This is evidenced by the behavior of a select group of multinational footwear and apparel companies listed in the global stock. An analysis of the evolution of the performance of nine apparel multinationals (Adidas, GAP, H&M, Inditex, LVMH, Nike, Puma, VF Corp., and Walmart) since the beginning of this year (see graphs in Annex 1) reveals that the Rana Plaza tragedy in Bangladesh on April 24th 2013 did not have any effect on their performance. None of their share prices plummeted nor did any of the companies experience an increase in the volume of shares exchanged. In fact, some companies' prices rose after the accident.

2.2. Suppliers

For the purpose of this paper, Suppliers are considered the Companies supplying the Multinational companies. While some of the issues discussed may also be felt by lower tier suppliers within the supply chain (cotton producers, textile weavers, etc.), for the purposes of this paper, we have limited our scope to the "Tier 1" suppliers which work directly with the Multinational companies. For those multinationals who directly source all of their products in all levels of the supply chain, the discussion here may also apply with their lower tier suppliers.

Figure 3: Example supply chain showing the different tiers of production (source: Authors)

2.2.1. Push and Pull from MNCs

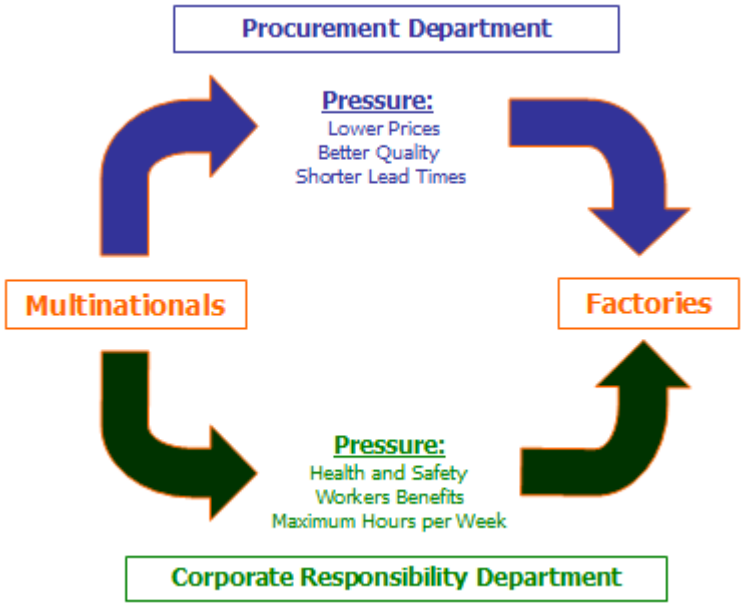
Footwear and Apparel suppliers face several pressures for performance from large apparel brands both in terms of inventory output and responsibility issues. However, different departments within a multinational company are often pushing suppliers to achieve opposite objectives. Pressure for "responsibility" results often comes from the Corporate Responsibility (CR) Department, which is looking to monitor the factory's performance in terms of health and safety standards, good working conditions, decent pay, etc. On the other hand, the procurement department - which submits orders to the factory - has its own set of objectives for the supplier. It is looking to try to lower costs, shorten lead times, and increase quality of the products produced within the factory. MNCs often work on short term contracts with the suppliers in order to reduce procurement risks. This practice, however, does do not provide suppliers any incentive to embrace the company's social responsibility agenda. The Procurement and CR Departments are sending contradictory and confusing signals to the factory managers. In a study examining two factories in Mexico producing for Nike, Richard Locke and Monica Romis (2010) found that suppliers felt that "brands are sending them mixed messages, insisting on faster cycle times, better quality, and lower prices while at the same time policing and admonishing them for poor working conditions".

Factories receive pressure from several different groups, both internal and external. Some of these factors may include:

- Short lead times to keep up with fast moving trends and fashions
- Last minute changes in specifications of fabrics or colour and delayed sample approval
- Unreliable delivery of materials and accessories
- Inefficiencies in production
- Low skilled workers, leading to high rates of re-working
- Seasonality leading to excessive hours in some months and lack of work in others
- Little commercial incentive to reduce hours if overtime premiums are not paid
- Low costs for discharge of emissions, solid waste and wastewater

(Van Yperen, 2006)

Figure 4: Representation of pressures felt by Factories from MNCs (Source: Authors)



2.2.1.1. Pressures for Social Performance

In terms of the factory's social performance, most MNCs have created their own codes of conduct stating what responsible management of a factory should look like and perform audits on a regular basis in order to ensure that these rules are being put into practice within their supply chain. Academics Kolk and Van Tulder (2005) argue that these codes of conduct have often "failed to take a supply chain approach, to reckon with home-based workers and to sufficiently involve employees, both in the formulation of the codes and, most notably, in the audit process." These codes of conduct have been imposed upon these factories without consultation of factory owners and managers who will have to implement them. They are written at a global level and do not consider organizational and cultural contexts of suppliers. While it is necessary to create some international standards on health, safety and working conditions, it is also important to understand how these international standards will be implemented and may impact working conditions at the local level.

In addition, factories have stated that these rules are sometimes difficult to comply with given that they often work with several MNCs at a time, each with their own set of standards. More importantly, depending on demand, location, risk mitigation, and other factors, companies may only place a small amount of orders with the supplier in a given year. This offers the factory little incentive to invest in implementing every aspect of the company's code of conduct if they are not sure if they will receive enough business to have a return on their investments. Helen Perez (2013), former labor law officer for

the ILO and current owner of improvingworklife.es, argues, Factories "do not have the resources. They are not willing, even if they have the resources, unless that Brand commits to further... orders".

2.2.1.2. Pressures to Deliver

Conversely, the Procurement Department is constantly looking for quicker and cheaper ways to meet their inventory targets. Given the evolvement of *Fast Fashion*, procurement departments are constantly looking to make their supply changes faster and more flexible. According to Locke and Romis (2010), "in order to accommodate rapidly shifting consumer tastes, global brands are pushing their suppliers to reduce cycle times, produce varied products in smaller lots, and rapidly change production from one style to another". By doing this, procurement departments are putting additional pressure on already strained factories. The business model of *Fast Fashion* erodes the profit margins of suppliers in the developing world and creates increased pressure on factories to complete orders at any cost. In an interview for *the New Yorker*, Richard Locke, a professor at MIT studying sustainable business and global supply chain, states, "Often, the only way factories can make the variety and quantity of goods that brands want at the price points they're willing to pay is to squeeze the workers..." (Surowiecki, 2013).

If suppliers are unable to meet deadlines, they often lose the entire order. According to an interview for The VICE Podcast Show, Dov Charney (2013), owner and CEO of American Apparel, states that, from his own experience as a third party garment contractor in Bangladesh:

> *When you are making garments for Levis, there is a deadline. If you miss that deadline, take the goods, they are yours, and if you sell them, we will sue you... And, we will not pay you anything. So you could be sure that they were hustling everybody back in the building because of deadlines... they put such strong delivery dates on these suppliers that if these suppliers are late, they are going to get hung, they are out of business. So, if it is a choice between putting people in a dangerous building back in the building, or crushing a union, versus going bankrupt. They are going towards crushing the union or taking some risks with health and safety.*

2.2.1.3. Short Term Contracts

Agreements between suppliers and Big Brands are often short term contracts of up to two seasons (Surowiecki, 2013). Suppliers often feel like they cannot say "no" to the Big Brands when it comes to taking on additional orders or making changes to an already existing order for fear of losing future contracts. Factories have often invested money in compliance measures and infrastructure to support the

demands of the MNCs. Their profit margins are usually pushed down in order to stay competitive. Therefore, factory owners cannot afford to lose future business. This vicious cycle creates what many academics call the "Race to the Bottom" in which health and safety measures and workers conditions are compromised in order to reduce costs and stay competitive. Often, factory owners are able to squeeze a small profit margin by sub-contracting the work to the "shadow economy", where wages are usually even lower and health and safety conditions are not monitored by the multinational companies. Pollution and environmental hazards are also not regulated in these sub-contracted factories ("The new collapsing building", 2013). Evidence of these issues can be seen China's growth, which has come at the costs of income inequality and environmental degradation. China's growth model has been named one of the main drivers for this "race" which has now spread to neighboring countries as China's labor costs increase with economic development in the country (O'Rourke and Brown, 2003).

2.2.2. Capacity Gaps

With the speed and agility of capital flows in today's globalized world, multinational companies are able to swiftly move production from one country or region to another as needed. Once costs of production (due to increased wages, capacity, etc.) rise to a level that makes a country uncompetitive, multinationals can easily move production to another location to keep costs low. International trade agreements, national trade law, and tax policies can also play a role in driving this increase in demand, as many countries, such as Bangladesh and Vietnam, have created positive tax benefits for multinationals in order to promote economic development.

While this injection of foreign direct investment helps countries get their feet on the economic ladder, the swiftness of its entry can cause a "gold rush effect" in which a multitude of factories open in order to gain a piece of the economic pie. This rush to create factories often creates a "capacity gap" in which workers and management are not well prepared in order to meet the demands put upon them by the Multinational companies. In an article written for *The Guardian*, Christine Bader (2013), a lecturer at Columbia University and a Human Rights Advisor to BSR, states, "Bangladesh's tax code, designed to bring economic development to a country that so desperately needs it, incentivizes building factories literally on top of others – even in residential buildings zoned for far fewer floors and no heavy equipment". Often, factory owners have little or no experience in managing a production line, nor do they understand how to calculate production rates. They also lack training on how to manage health and safety standards within a factory. Locke and Romis (2010) state that many MNCs "argue that problems associated with both production and labor standards are the result of the lack of professionalism and short sightedness of their suppliers." The factory owners' lack of capacity to properly manage production and implement proper

health and safety standards is part of the reason that basic working standards are not met.

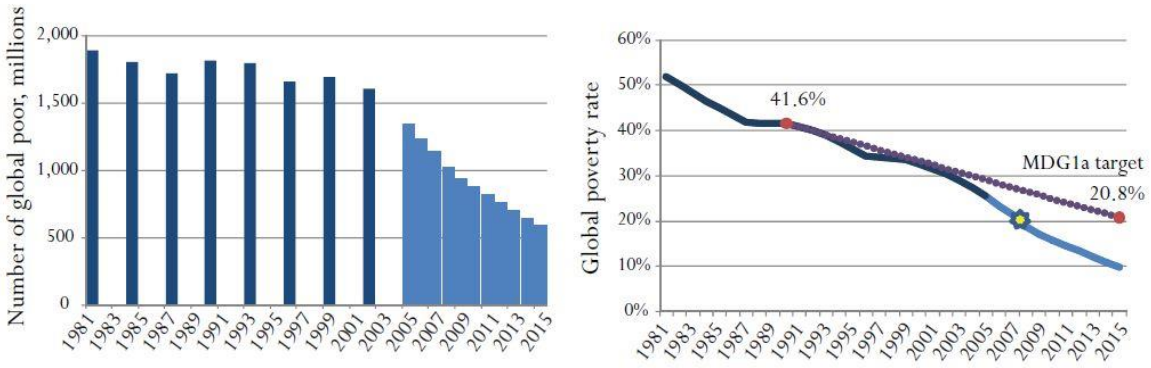
2.3. Governments of Developing Countries

This section provides some of the general gaps, drivers, and pressures felt by governments in developing countries that are involved in the apparel sector. It also provides some empirical examples that support this analysis.

2.3.1. Globalization and the Governance "Gap"

Globalization has created significant economic opportunities for a large portion of the world's population. The level of poverty has been dramatically reduced in the last few decades, due in large part by the economic development made possible by Capitalism ("Towards the end of poverty", 2013).

Figure 5: Graphical Representations of poverty reduction since 1981 (Chandy & Gertz, 2011)



Through Multinational companies, Capitalism - with its multiplier Globalization - has been able to reach and include hundred of millions of people within its value chain faster than any model of economic growth in history. As Charles Kenny (2013) states in an article for *Bloomberg Businessweek*, "the much lauded East Asian Miracle—which has lifted billions of people out of absolute poverty—owes a lot to cheap manufacturing." In Cambodia, for example, research looking at the relationship between the rise in garment exports and poverty reduction found that the garment industry has had a significant positive effect on poverty reduction within the country (Yamagata, 2006; Samsen and Sokha, 2006).

However, this rapid growth has also brought some negative impacts. Notably, capitalisms has created significant difficulties in the area of national governance. As globalization took hold, and companies began to spread their production and markets out across several regions of the world, workers were often left "in a vacuum in which the public sector often abdicated responsibility for enforcement of standards. Into

the breach came codes, which have largely been undertaken in spite of government, rather than in concert with public institutions, policies and resources" (BSR, 2007). Governments often do not work at the same pace as private companies when it comes to decision making and policy development. As a consequence, as multinationals quickly have moved capital and supply chains from one country to another, governments have had a difficult time keeping up with the changing economic landscape within their countries; they have often left a void in policy development that leaves workers and the environment unprotected.

Companies therefore have turned to the creation of their own codes of conduct to help fill part of this void. In many countries, the Corporate Responsibility department's audit system has replaced regulation enforcement historically done by government officials. Companies have replaced state regulatory actions with private initiatives. Many groups, including labor unions, NGOs, and the United Nations, argue that governments need to step up and properly protect their own citizens; they should not let rights protection fall to private companies:

> *As the "protect, respect, remedy" formula of the 2011 UN Guiding Principles on Business and Human Rights makes clear, the state must play the first and vital role to protect rights, and corporations must respect these rights and take responsibility for the impact of their business activities in the countries where they have chosen to do business. Both the state and corporations must play a role in providing remedy.*
>
> (The American Federation of Labor-Congress of Industrial Organizations, 2013)

In some cases, governments have created policies to fill this void, yet they are often weak or lack implementation and monitoring due to "the inability (i.e., budgetary and capacity limitations) and/or unwillingness (i.e., fear of driving out foreign investors) of host governments to enforce their own laws" (Locke and Romis, 2010). Additionally, pressure from lobby groups and factory owners can influence the effectiveness of policy making and implementation.

2.3.2. Export Processing Zones (EPZs)

Given the intense pressure to compete in global markets for foreign direct investment to promote economic growth, Governments have found different ways to incentivize foreign investment. One of these ways is through the creation of *Export Processing Zones (EPZs)*, or *Free Trade Zones*, which they believe will help bring in foreign investment, increase employment, increase exports, and generate foreign exchange (ILO, 2003). The ILO (2003) defines Export Processing Zones as "industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of

processing before being (re)exported again". They are federally designated areas in which operations are considered outside of most government regulatory frameworks. In most cases, this means that activity within these zones - including storage, exhibition, assembly, manufacturing, processing, etc. - is not subject to federal entry procedure, excise taxes, and often minimal or no regulatory compliance from other government agencies including health and safety, environmental protection, transportation, energy etc. (CV Miami LLC, 2011). Garment and electronic manufacturing are the two most common industries found in Export Processing Zones (Wick, 2010). Export Processing Zones exist all over the world, including in developed countries such as the United States. The Miami Free Zone boasts that companies "not only save money, but operate more efficiently given the special status of being within a Foreign Trade Zone. By law, products that enter a foreign trade zone (or free trade zone, since the terms are interchangeable) are considered to be outside of the commerce of the United States, thereby exempting such goods from most federal and state regulatory oversight and compliance requirements" (CV Miami LLC, 2011).

Whether or not a country benefits from Free Trade Zones is often debated - not to mention the question of who is receiving these benefits, and at cost to whom. The World Bank states that these zones " 'provide a country with foreign exchange earnings by promoting non-traditional exports, create jobs and generate income as well as helping technology transfer' " (Vidal, 2012). The ILO has argued that "Zones have created an important avenue for young women to enter the formal economy at better wages than in agriculture and domestic service. Women make up the majority of workers in the vast majority of zones, reaching up to 90 per cent in some of them" (ILO, 2003). Critics of these zones, however, state that "right from the outset, the growth strategies of industries in the export processing zones have been based on social discrimination against women and their greater willingness to accept poor working conditions" (Wick, 2010). The ILO (2003) has also expressed their concern for the lack of Freedom of Association and enforcement of labor legislation within EPZs. In come cases, they admit, legislation regarding occupational health and safety does not apply within Export Processing Zones, although they state that this is rare.

Some critics believe that these zones contribute to the "Race to the Bottom" since governments de-regulate the business environment or improve taxes for business in order to attract economic activity. Governments often help finance the initial costs of setting up these factories and offer numerous benefits to large corporations interested in setting up factories in these zones. In an article for *The Guardian* reporter John Vidal (2013) - who visited an EPZ in Chittagong, Bangladesh in August 2012 - stated:

> *Foreign businesses are treated royally. Bangladesh has a deep energy crisis, with demand massively outstripping supply, yet companies in the zone get cheap, reliable power, as well as generous 10-year tax holidays, freedom from red tape, duty-free imports, immunity from national laws, cheap labour and low rents. In Chittagong, companies pay just $2.20 monthly to rent a square metre of space, and I was told that the annual rent*

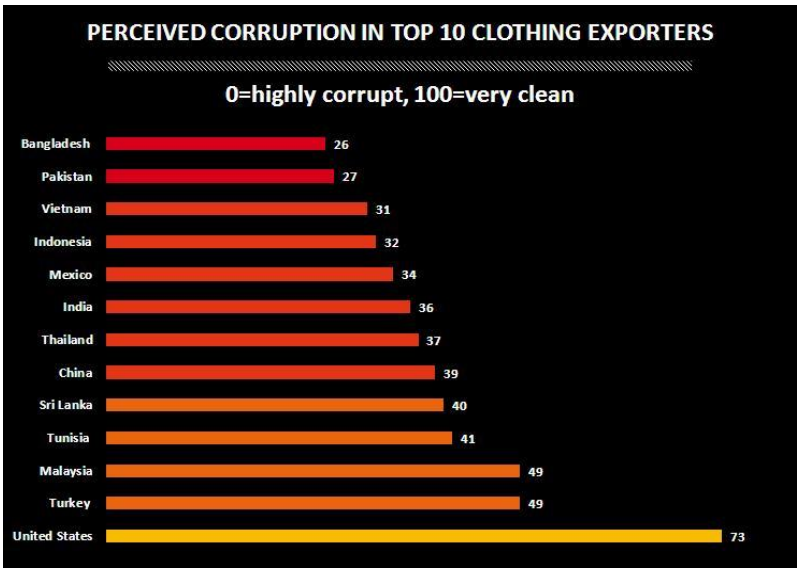
paid to the Bangladesh government by all the factories on the giant site was just $4m a year. So how much had Bangladesh invested in building the factories for the companies? No one could say.

2.3.3. Corruption

Corruption is defined as "…the abuse of entrusted power for private gain" (Transparency International, 2000). In an article for Transparency International, an organization dedicated to fighting corruption around the world, Iftekhar Zaman (2012) argues that corruption in footwear and apparel sector can come in many forms including bribery or collusion, a lack of government protection for whistleblowers, and a lack of transparency from government. In Bangladesh, for example, trade unionists have reported cases of harassment, torture, and even murders for people who speak out against poor working conditions. The Clean Clothes Campaign has also criticized the Pakistani government investigators for not disclosing information about buyers with victims of factory accidents.

Transparency International publishes the corruptions perceptions index every year. In 2012, they compared the top 10 garment exporters. The graph included the United States as a reference point in order to understand the results:

Figure 6: Perceived Corruption in Top 10 Clothing Exports (Zaman, 2012)



Corruption causes significant barriers to solving the underlying issues within the garment industry. When developing government's are not able to effectively monitor working conditions within their own country or protect the human rights of their citizens, these responsibilities are left to MNCs and NGOs who

work to fill in this void. While the actions made by these actors are important and laudable, they are reactive solutions that help reduce the symptoms of the problem. Private, piece-meal initiatives are not long-term solutions that get at the underlying problems within these countries.

2.3.4. Conflicts of Interest

In addition to issues of corruption, in many of these counties, argues Iftekhar Zaman (2012), business owners are often heavily involved in politics; in some cases, private business owners hold government positions that allow them to make decisions that affect their own sector. In Bangladesh, for example, roughly two thirds of parliament also belongs to the country's three biggest business associations. Over 10% of Parliament members have a stake in the garment industry. This can cause, what Zaman calls, an "undue influence on policy" in which these individuals can influence legislation in favor of their industry's interests, rather than the interest of the society as a whole.

Pressures for Improved Performance from the Bangladesh Government

In Bangladesh, the lobby group Bangladesh Garment Manufacturers and Exporters Association (BGMEA) represents roughly 4,500 of the 5,400 manufacturing companies in the country ("The new collapsing building", 2013; "Factory Growth in Bangladesh", 2013). BGMEA represents the factories' interests in the political arena. According to a special report written for Reuters, over 30 members of parliament have investments in the Garment Sector, which amounts to over 10% of representation (Chalmers, 2013). The industry brings in $20 Billion dollars in annual revenues and accounts for around 80% of all exports in Bangladesh (AFP, 2013b).

Historically, the government has prohibited workers in the garment industry to create unions unless they receive permission from the factory owner. With the collapse of Rana Plaza in April 2013, the government has received significant pressure from the international community - including the MNCs -to look into the labor laws and working conditions within these factories. On May 13, the government decided to lift the restrictions on the ability for workers to unionize. Mosharraf Hossain Bhuiyan, a spokesman for the Bangladesh government spoke to reporters after the meeting. Bhuiyan stated that "no such permission from owners is now needed... the government is doing it for the welfare of the workers" (Burke, 2013). The Government has also begun working on a labor reform bill that is expected to increase the rights of workers.

The ILO has increased its pressure on the Bangladeshi Government since the Rana Plaza accident. The organization sent a team of investigators to the site in a "high level mission". On May 4, they released

a formal statement that included a list of minimum actions they expect the country to take - with the support of the ILO - in order to rectify many of the issue that are prevalent within the garment sector in the country. This list from the ILO (2013a) includes:

- *Submission to Parliament, during its next session... a labour law reform package, that considers inputs of the tripartite partners and that would improve protection, in law and practice, for the fundamental rights to freedom of association and the right to collective bargaining, as well as occupational safety and health.*
- *Assess by the end of 2013 the structural building safety and fire safety of all active export-oriented ready-made garment factories in Bangladesh, and initiate remedial actions, including relocation of unsafe factories.*
- *A skills and training programme for workers who sustained injuries in the recent tragic events at Tazreen Fashions Ltd., Smart Export Garments and Rana Plaza that resulted in disability...*
- *Recruit, within 6 months, 200 additional inspectors by the Government and ensure that, the Department of the Chief Inspector of Factories and Establishments will have been upgraded to a Directorate with an annual regular budget allocation adequate to enable i) the recruitment of a minimum of 800 inspectors and ii) the development of the infrastructure required for their proper functioning.*
- *Implement, in full, the National Tripartite Plan of Action on Fire Safety in the RMG Industry in Bangladesh, and extend its scope to include structural integrity of buildings to improve health, occupational and structural safety and other vulnerable sectors, to be identified in consultation with the relevant stakeholders.*

OECD governments have also been feeling the pressure at home to get involved. Since the accident at Rana Plaza, the European Union has said that they would "look at how it might use its rules on preferential trade treatment to arm-twist Bangladesh into doing better" ("Avoiding the fire next time", 2013). Bangladesh currently enjoys tariff free exports to Europe on ready made garments (RMGs).

In January 2013, the US government responded to official complaints filed by The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), the largest federation of unions in the US, which stated that the Bangladesh government had been working with manufacturers in order to suppress labor unions. This response was given two months after the Tazreen Fashion factory in Bangladesh was engrossed in fire and killed 112 people. A senior official in the trade representative's office stated, "'There are serious concerns in Bangladesh related to freedom of association, worker safety and other issues' " and that in June the trade representative's office would decide "whether to take action against

Bangladesh, although under esoteric trade rules, any penalties could not be directed against that country's apparel industry" (Greenhouse, 2013a). Bangladesh is one of more than 125 countries that participate in a World Trade Organization (WTO) program called the Generalized System of Preferences and receives tariff breaks from the United States. The program is intended to promote economic growth. In December, US officials had given a list of items that needed improvement in order for the country to maintain their tariff benefits (Urbina, 2013).

US Government agencies have been rather split on its opinions about what to do, specifically given the significant amount of deadly accidents that have occurred in recent months. Although the garment sector does not receive tax breaks from the US, other sectors in the country do. The State Department argues that if the US chose to remove Bangladesh from the preferential list for human rights violations issues, many garment companies may choose to do business elsewhere. They also point to the fact that they would likely lose their bargaining power to pressure the government to change its policies (Urbina, 2013). The Labor Department, however, argued that the Bangladesh government has already been told that the country's trade status depended on performance improvements, yet has not made any significant improvements on human rights issues. Additionally, they state that according to the program, countries must adhere to strict eligibility requirements that include the implementation of internationally recognized worker's rights "which are widely ignored in Bangladesh" (Urbina, 2013). Many labor advocacy groups are siding with the Labor Department, arguing that in the past, the US government has not shown interest to use their power to pressure the Bangladesh government. Brian Cambell, policy and legal programs director at International Labor Rights Forum, states, " 'By failing to take serious action before now even in the face of phenomenal, unprecedented death of workers, U.S. trade officials have already sent the wrong message to Bangladesh... It's time to send a strong signal' " (Urbina, 2013).

In June 2013, the US government decided to suspend Bangladesh's duty-free trade privileges under the program. According to Section 502(b)(2)(G) of the Trade Act of 1974, "the President shall not designate any country a beneficiary developing country under the Generalized System of Preferences (GSP) if such country has not taken or is not taking steps to afford internationally recognized worker rights to workers in the country". In a statement on June 27, President Barack Obama (2013) stated that "having considered the factors set forth in section 502(b)(2)(G)... it is appropriate to suspend Bangladesh's designation as a GSP beneficiary developing country because it has not taken or is not taking steps to afford internationally recognized worker rights to workers in the country".

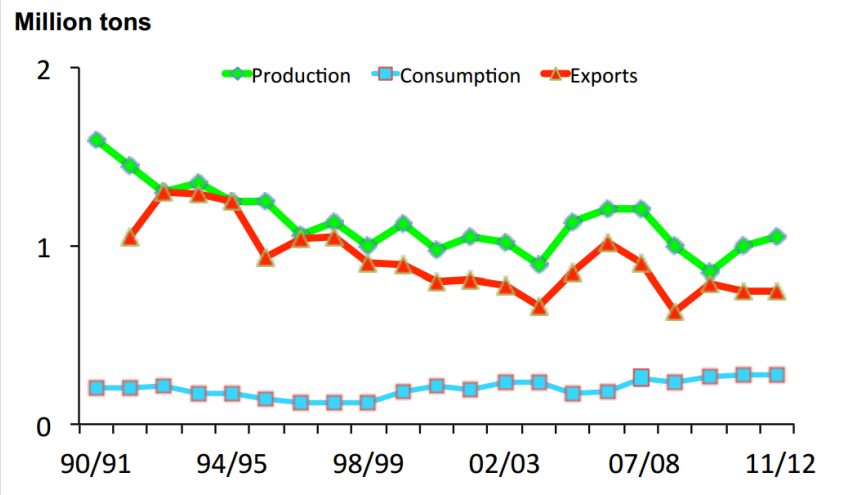
2.3.5. Growing Pressure from Multinational Companies

Some MNCs are starting to pressure governments to enact stronger policies and monitoring within their countries. Many multinationals have realized that price is not the only important factor when it comes to deciding where to source their produces; they also are looking for stable supply chains, reliable infrastructure, quality skills and innovation. With these needs, multinationals are starting to persuade governments to play a stronger role in protecting social and environmental rights, as it will provide greater stability and reduce risks for the companies. However, aside from a few individual cases, companies have not gained much traction in these efforts (Ansett, 2013a).

Big Brands, NGOs, and Labor Unions Come together to Pressure the Uzbekistan government

Uzbekistan is the sixth largest producer of cotton in the world after China, India, the USA, Pakistan, and Brazil. They are the 3rd largest exporter of cotton worldwide. In 2010, cotton accounted for 11% of the country's total exports (International Cotton Advisory Committee, 2011):

Figure 7: Production, Consumption and Exports of Cotton in Uzbekistan (International Cotton Advisory Committee, 2011)



Cotton is an important cash crop for the country, bringing in significant revenue - specifically for the government. Many farmers report that this is due to officials forcing farmers to sell the crop at artificially low prices to the government, who then sells the goods on the world market for a large profit (Clancy, 2013).

Cotton is extremely labor intensive during certain months of the year when it needs to be picked and transported for processing. In order to meet this labor demand, the Uzbekistan government closes schools in the fall and forces students to work the fields picking cotton for little or no pay. Parents who refuse to send their children to the fields face fines, and students may be expelled from their studies. Government and private sector employees are also forced to pick cotton. They are given quotas to harvest and risk losing their jobs if they do not meet them (Clancy, 2013).

This forced labor violates several international human and labor rights standards. Steve Swerdlow, from Human Rights Watch has been quoted saying that "Uzbekistan has one of the most atrocious human rights records of any nation in the world. It's longstanding President (Islam Karimov) has been in power for 23 years and he crushes dissent" (Clancy, 2013). MNCs and international organizations have been working for years to try and pressure the Uzbekistan government to change this practice; however, their efforts have had little impact. The Uzbek government has shut down the offices of Human Rights Watch in the past and has refused to allow the International Labor Organization (ILO) to monitor the cotton harvest.

In order to pool their resources, multinationals, NGOs, responsible investors, and trade unions have created The Uzbekistan Cotton Coalition to lobby the Uzbek government to put an end to its practice of forced child and adult labor. They are also lobbying the ILO to intervene (Ansett, 2013a). 131 apparel manufacturers have also signed the Company Pledge Against Forced Child and Adult Labor in Uzbek Cotton and pledged to "not knowingly source Uzbek cotton for the manufacturing of any of our products until the Government of Uzbekistan ends the practice of forced child or adult labor in its cotton sector. Until the elimination of this practice is independently verified by the International Labour Organization, we will maintain this pledge" (Responsible Sourcing Network, 2013).

This increased pressure seems to be finally reaching a tipping point. In July 2012, Uzbekistan's Prime Minister stated that school children under the age of 15 would not be sent to pick cotton (The Uzbek-German Forum for Human Rights Cotton Campaign and Cotton Campaign, 2012). This promise was, for the most part, kept. There were, however, a few reported incidences of some schools in certain regions being closed for the harvest. According to a report titled "Review of the 2012 Cotton Harvest in Uzbekistan" by the Uzbek-German Forum for Human Rights Cotton Campaign, children between the ages of 15 and 17 were still forced to pick cotton, and the coercion for these children was reportedly stronger than in previous years. Additionally, "the government shifted a significant share of the burden of the cotton harvest to citizens over the age of 18, by forcing greater numbers of university students, government employees, private sector businessmen, and low-income residents to contribute to the harvest, under threats to their livelihoods" (The Uzbek-German Forum for Human Rights Cotton Campaign and Cotton Campaign, 2012). Confirmation of the human rights situation in the country has been difficult for labor

activists as the Uzbek Government does not allow any third party monitoring. The ILO was not allowed to monitor the harvest in 2012, despite their continued request.

Multinational companies and advocacy groups know that the fight is not over. The Uzbek government has a long history of making promises and not keeping them. Activists are pushing MNCs to increase their monitoring efforts in order to better trace their supplies of cotton and maintain the pressure on the Uzbek government in the following years. Many MNCs are informing their stakeholders about their efforts to avoid Uzbek cotton on their Corporate Social Responsibility websites and in their annual CSR reports. If Big Brands, along with labor unions, NGOs, and investors, can continue to push the government to protect basic human rights and can effectively boycott Uzbek cotton, their collective efforts will create enough incentive to tip the government to change its practices.

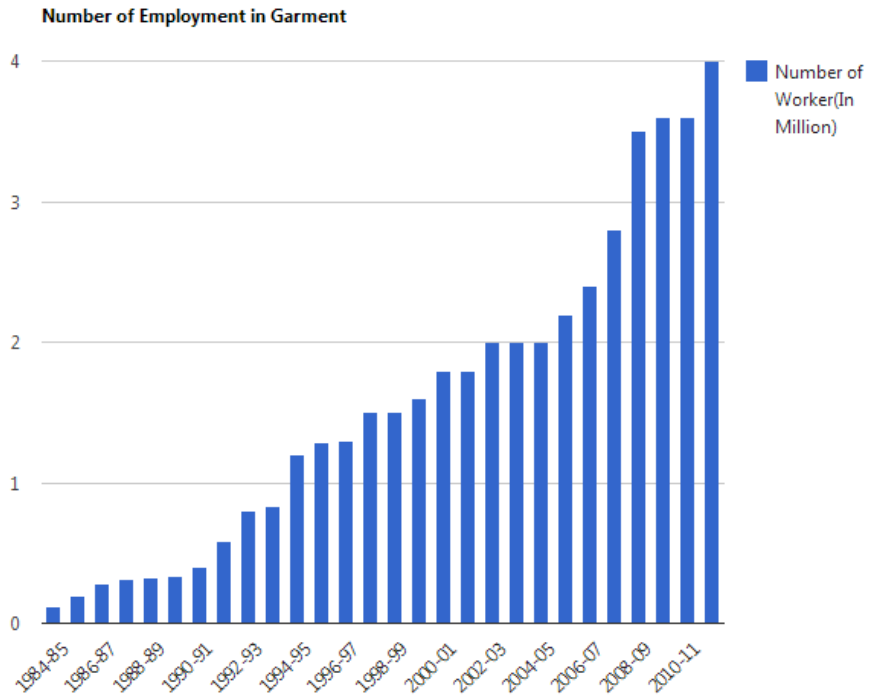
2.4. Factory Employees

For this paper, Factory Employees are defined as those individuals who work in the factories contracted by multinational companies to supply the garments they sell worldwide.

2.4.1. Economic Development and Job Creation

Light manufacturing, which includes the garment and textile industries, is one of the largest global employers in the world. Many have engaged in international garment and textile production as a starting point for economic development. Much of the growth of exports and GDP in Southeast Asia, for example, owes itself to these industries. As an example, employment in the Bangladesh garment industry has grown from less than a quarter million workers in the mid-1908s to nearly 4 million workers in 2010-11.

Figure 8: Evolution of Employment in the Garment Sector in Bangladesh ("Factory Growth in Bangladesh", 2013)



Despite the poor conditions felt in the industry, factory workers are driven to work within garment factories because these jobs are often their best option for obtaining a secure income. In Southeast Asian countries, for example, unskilled workers can either work in agriculture, informal jobs, or the garment industry (Wrinkle, Eriksson, and Lee, 2012).

2.4.2. Grievance Procedures

Grievance procedures give workers the opportunity to notify managers of unethical situations or violations of human rights without worry of punishment. Implementing proper grievances procedures is important for improving social responsibility. When companies ensure that a proper grievance procedure is in place, companies can become more transparent and promote an open dialogue amongst its stakeholders.

While much better than a decade ago, grievance procedures are still lacking in many factories and are not used properly by many suppliers. Factories often do not like the idea of exposing violations for fear of damaging their reputation or losing future contracts with multinationals. Also, factory owners often do not know how to handle these types of complaints and therefore shy away from implementing these types of

procedures. Most importantly, employees are not willing to risk their job by raising an issue since they do not feel supported by the factory owners or the MNC to do so without punishment.

2.4.3. No Power to Put Pressure

While labor is a main source of value added within the supply chain, factory employees do not play a significant role in driving other actors within the system. Workers are often left out of the discussion on how to improve their situation. Often, NGOs must act as their representatives in these debates and dialogue. In fact, much of the pressure received by other stakeholder groups are pushed down upon these workers in the form of long hours, low wages, and poor conditions. Often, the wages paid to these workers do not meet what practitioners call a "living wage" - the wage considered necessary to access basic needs.

3. Current Practices Being Implemented

Companies and Suppliers are currently implementing several programs and initiatives across their supply chains in order to monitor and improve conditions. These practices include creating codes of conduct, performing on-site audits, improving transparency and traceability along the supply chain, promoting capacity building for factory managers, and promoting collective bargaining agreements and freedom of association for workers within these factories. In this section, we will describe the current activities taking place within these areas. We will analyze what is, and is not, working within these activities and discuss what could be improved.

3.1. Codes of Conduct

The idea of creating Codes of Conduct began in the 1970s with International Organizations like the OECD (which published a code in 1976), the ILO (which published a code of conduct in 1977), and the United Nations Commission on Transnational Corporations (which created another code of conduct in 1978). These projects were supported by governments from both developed and developing countries; both groups were experiencing swift changes in their economies and workers relations due to the rapid changes in corporate activity from internationalization. Once these codes of conduct were published, however, several issues impacted their effectiveness including "the lack of international consensus about the function, wording and potential sanctions against non-compliant companies" (Kolk & Van Tulder, 2005). In fact, the ILO code was only signed by one company; the rest of the multinationals were scared away from signing after trade unions used this code in an industrial dispute with the signatory company's managers (Kolk & Van Tulder, 2005). Early codes of conduct therefore transformed into voluntary guidelines which did not carry any consequences for signatory companies if they did not comply with the rules.

In the 1980s, International Codes of Conduct began to fall out of favor. NGOs had begun to write their own versions of industry codes of conduct. However, research has shown that neither codes written by international organizations nor NGOs have been strongly enforced by corporations who sign them (Kolk & Van Tulder, 2005, p. 12). In the mid 1990s, due to reputational risks - such as Nike's child labor scandal and Gap's sweatshop scandal - codes of conduct became a tool that multinationals took on and implemented themselves, rather than following codes written by other groups.

3.1.1. Voluntary Codes of Conduct:

All codes of conduct written by NGOs and International Organizations are voluntary initiatives in which companies can either choose to sign and comply, or not. According to the essay "Without Rules: A Failed Approach to Corporate Accountability", written for the *Human Rights Watch Report 2013*, "voluntary initiatives all face the same crucial limitations: they are only as strong as their corporate members choose to make them, and they don't apply to companies that don't want to join. They often do a good job of helping to define good company human rights practice, but enforceable rules are the only way of ensuring real systematic change" (Albin-Lackey, 2103). Without some specific consequences tied to code of conduct compliance, research shows that companies tend not to follow voluntary initiatives.

3.1.2. Company Codes of Conduct

When looking at the effectiveness of the codes of conduct created and implemented by multinationals, results vary. According to research done by the ILO in 2003:

> *… the sports footwear companies were most advanced in the implementation of codes in their operations. [MNCs] in this industry had drastically reduced the number of suppliers, and delved relatively deeply into the systems of these remaining suppliers. Apparel companies, which work with much more suppliers, were less advanced in the implementation. Retail companies, finally, have usually thousands of suppliers and, also due to the fact that their key activity is to market and sell other brands, seemed to be least focused on code compliance for their own products.*
>
> (Kolk & Van Tulder, 2005)

The effectiveness of these codes of conduct seems to be directly linked to the size and spread of the supply chain. When companies spread their products out among a large supplier base - typically because the company is trying to diversify the risks associated with supply - it weakens their ability to influence their supplier's behavior. However, companies that have reduced their supplier base, like in the footwear companies, have had the best results in implementing their code of conduct throughout their supply chain.

Some critics argue that many codes of conducts are too general, making implementation difficult. When asked what are some of the most difficult things that factory owners face when working with Multinational Companies, Helena Perez (2013) - former labor law officer for the ILO and current owner of improvingworklife.es - answered, "More generally: knowing how to apply the codes of practice... in the sense, you know, a codes says don't discriminate. But, what does that mean in a hiring procedure? They

might say 'we don't discriminate' but it is hard for them to actually put in practice in policies and procedures what those codes say. What it means." As an example, Nike's Code of conduct states that "HARASSMENT and ABUSE are NOT TOLERATED: Contractor's employees are treated with respect and dignity. Employees are not subject to physical, sexual, psychological or verbal harassment or abuse" (Nike Inc., 2010). While this may seem rather straightforward, specific behavior that is considered harassment in one culture may not be considered harassment in another. Without specifying guidelines for what is, and is not, considered harassment, these codes of conduct are not offering practical guidelines to their suppliers. Without specificity and training on how to implement these codes, factory managers struggle with compliance purely due to lack of capacity, rather than a lack of interest or will.

Additionally, factory owners have often complained about the complexities of trying to comply with different codes from different multinationals, since they often produce for more than one company. However, the ILO report "Business and code of conduct implementation: how firms use management systems for social performance" found this to be untrue "since compliance with the most stringent code satisfies all parties". They argue that "if codes focus on different areas (e.g. one on health and safety, another on working hours), compliance with all of them helps to improve standards across the board" (Kolk and Van Tulder, 2005). However, the ILO did find that suppliers faced one important difficulty: they usually have to bear the costs for extra requirements themselves. In a paper studying the effectiveness of codes of conduct, Kolk and Van Tulder (2005) argue that it cannot "be ruled out that the multiple codes argument is merely used as a pretext for non-compliance, hiding more complicated economic issues related to the distribution of costs and benefits (of code compliance) over global supply chains, including the fact the cost savings were the motivation to outsource production in the first place."

3.2. Audits

Companies began to drastically increase audit programs once they had implemented a code of conduct within their supply chain; auditing became the way to verify that these codes were being followed. In the garment industry, a large percentage of multinationals have identified potential benefits from implementing the auditing system in their supply chain. Audit programs give companies the opportunity to protect their brand image and reduce risks related to reputation.

3.2.1. Multi-stakeholder Auditing Systems

Multi-Stakeholder Auditing Systems are systems developed by a list of different stakeholders, rather than by one individual company. They have the benefit of creating industry-wide standards for policy and enforcement. One of the first multi-stakeholder models that was used to audit was the SA8000, which is

overseen by the Social Accountability International (SAI). It is considered by many to be the gold standard in labor certification and was developed and pioneered by many multinationals. However, some questions have arisen regarding the effectiveness of the scheme given the fact that the program is funded by Multinationals. For example, the AFL-CIO (2013) questions:

> *How trustworthy are these internal audits? Wouldn't the incentives for moral hazard be too great for these interested parties? If these audits are, instead, contracted out to "third party" organizations, be they NGOs or private auditing companies, how competent are the NGOs in assessing certain technical issues (e.g., air quality) and how forthcoming will the private monitoring firms be if they hope to please their clients (the brands and their suppliers pay for these services) and generate future business?*

Companies have sought to counter these criticisms by promoting new procedures and policies that could encourage transparency within monitoring organizations. Initiatives that have had the greatest impact have been those that certify third party auditors, such as the Fair Labor Association and the Fair Wear Foundation. These institutional mechanisms are meant to enhance the credibility of the auditors.

3.2.2. Follow-Up

The emergence of Corporate Responsibility departments within multinationals has positioned the auditing system as the first line of defense to understand the operations of their supply chains. However, critics of the auditing system state that oftentimes audit activities are not accompanied by remedial action plans undertaken by the factories and their employees. In fact, audits are often seen by employees as activities that merely allow multinationals and factories to cover minimum operating risks. According to AFL-CIO (2013), "auditing is more about securing orders than improving the welfare of workers". Auditing practices alone do not produce changes in the factories; they only serve to determine where the deviations of compliance are and to warn companies of situations that require attention and remediation. Audits must be accompanied by remediation plans in order to transform, fix or restructure the situations identified in the audits.

The overall impact of the auditing system within industrial supply chains has been much debated in recent years. While the auditing system is not the solution to the problem, it is one incremental step improving the lives of millions of workers around the world – until a more transformative solution to these issues can be implemented.

3.3. Transparency

For many years, there has been a systematic lack of transparency in the garment sector: both by MNCs and Suppliers. For the past several decades, MNCs have received increased pressure to disclose information to their stakeholders about their supply chain. As an example, in the late 1990s, "a private movement emerged that pressured corporations to disclose the identity of their global supplier factories. These activists believed that factory disclosure would lead to greater accountability by corporations for the working conditions under which their products are made, which in time would improve labor practices. In 1995, Nike and Levi-Strauss (Levis) surprised the business community by publishing their supplier lists" (Doorey, 2011). In recent years, companies have even begun working together to share knowledge about the working conditions of potential suppliers around the world.

There is also a growing trend of MNCs requiring suppliers to improve transparency by reporting on specific issues. Increasingly, more and more suppliers are undertaking CSR reporting in order to show global clients that they are improving on these issues. Additionally, partnership models are slowly substituting the pass/fail audit model. These models are changing the standard approach, with suppliers analyzing their own challenges and then working jointly with MNC to remediate. For instance, the FLA 3.0 program asks suppliers to complete a self-assessment questionnaire identifying their challenges and why they think such challenges may exist (Beyond Monitoring, 2007). These types of initiatives are important as they promote trust between factories and the MNCs and allow factories to be open and honest about their challenges without fear of losing future business.

3.4. Traceability

Traceability is the act of monitoring all the inputs throughout the process of production. The goal is to ensure that these sources are reliable, responsible and part of a transparent process. MNCs have two options when it comes to procurement of raw materials: the first is to purchase the raw materials themselves and transport it to the textile factories while the second is for factories to purchase the raw materials and textiles themselves to fill orders for Multinationals. Companies who supply directly from Tier 1 factories and do not directly manage the tiers below have a hard time ensuring labor and human rights in these lower tiers of production. The complexity in identifying and updating information on the tiers of production beyond their Tier 1 suppliers is a very real challenge for MNCs. In fact, many Multinationals annually publish information about the performance of their Tier 1 factories, yet do not speak much about the previous tiers of production.

3.5. Capacity Building

Capacity Building is an important aspect for improving the working conditions within the global supply chain of the Footwear and Apparel Industry. It has shown to help improve management, operations, working conditions, and trust between suppliers and MNCs. A famous research study done by Locke and Romis (2010) explains the importance of capacity building in the sector. In this study, they describe the cases of two different factories in Mexico: Factory A was willing to work with Nike in order to improve its manufacturing and operational practices, while Factory B kept working with Nike as it had been doing in the past: Nike placed orders, and Factory B filled them. The authors concluded that "more frequent visits and more open communication between Nike's regional staff and management at Plant A led to the development of greater trust and a better working relationship between these two actors. This, in turn, contributed to the up-grading of Plant A's production system and its consequent positive impact on working conditions at the plant. Less frequent, more formal communication patterns between Nike's local staff and Plant B management appears to have reinforced the arms-length nature of their relationship, in which Plant B seeks to deliver product to Nike at the lowest cost (highest margin) and Nike tries to ensure compliance with both its technical and workplace standards through ever-more sophisticated systems of policing and monitoring." (Locke and Romis, 2010)

3.6 Collective Bargaining Agreements

A Collective Bargaining Agreement is a legal document covering labor contracts and working conditions in a particular sector. In the case of the Garment industry, the use of collective bargaining agreements has fallen out of favor. In many countries in Southeast Asia, for example, collective bargaining agreements are non-existent. In some cases, they are prohibited by factories.

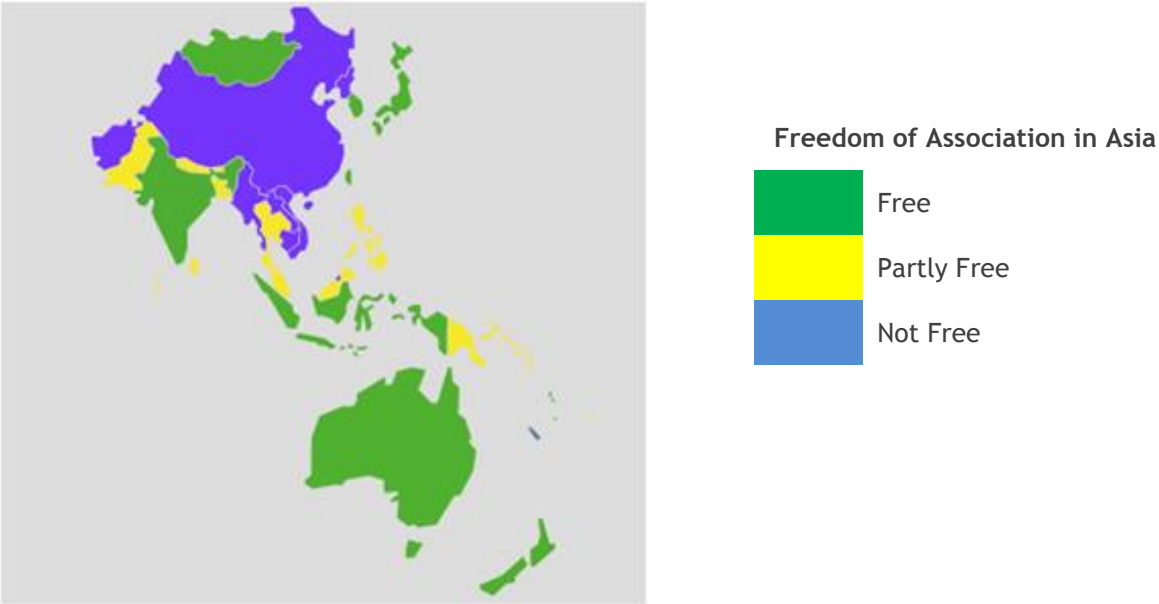
Collective bargaining agreements are included in Principle Three of the UN Global Compact - a United Nations initiative to promote sustainable and socially responsible policies amongst businesses worldwide. The Global Compact states, "Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining." Collective bargaining agreements help level the playing field for workers and promote a process of self-organization. When workers do not have a collective bargaining agreement, they lack a proper voice to represent their needs and interests. Once the company agrees to implement a collective bargaining agreement, factory owners allow for the possibility to find common ground on labor issues within the company.

3.7. Freedom of Association

Freedom of Association is defined as the ability for employees to associate among themselves to communicate the topics that are of interest to them. The concept of Freedom of Association is considered a human right by many international organizations. The United Nations Universal Declaration of Human Rights "explicitly protects both freedom of association in general and the right to form and join trade unions in particular" (Freedom of Association and Workers' Rights, 2013). It is also a fundamental provision underpinning the work of the International Labour Organization (ILO). While international organizations have worked to instill these rights within every country and company, there are still countries where these rights are not guaranteed to its citizens.

In recent years, the Asia-Pacific region has seen an improvement in political rights and civil liberties. While these achievements are laudable, many problems still exist. The possibility to organize, form civil society organizations, and advocate for human rights have historically been difficult in many of these countries.

Figure 9: Graphical Representation of the ability of workers to freely associate in Asia (Freedom House, 2013c)



Within the garment industry, it is important to ensure that the views and concerns of all stakeholders are being heard and addressed. The voices of factory workers are the hardest for MNCs to affectively engage. More efforts need to be made in order to ensure that these important stakeholders are at the table and part of the solution. Under Principle Three of the UN Global Compact, it states:

> *The guarantee of representation through a "voice at work" facilitates local responses to a globalized economy, and serves as a basis for sustainable growth and secure investment returns. The results help bridge the widening representational gap in global work arrangements, and facilitate the input of those people, regions and economic sectors — especially women and informal sector workers — who otherwise may be excluded from participating in processes that build decent work environments.*

Multinationals and Governments can work to improve the likelihood for collective bargaining agreements and freedom of association by supporting these efforts and working to ensure these options are given freely to employees. They can also work with factory owners and employees to provide capacity building around this issue. As with grievance procedures, part of factory owners' resistance to freedom of association efforts stems from their lack of experience and knowledge in managing complaints and concerns. Additionally, most employees do not know their own country's labor laws, their labor rights and do not have the skills to negotiate properly (Perez, 2013). Ironically, employees are one of the biggest sources of innovation and ideas for a company. By promoting their collaboration, they could become a large asset – rather than liability - for factory owners.

4. Highlighted Cases of some of the "Best Practices" currently being implemented

Some current initiatives truly stand out as "Best Practices" within the industry. The initiatives are attempting truly change certain aspects of the supply chain system. This section describes how a few of these programs work, looks at their pros and cons, and explains why these programs are considered "best practices".

4.1. Capacity Development: Better Work

The Better Work Program is a partnership between the International Labour Organization (ILO) and the International Finance Corporation (IFC). The program was launched in 2007 after the success of the pilot project, ILO Better Factories Cambodia. This pilot program grew out of an agreement between the U.S. and Cambodia in which the U.S. agreed to give Cambodia better access to U.S. markets if they improved the working conditions in factories within the country. Cambodia requested help from the ILO to establish the project in order to achieve and maintain their goals (Better Work, 2012a). As of 2013, Better Work has operations in seven countries: Cambodia, Haiti, Jordan, Lesotho, Indonesia, Vietnam and Nicaragua. Both Morocco and Bangladesh are in the planning phase for incorporation into the program. The Better Work Program establishes labor standards for certain issues, including: child labor, forced labor, freedom of association and collective bargaining, discrimination, contracts, compensation, occupational safety and health, and work hours. It has two main lines of work:

Practical Tools and Services:

- *An assessment tool for measuring compliance with international labour standards and national labour law, as well as tailored advisory services that support continuous improvement. These tools are put into practice in factories in Better Work's country programmes, helping factory owners, management and workers improve compliance with labour standards.*
- *Specially developed training programmes and good practice guides addressing key issues in the garment sector, such as supervisory skills, human resource systems, and occupational safety and health.*
- *STAR, an information management system used to record, store and disseminate Better Work assessment and improvement reports. This system allows factories to share compliance information with international buyers quickly and easily.*

Stakeholder Engagement:

- *Better Work engages and builds the capacity of national stakeholders to provide ongoing programme feedback through a Project Advisory Committee, whose members include representatives of ministries of labour and trade, employer organizations and trade unions.*
- *Government labour inspectorates contribute to country programme design and implementation, and often receive on-the-job training and other support from the Better Work programme.*

(Better Work, 2010a)

The program is funded partly by government funding; however, a majority of the money comes from the international garment buyers themselves who pay for the factory audits and any activities related to compliance verification of the factories that supply their products. Each of the national programs works slightly different depending on national laws and on the country's applicable trade agreements. Some countries such as Jordan, Cambodia and Haiti require their factories to be enrolled in the program by law. Haiti goes even further by requiring their factories to achieve a certain level of compliance within the program in order to receive preferential access to the U.S. apparel market (Brown, et al. 2012).

The partnership's leadership is formed through a Better Work Joint Management Group which incorporated senior members from both the ILO and the IFC. This team creates the strategic and operational goals of each country programs and makes budget decisions. Their decisions are overseen by a global Advisory Committee comprised of representatives from "donor governments, international employers' and workers' organizations, international buyer partners and experts in global supply chains and/or labour standards" (Better Work, 2012b). In the field, the Better Work Program recruits local Enterprise Advisors (EAs), who are trained to conduct factory assessments and provide advisory services to factory managers. The EAs are also trained to adhere to the ILO and UN codes of ethics and to deal with issues of corruption. On the job, EAs are grouped in pairs when they perform the factory assessments. EA pairs are rotated every two months and visits by EAs are "shadowed" by senior staff members at least twice a year in order to verify the EAs' assessment and advisory work. Periodically, the individual factory assessment reports are reviewed by Better Work Global in order to ensure consistency across all the country programs (Better Work, 2012c). Once a factory assessment has been conducted, the information is updated on the STAR platform, which ensures that the information is easily accessible to buyers and remains confidential (Better Work, 2010b).

For those factories that were not found in satisfactory conditions, EAs work directly with the factories in order to provide advisory services to improve the issues identified. EAs work with management to

"establish and facilitate a Performance Improvement Consultative Committee (PICC), which includes representatives of workers and management create and implement improvement plans, and recommend training services" (Better Work, 2010b). The incorporation of workers within the PICC is fundamental, as it provides a space for their concerns and ideas for improvement to be heard. Throughout the process of remediation, Better Work EAs also perform additional compliance assessments to ensure that the factory meets its targeted remediation activities (Better Work, 2010b). All plans and progress made during this process are updated to buyers so that they are fully aware of any non-compliance issues in the factories and the steps being taken to remediate them. This process creates a factory-specific approach to process improvement. It also promotes transparency and up-to-date communication between buyers and suppliers, enabling buyers to make more informed purchasing decisions.

In order to monitor and measure the overall impact of the program, Better Work has employed the services of Tufts University in the U.S. since 2007. The program has been successfully collecting data in five Better Work Countries since 2012, using digital technology to administer factory manager and worker surveys in people's native language. Additionally, the program uses audio technology to survey those who have a low literacy level (Better Work, 2012d). The program not only asks managers and workers about the conditions, stresses, and management processes of the factories, it is also working to collect information to try to "explain how and why factories change their human resource practices in ways that promote improvement in compliance with labor standards, the extent to which workers perceive changes on the factory floor, the impact of improved social dialogue on workers and managers, and more broadly, the outcomes for workers' households and their well being" (Better Work, 2103b).

Better Work in Bangladesh

Due to the recent building collapse in Bangladesh, the ILO sent a "high level mission delegation" to the country in order to assess the situation of the factories. In the assessment of this mission, the ILO (2013a) "called upon the Better Work Joint Management (ILO/IFC) to meet immediately after the adoption of the labour law..." The ILO then expects the Better Work Joint Management to create an action plan that "will include a follow-up mechanism to measure in 6 months time, progress made in the implementation of the measures announced" (ILO, 2013a). These measures are outlined in the Bangladesh Highlighted Case Study, "Pressures for Improved Performance from the Bangladesh government" on page 15. The Better Work program has helped other nations with weak government strengthen the protection of its workers, proving that change is possible. In an interview for *The* New Yorker, when asked about the possibilities of improving the situation in Bangladesh, MIT Professor Richard Locke smartly stated, " 'If Cambodia can do it, why can't Bangladesh?' " (Surowiecki, 2013).

The Better Works Program is believed to be a "Best Practice" in the Industry by both practitioners and academics. BSR, a non-profit dedicated to developing sustainable business strategies and business solutions, states that the Better Work Program's "focused approach holds considerable promise and is likely to generate more support from suppliers due to its focus on their own working environments" (BSR, 2007). They believe that the program has created better "buyer internal alignment" by including dedicated buyers in the process within the countries they source from. BSR also states that the program aims to support "worker empowerment" by focusing on training employees on their rights and responsibilities and bringing them to the table as part of the PICC to create the factories remediation plans - a tactic that is crucial in order for things to improve in these factories.

Many Multinationals boast their involvement in the program in their annual Corporate Social Responsibility reports. Gap, for example, states that in countries where Better Work is operational, they have stopped doing their own audits and subscribed to the Program's assessment reports. They state that "Better Work has developed its own approach to monitoring factories, and while this approach is not always 100% reflective of our own Code of Vendor Conduct's methodology, it is equally comprehensive in that it takes a long-term approach looking at continuous improvements and capacity building efforts. By eliminating the need for individual brands to conduct separate auditing, Better Work increases efficiencies and establishes clearer standards" (Gap Inc., 2011).

The program has had several significant achievements in improving the conditions and pay of workers in the countries in which they work. For example, according to the Better Work website - hosted by the ILO (2013b), "over 90% of garment factories in Cambodia now pay their workers their correct wages, including overtime, and allow for maternity and annual leave." In an article written for *The New Yorker*, James Surowiecki (2013) states that the Better Work Program in Cambodia, "has significantly improved not just working conditions but also workers' rights, even as Cambodia's exports have grown briskly. The program has its critics, and Cambodia is still no workers' paradise. But, when you consider that these reforms happened in a country with a shaky government, recovering from tremendous civil strife, and building a garment industry from scratch, their success suggests that change is possible."

While many academics and practitioners praise the work being done by Better Work, Helena Perez (2103) warns us that we must also look critically at the big picture when analyzing the impacts of programs such as this one. In our interview, she stated:

> *Better Work is an interesting project that can do a lot for a country, but I think that it would be more useful if they had further programs for the labor inspectorate instead of creating an alternative system to the public inspection system... all the tools and all the trainings that they are giving auditors - their specific auditors - they should be giving to the public inspectors.*

While programs like Better Work are creating a positive impact in the lives of those whose factories are enrolled in the program, there is the possibility that these programs are only furthering the "governance gap" within these developing countries. The Better Work Program is indirectly supporting the privatization of tasks that government has historically undertaken. As Perez argues, this effort could make it much more difficult for these tasks to be undertaken by the government in the future. She states that "labor inspectors in these countries have very low salaries. If you train them, if you give them tools, they will just go off to the private sector where they will get more career advancement, more recognition, and better salaries. So, it is not just, 'lets train labor inspectors and things will work'... It is a systematic problem..." While the short term impacts of Better Works have been positive and have improved the daily lives of hundreds of thousands of people, we also need to critically look at the long term impacts of this program on the society as a whole, and critically analyze the sustainability of the program in the long term.

4.2. Whistleblower Hotlines and Workers Rights Education

"Whistle Blower Hotlines" are meant to improve working conditions in factories by empowering workers to report their complaints directly to the Multinationals. There are currently several MNCs and organizations working together to launch these sorts of programs. The Walt Disney Company, for example, has worked with a local NGO to help develop and implement a worker helpline in southern China. This helpline was installed as a prototype - with factory management support - in ten factories that produced Disney-branded products. It is managed and operated by the NGO. In the opinion of Helena Perez (2013), these types of mechanisms are very useful tools in that the MNC "is trying to send a message... saying: 'Hey guys, somebody is watching.' Regardless if people actually use the line or how effective it is... if [the MNC] is actually going to do anything because of that phone call..." The multinational is telling these factory owners, " 'Hey, if you don't solve your problems internally, these people have the resource of coming to me. And I'm watching. And I'm going to be there twenty four hours a day...' " These hotlines maintain a constant watchful eye over the factory owners, increasing the level of monitoring from once a year through audits, to every day through these whistleblower hotlines.

Another, slightly different example is Verité's Mobile Van and associated Advancing Women Program that delivers tools and education on a variety of topics in a large number of factories. In a partnership between Timberland and Verité, a peer-to-peer education model was created in which workers distribute information to their own colleges on nutrition, labor laws, mathematics, etc. Some workers are trained as peer educators and commit to teach two or three workers on topics such as the Timberland Code of

Conduct, wage calculations, personal health and interpersonal communication skills (Beyond Monitoring 2007).

4.3. Collaboration

One important area in which Multinationals, NGOs, Labor Unions, and Governments have been able to make some "game changing" improvements to the supply chain has been through collaborative partnerships and coalitions in which Big Brands work together alongside other stakeholder groups in order to come up with industry wide standards, processes, and assessment methodologies. In the last decade, companies have become increasingly interested in collaborating on initiatives and sharing information throughout the sector. Many multinationals have found that certain goals cannot be achieved if they attempt to "go it alone". Companies have realized that it will take a sector-wide change in mindset and practices in order to raise the social standards of the industry.

One of the biggest leaders in promoting this industry-wide change has been Nike. In an article written for Harvard Business Review, Simon Zadek (2004) states that in the case of Nike, in the 1990s the company realized that its "challenge was to adjust its business model to embrace responsible practices — effectively building tomorrow's business success without compromising today's bottom line. And to do this, it had to offset any first-mover disadvantage by getting both its competitors and suppliers involved." This idea of collaboration became increasingly relevant for the company when they purchased the company Starter - an economy brand sold in stores like Walmart - in 2004. Nike decided that, in order to mitigate any competitive disadvantages that would come from maintaining their social standards while trying to keep prices low in order to compete in economy markets, they had to try and influence change in the sector. In a letter sent to stakeholders after the purchase of Starter, Nike wrote, "Whatever the channel where Nike products are sold, we have a growing conviction that it is essential to work with others to move toward the adoption of a common approach to labor compliance codes, monitoring, and reporting to help ensure broader accountability across the whole industry..." (Zadek, 2004)

Some examples of collaboration that have had striking success in creating change have been initiatives such as the Fair Labor Association (FLA) and Social Accountability International (SAI). These multi-stakeholder initiatives have been able to bring different stakeholder groups together in order to create uniform auditing and verification standards, work on capacity building programs for factories and employees, and promote transparency of information within the supply chain. Also, other examples include platforms such as the Suppliers Ethical Data Exchange (SEDEX) and the Fair Factories Clearinghouse, which allow member companies to share audit and remediation reports amongst each other.

One great example of these cross-company coalitions - that is worth mentioning in detail - is the Sustainable Apparel Coalition (SAC). This multi-stakeholder initiative was founded by a group of sustainability leaders from apparel and footwear companies that were looking to work in a more collaborative way in order to address the social and environmental issues facing their industry. The goal of SAC is to create "a common approach for measuring and evaluating apparel and footwear product sustainability performance that will spotlight priorities for action and opportunities for technological innovation" (Sustainable Apparel Coalition, 2013). Member companies of the Coalition represent over one third of the global apparel and footwear market (Salter, 2012). When Executive Director of SAC, Jason Kibbey, was asked about the level of collaboration within the initiative, he responded by saying, "I think in general what you see from our members is a belief that company-based solutions alone are no longer capable of solving the sustainable challenges of our time nor are they cost effective, or efficient or just the right way to go anymore" (Godelnik, 2012a).

As their first major achievement, in July 2012 the Sustainable Apparel Coalition came out with the Higg Index 1.0 which evaluates companies, factories and apparel products on their environmental performance. The Coalition is currently in the process of working out the methodology for evaluating the social performance of these entities. The Higg Index 1.0 has been going through testing phases, and has so far received very good reviews. Currently, the Higg Index 1.0 has been implemented in the CSR programs of several companies such as H&M, Gap, Walmart, Nike, and Patagonia. According to an article for Triple Pundit, Liam Salter (2012) CEO of RESET Carbon, states that:

> *With textiles and apparel manufacturers operating under increasingly tough business environment these days, the myriad of brand-specific scorecards and questionnaire have induced audit fatigue, and is gradually becoming financially unsustainable for suppliers to respond. In contrast, 'The SAC Higg Index's promise to drastically reduce sustainability measurement redundancy is definitely ground-breaking. This scale of brands buy-in is the closest to what we have seen to a unified measurement system for the industry,' comments Pat-Nie Woo, Director of Central Textiles.*

One of the unique aspects of the Higg Index initiative is that it creates a common language and methodology for the entire sector on environmental (and in the future, social) performance. Also, in an interesting twist, some companies are seeing this collaborative exercise as a possibility to find new ways to compete. In a blog post written for *The Guardian*, Frances Buckingham and Michael Reading (2013) report that, in an interview at Sustainable Brands London in 2012, one brand in the coalition stated, "'we need [a] common language before we can be competitive.'"

Accord on Fire and Building Safety in Bangladesh

Factories in Bangladesh have had several significant accidents related to health and safety in the past decade. From 2005 to the end of 2012, over 700 people died in accidents in garment factories in the country (International Labor Rights Forum, 2012). 112 people died in the Tazreen Fashions fire on November 24, 2012.

In 2011, talks began between Multinational companies, NGOs, trade unions, and the Bangladeshi Government in order to come up with a solution to prevent further accidents. Throughout 2011, the group held several meetings to discuss a contractually enforceable memorandum in which multinational companies would pay for the cost of safety improvements in the apparel factories that supply their products. In March 2012, PVH Corp, which owns several brands including Tommy Hilfiger, Calvin Klein, Van Heusen, and IZOD, signed an agreement with unions and several labor rights groups to work on a comprehensive fire and safety program. In September 2012, Tchibo joined the agreement. The signed Accord included initiatives to enact "independent inspections, public reporting, mandatory repairs and renovations, a central role for workers and unions in both oversight and implementation, supplier contracts with sufficient financing and adequate pricing, and a binding contract to make these commitments enforceable" (International Labor Rights Forum, 2012). The agreement would be active for a two year period. Although several other MNCs had been part of the process to create the Accord, no other company decided to join the agreement upon its completion. Most multinationals decided to initiate their own programs and policies to improve conditions in Bangladesh.

Following the Rana Plaza building collapse in April 2013, intense pressure has been brought upon multinational companies regarding the safety conditions of factories in Bangladesh. In early May, NGOs such as the Ethical Trading Initiative, IndustriALL, and UNI Global Union launched meetings with several stakeholder groups in order to come up with some sort of action plan to react to Rana Plaza Accident. These meetings produced the international "Accord on Fire and Building Safety in Bangladesh" - a modified version of the original agreement signed by PVH and Tchibo. Media groups and activists increased pressure on multinationals to commit to the new Accord and several petitions were created on internet websites including Change.org and Avaaz. The Ethical Trading Initiative decided on a deadline of May 15 for MNCs to sign the Accord in order to "to prevent the response getting kicked into the long grass" (Green, 2013). This has caused some multinationals to become rather angry by the steep pressure put upon them to make a quick decision. Many of the major European retailers including H&M, Inditex (owner of Zara), Mango, Primark, C&A, and El Corte Inglés ended up signing the Accord. In June, the U.S. House of Representatives passed a bill requiring all military branded garments made in Bangladesh and sold at stores owned by the Department of Defense to comply with the Accord (Committee on Education and The Workforce Democrats, 2013).

Most American companies, however, decided not to sign the agreement. Some companies, like Gap and Walmart, have received significant criticism from the media and civil society for this decision. Many activists and practitioners believe that they were "spooked" by the binding arbitration mechanism, which could possibly lead to legal issues for these companies in the United States (Green, 2013). There are a few U.S. companies, however, that have signed the Accord, including PVH and Abercrombie and Fitch. In late May 2013, Gap, Walmart, and several other U.S. Brands, announced that they would be initiating their own fire and safety plan, which would be lead by the Washington D.C. based non-profit Bipartisan Policy Center. Several academics and activists have raised concerns about this new initiative. MIT Professor Richard M. Locke stated, "'the idea that you would bring all these people together in this new effort is a good first step. But I don't think it's good to have competing initiatives' " (Greenhouse, 2013b). General Secretary of UNI Global Union, one of the NGOs who worked on the Accord, has criticized, "'There is no valid reason why they can't join the initiative we have launched. It has been well received… Now they seem to want to paddle their own canoe on their own terms'" (Greenhouse, 2013b).

The case of the Accord on Fire and Building Safety in Bangladesh has brought up an interesting question in the area of collaboration and multi-stakeholder initiatives in the garment sector. This Accord has taken these stakeholder coalitions one step further by creating legal consequences for those that do not meet their end of the bargain. It is pushing companies - who have been open to collaboration, but have not been keen on binding agreements - to look past voluntary initiatives and commit to more concrete actions. Duncan Green, author of *From Poverty to Power*, wrote that companies who decide to go it alone and cannot commit to the binding agreement are "focusing on the short term problem and missing the need for longer-term coordinated political engagement" (Green, 2013).

4.4. Aligning Communication between the Procurement and CSR Departments

Companies are increasingly aware that their Corporate Responsibility Department and their Procurement Department are sending mixed messages and pressuring suppliers in opposite directions through their department-specific targets. In order to remedy these opposing messages, many companies have begun to look internally in order to assess how these activities can be changed. Companies are taking several different strategies in order to solve this issue. Levi Strauss & Company, for example, has integrated the Code of Conduct Department within the Sourcing Department in order to improve communication and integration between the two units (BSR, 2007). More importantly, they have also

integrated the environmental and social performance of their suppliers within the annual goals and performance assessments of leaders in its Global Sourcing Organization.

As another example, Nike has created an Overtime Task Force, which includes representatives from several departments - and the CEO - in order to understand how overtime hours in the factories are directly linked to procurement and design decisions taken by the corporate offices. In our interview with Sean Ansett (2013b), founder of At Stake Advisors and former Director of Global Partnerships and Social Responsibility at Gap, he stated that Nike "has done a tremendous job over the last years really focusing on internally how their people are measured... that social and environmental performance is now part of their Key Performance Indicators for buyers. I think that they have done that better than any company I am aware of..."

In order to improve the decisions made by CSR and procurement departments, companies understand that, in addition to communication flows, they are also lacking up-to-date, consolidated data within the company (between departments) and from outside the company (with their suppliers). Certain companies, like Sears and JC Penny, have realized that by moving their sourcing department closer to the factories, they are able to reduce miscommunication and increase information flows between purchasing personnel and the factory managers (BSR, 2007). Also, some companies have created scorecards that incorporate information from all different departments in order to make more "complete" decisions - taking into consideration environmental, social, and economic factors related to the supplier's performance (BSR, 2007). These scoring methods are now being brought to a more global level, with third-party indices like the Higgs Index 1.0, which uses a comprehensive methodology to rate factories, multinational companies, and specific products based on their environmental performance. It also incorporates a global benchmark, allowing companies to have a complete picture of their performance using an industry accepted methodology, in an industry accepted common language.

Unfortunately, there is little information to explain how much these efforts have impacted the supply chain. However, it is widely believed by academics and practitioners that these types of measures are necessary in order to create significant impact on the social issues within the supply chain. Ansett (2013b) claims that Nike does "not publish the details because they feel it is sort of competitive, but they have looked at costing down to the base level and they have looked at all the details of the supply chain to a very base level and I think that they should be commended for that... While, yes, I'm sure their buyers are still - their performance rating is more focused on quality, speed of delivery, pricing and so forth, these issues are at least factored in at some degree." By working to align the communication from these two departments within the company and by including the social performance as part of the overall performance indicators for the company, Multinational Companies can alleviate this driver misalignment faced by suppliers.

5. Proposals:

5.1 Strategy 1: Proposals Applicable within the Current Industry Structure and Social Environment

This strategy provides actions that different actors should take in order to improve the social performance of the supply chain based on the industry model as it is currently organized. For this strategy, many proposals are suggested for each stakeholder group. Some positive impact will occur when one or more of the suggested proposals are implemented; however, in order to have the largest impact, it is suggested that all of the recommendations are applied.

5.1.1. Suppliers

- Increase transparency and willingness to collaborate: Suppliers are often left with little room to develop their own initiatives; they feel sever pressure from MNCs and receive little support from their governments. However, factories will need to be open and willing to work with MNCs in order to improve conditions and management procedures within their plant. According to a study done by Richard Locke and Monica Romis (2010) regarding Capacity Building in two factories in Mexico, factories that are not willing to work with MNCs in order to improve their performance can be losing out on the abilities to gain competitiveness and build a stronger relationship with their clients. Additionally, there is the possibility that Big Brands may choose to supply from other factories that are more receptive and proactive.

5.1.2. Employees

- Use rights, but be constructive: In most cases, factory workers are merely reacting to the environment around them in order to better their living standards; however, in some places, the rights of workers have begun to be recognized by factory owners in the form of freedom of association and communication with management. In these instances, employees should use their rights in a constructive manner, yet also be aware of their responsibilities. They must take into consideration both the requests of the employees and the real constraints of the factories to deliver on these requests.

5.1.3. Companies

- Reduce the number of suppliers: Companies should work to purchase from less suppliers, giving each of them a larger quantity of orders. Often, companies choose wider supply chains to diversify risk of production and reputational issues. By reducing the number of suppliers, companies can improve their monitoring efforts and can be more effective in influencing factories' social performance. Research has shown that companies with a smaller list of suppliers are more effective in implementing their code of conduct within their supply chain (Kolk & Van Tulder, 2005).

- Reduce the depth of the supply chain: The deeper the supply chain, the more difficult it is to identify and address social issues. By promoting a shorter supply chain, it will be easier for companies to trace and monitor resources and processes used at each phase of production to complete orders.

- Create longer term contracts: Longer contracts foster stronger, long-term relationships and improve two-way communication. This allows suppliers to be more open to discuss issues. They will also feel more secure and be more receptive when MNCs ask them to invest in improving the working conditions in their factories. According to American Apparel CEO, Dov Charney, "the biggest problem in the apparel industry is that all of the contracts are short term. That's one of the things that keeps Sweatshops, Sweatshops... they never can invest in the equipment, they can't make the long term investment" (Charney, 2013).

- Promote capacity building with suppliers: Factories often have a lack of capacity and knowledge to efficiently manage their business. For example, factory owners may improperly calculate the hours needed in order to finish a piece of clothing. Therefore, they take on too many orders and are then pressured to sub-contract or require overtime from employees. Companies should offer more capacity building programs in order to improve the management quality and reliability of these factories.

  Factories also often lack the proper communication channels that allow employees to express their grievances. This is due to the fact that factory owners are not willing, or not able, to manage these types of grievances. To fill this gap, companies have created their own grievances procedures to offer these channels to factory workers. However, MNCs would better solve this issue by improving the knowledge and capacity of factory owners in managing and promoting grievance procedures within the workplace. They should first create awareness within factory owners of the benefits of implementing these processes and then build the capacity of factory owners and managers to do so.

  A study by Richard Locke and Monica Romis (2010) shows that better communication and capacity building between companies and managers of factories not only improves working conditions

for employees, but it also boosts productivity. This way, these factories provide more value to the supply chain.

- Promote collaboration through participation in multi-stakeholder initiatives: Collaboration is one of the most effective ways to promote industry-wide change. It also helps tackle issues that cannot be solved by one individual company. By implementing initiatives that promote shared research and implementation, the industry will benefit from sector-wide changes toward more effective practices with a better chance of "buy-in" from all the stakeholders involved in co-creating the solution. Coalitions of businesses also help promote faster transitions to better processes and practices by removing first-mover risks.

- Include social and environmental indicators in the performance assessments of management: Management's performance should not only be assessed by economic performance indicators, but also by social and environmental factors in order to incentivize managers to make decisions that take into account all three aspects. Levi Strauss & Company has begun to include these performance indicators throughout their Global Sourcing organization. This promotes a significant shift towards incorporating social responsibility into the company's core business and increases the likelihood of gaining competitive advantage in these areas.

- Increase Transparency: Increasing transparency helps companies show their stakeholders what they are doing to improve the conditions within their supply chains. It helps bolster stakeholders' credibility in the company and helps maintain positive relationships with these groups. This credibility is especially beneficial to companies that are competing in a fast-changing, increasingly open world. As social media forces companies to be more accountable to their stakeholders, this will become an increasingly fundamental element in order to maintain the company's "license to operate".

5.1.4. Governments of Developing Countries where Suppliers are Located

- Protection of workers' rights to Freedom of Association and Collective Bargaining: Freedom of Association and Collective Bargaining are fundamental in order to ensure that the needs of employees are heard. By recognizing these rights, developing countries ensure that their citizens have the freedom to come together to protect their rights and interests as workers. Collective Bargaining and Freedom of Association create a two-way dialogue in which citizens are included in the conversation. These efforts could also prevent the increase stability, which is specifically relevant considering the increase in civil demonstrations sweeping countries such as Egypt, Brazil and Turkey. Lastly, as MNCs are becoming more interested in the social conditions of countries where their products are

manufactured, governments who can assure that basic human protections are in place are becoming more attractive to socially responsible and risk-averse companies.

- Create minimum standards for labor conditions: Minimum wages, benefits, and contract law allow employees to feel protected and ensure that their basic needs are met. By promoting these minimum labor conditions, governments would reduce pressures placed upon them by NGOs, media, and MNCs. Also, these efforts could increase stability within the country, which is of interest to responsible companies.

- Improve protections for migrant workers: Developing countries should work to monitor the level of migrant workers within the country and ensure that migrant workers are not working in forced labor conditions or being held against their will. They can do this through the inspection process of these factories. By protecting and respecting the rights of migrant workers, Governments will benefit from the better integration of migrants, more social cohesion, and increased stability.

- Promote investments in the physical and legal environment surrounding the industrial sector of the economy: Companies are now looking for more than a cheap place in which to produce. They are looking for countries in which the social and environmental conditions are controlled, where infrastructure is in place, and where security is ensured. Therefore, if a government is able to provide or promote some of these conditions, companies will be more interested in sourcing from the nation and will be less concerned about increased labor costs.

- Better Policing and Enforcement of Labor and Human Rights Legislation: In most of these countries, legislation protecting the rights of workers already exists; however, enforcement of these laws is very weak. Many of these governments have a very small labor inspections department to cover thousands of factories. Sean Ansett (2013a) states that some companies "have taken the step of making clear that they welcome the effective enforcement of labor and environmental standards, as this provides greater predictability and less risk for their business."

- Create minimum standards for health and safety conditions in factories: Governments should offer more specific health and safety requirements to the factories operating in their country and provide a detailed description of these standards. They should promote the use of permits and enforcement policies in order to ensure that buildings are up to safety standards. These minimum standards will help increase political capital and reduce the risks of civil unrest. This will also make these countries more attractive to responsible and risk-averse companies.

- Take steps towards reducing corruption within the political sphere: Governments should work on ways to reduce the level of corruption in enforcement mechanisms within their country. Policing and sanctioning these practices is critical. They should also take steps to improve the level of transparency regarding government actions and processes. By reducing corruption, governments will decrease the risk of industrial accidents, making their country more desirable to large multinationals. Also, transactions will become cheaper within the country, as reducing corruption cuts out "extra-payments" required to obtain administrative permits, licenses, etc.

- Improve governance by reducing the possibilities of conflicts of interest: There are a number of cases in which government positions are held by garment factory owners. As Ifthekar Zaman (2012) argues in an article for Transparency International, conflict of interests within politics can create "undue influence on policy" in which these government officials' decisions are more influenced by their personal interests than the public interest. Removing the possibility for conflicts of interest in politics helps to ensure that the government is serving the best interests of the public.

- Incremental increase in legislation in Export Processing Zones regarding social protections: In many cases, labor standards are lowered in export processing zones, creating worse conditions for employees who work in these factories. Governments should maintain the same labor standards for all workers, including those in export processing zones. Governments may feel that by removing these types of "benefits" from export processing zones, the inflow of foreign direct investment may decline; however, multinational companies base their decisions on a number of factors and are increasingly looking to source from countries with at least a minimum level of social standards.

5.1.5. Governments in Developed Countries

- Increased regulation regarding investment speculation: One of the biggest pressures felt by multinational companies comes from investors interested in obtaining quick short-term financial returns, regardless of the future economic performance of these companies or their social and environmental consequences. The inclusion of some provisions in laws regulating speculation in financial markets can change this trend. This mitigates the risk of non-ethical practices deriving from speculation, thus creating a level playing field in which companies can operate. Developed Country Governments will benefit by showing that they are responding to increasing demands for an integral economic development based on value creation, rather than speculation.

5.1.6. Governments in Developed Countries, International Organizations and NGOs

- Continue to require improvement, while understanding capacity limits: Governments in developed countries, along with International Organizations and NGOs, should continue to apply pressure upon those countries in which clear violations of human rights or labor standards are being committed. However, Developed Countries and International Organizations need to be willing to work with these Developing Countries to ensure they have the capacities necessary to protect these fundamental rights. Consideration of the specific context of the developing country has to be a first step before any top down pressure is imposed. Developed Countries will benefit by showing responding to pressure from their citizens who are increasingly concerned about the ethical treatment of workers in other countries.

Muhammad Yunus' Proposal to Improve Factory Conditions in Bangladesh

Since the Rana Plaza accident, Muhammad Yunus, economist and Nobel Prize winner, has come out with two proposals in order to improve the working conditions in Bangladesh. In one of his ideas, he proposes creating the "Grameen (or BRAC) Garment Workers Welfare Trust", which, according to Yunus, "could resolve most of the problems faced by the workers - their physical safety, social safety, individual safety, work environment, pensions, health care, housing, their children's health, education, childcare, retirement, old age, travel..." (Yunus, 2013a)

In Bangladesh, when a piece of garment is produced and sold for $5 to a multinational, this total cost includes production, packaging, shipment, and management in the factory - plus the input costs for every tier in the production chain: production of cotton, production of yarn, cost of dying and weaving. As Yunus (2013a) states:

> *When an American customer buys this item from a shop for U.S. $35, he feels happy that he got a good bargain. The point to notice is that everyone who was involved in production collectively received U.S. $5. Another U.S. $30 was added within the U.S. for reaching the product to the final consumer. I keep drawing attention to the fact that with a little effort we can achieve a huge impact in the lives of those "slave labor," as the Pope calls them. My proposal relates to the little effort. I am asking the question whether a consumer in a shopping mall would feel upset if he is asked to pay U.S. $35.50 instead of U.S. $35 for the item of clothing. My answer is: no, he will not even notice this little change.*

Yunus states that under this plan, every multinational buying in Bangladesh would pay the Trust 10% of every order paid to a supplier. There would be different sub-funds in the Trust for every factory, and the money paid in would be invested in the welfare of the workers of that particular factory where the product was produced. If every multinational company producing in Bangladesh joined Yunus' proposal, he calculates that the Trust would receive $1.8 billion each year, which would mean $500 for each one of the 3.6 million Bangladeshi who work in the garment industry.

Every garment sold with the 50 cents markup would include a special tag to distinguish them in the market. "The tag would say: 'From the Happy Workers of Bangladesh, with Pleasure'" (Yunus, 2013a). A new logo would be created to easily identify the origin of the product. This tag would serve as a marketing tool helping to increate the sales of garments that are part of this fund; consumers would feel good about those extra 50 cents they paid. For the purpose of enhancing consumers' trust, Grameen, BRAC or any other reputable international organization would manage workers well-being. (Yunus, 2013a)

In a recent interview, Yunus was asked whether asking multinational companies to pay for better working conditions in Bangladesh was absolving responsibility of the Bangladeshi companies themselves and the Government. He responded by saying that that he was addressing neither local companies nor the Government because it was too controversial; therefore, he was appealing to the consumers (Yunus, 2013b). Yunus (2013a) explains:

> *When consumers will see that a well known and trusted institution has taken responsibility to ensure both the present and the future of the workers who produced their garment, they won't mind paying 50 cents extra. The retailers may use in their advertising that these products are made by well protected well supported workers. Consumers would be proud to support the product and the company, rather than feel guilty about wearing a product made by "slave labor" under harsh working conditions. A consumer will be able to know from the company's website and annual report, what benefits the dress she wears are currently bringing to the workers, and what benefits their children are receiving.*

It is uncertain how effective the marketing plan would be; marketing research has not shown that these issues actually influence consumers' purchasing patterns. In this proposal, Muhammad Yunus is working to find a quick and practical solution to solve the poor factory conditions found in Bangladesh. He understands that his proposed solution is not attempting to fix some of the systemic issues involved in the politics and business-as-usual practices currently plaguing the sector.

5.2 Strategy 2: Proposals to Shift the "Business as Usual" Mindset

This second strategy focuses on the systemic issues in the industry and proposes ways to correct the current "drivers" within the sector. Here, we provide a list of the fundamental changes that are necessary in order to make a shift away from the "Business as Usual" mindset in order to create transformative change within the industry.

5.2.1. All Countries

- Foster the increased involvement of Civil Society in the protection of people and planet: Civil Society is a collective voice that represents the interests of its individuals. It works to protect citizens, public goods, cultural practices, natural resources, and environmental assets. A healthy and vibrant society is necessary in order for these types of organizations to complete their function. Governments and institutions should ensure that people are able to freely form part of organizations that represent their needs and interests.

- Listening to and acting upon the requests of civil society: Better representation of civil society in political decisions. Enhanced Democracy: Democratic institutions must be accountable to civil society, whom they are responsible to serve. Government institutions need to ensure that there be proper mechanisms in place that allow for an effective two-way dialogue. This implies that governments receive communication from civil society regarding their needs and demands, and are able to act upon them and communicate back to the public in a timely manner.

5.2.2. Developing Countries

- Eliminate corruption in politics: Corruption in politics is a key element that has potential negative impacts within the garment sector. All possible actions toward reducing corruption should be reinforced in order to eventually eliminate these practices.

- Full transparency in governance: In order to promote the elimination of corruption and avoid the possibilities for conflicts of interest, full transparency in terms of government actions, procedures, decisions, and full financial disclosure is necessary.

- Improve immigration law and protection of migrant workers' rights: Countries must work to monitor the level of migrant workers within the country and the conditions in which they are working in order to work to protect their human rights. It is important to enact legislation that protects migrant workers. Given that immigration issues are not isolated to the actions taken by one country, this will

likely take cooperation of all governments to work together to create a global effort towards immigrant workers.

5.2.3. Companies

- Increase and promote societal awareness of sustainable purchasing practices: Through media, marketing campaigns, and promotions, companies greatly influence the way in which people consume. In the garment sector, over the last few decades, consumers have become accustomed to rapid changes in clothing cuts and styles, due to the invention of business models such as *Fast Fashion*. These changes in consumer patterns have a direct impact on the supply chain as both companies and suppliers race to keep ahead of consumers. If consumers were more aware about sustainability issues, retailers could compete around new, quality produces fewer times per year. In order to make this change in awareness, companies will need to change their marketing and business models to promote more sustainable consumption patterns.

- Promotion of living wages for garment workers. Change in the business model: The international community should agree upon one globally recognized methodology to calculate the living wage for different countries and regions. Companies and suppliers should then apply this methodology to the wages being paid in the factories that produce their clothing. As this is done, MNCs will have to look at how they can change their own business models in order to increase the prices paid to factories, so that factories are able to increase compensation to employees.

- Inclusion of externality costs within the pricing of products: An "externality" is a cost, or benefit, resulting from one person's activities that affects an otherwise uninvolved party. In the case of the garment industry, the social costs associated with the production of these garments are often not included in the actual cost of production, and therefore these costs are neither paid by the MNCs, nor the suppliers. These social costs include: health costs to families, costs of injuries in accidents due to poor safety conditions, poor nutrition and lack of education for children due to low family incomes, etc. In our interview, when asked about the biggest pressures felt by multinational companies today, Sean Ansett (2013b) responded:

> *The measure that we should be using for growth... When we are currently living off two and a half planets, does that measure truly take into account externalities? And it doesn't. So, I think that the biggest pressure is the current model that people are living in and companies are working under today. I am not making excuses that that's OK because they are stuck in that model, but that is the biggest pressure, I feel,*

> *today, is this constant drive for growth and that you are not accounting for the externalities, like how people are treated, or how the planet is treated in that process. You get rewarded only for growing.*

In order for companies to really take on social and environmental issues, the true costs to society of production need to be incorporated into the economic model and the cost-benefit analysis that these companies use to make decisions. Dov Charney (2013), CEO of American Apparel, agrees. In an interview for VICE podcast, he states, "Fast Fashion... is costly. When you see these buses rolling by, or these signs that say, "Bikini, $4.99", I'm telling you, I am an expert in the apparel industry, $4.99 doesn't exist unless you are screwing someone... A $4.99 bikini. Wake up… It costs money to make things."

5.2.4. Consumers

- Increased interest from consumers to purchase sustainable and ethically sourced clothing: Companies react to what the market tells them in terms of consumer tastes and preferences. Research shows that, although consumers say that they support ethical sourcing practices, they do not use these preferences as a decision factor when they purchase items. In order for companies to have the proper incentives to invest more of their effort toward socially responsible practices, they need to receive a signal from their customers.

  Firstly, consumers need to be made more aware of the issues related to supply chains in developing countries and understand the impacts that this economic model has on people in other parts of the world. They need to be made more aware of the negative impacts of *Fast Fashion* and over-consumption. This awareness should be done through several channels including education, media, and multinational companies.

  Second, in order to understand their individual impacts on this system, consumers need to understand their power as a customer is through the purchasing choices that they make. If consumers continue to purchase from companies that have poor social and environmental standards, they are supporting these decisions and reinforcing these poor practices within the industry. If consumers purchase from companies that use the Fast Fashion model, for example, they are supporting this type of economic model for the future.

- Reflection and change in consumer behavior: Fast Fashion has numerous negative implications on the social well-being of workers and factory owners that supply the apparel and footwear industry. Consumers need to move away from over-consumption patterns promoted by the Fast Fashion

industry and reflect on whether their purchasing is out of necessity or capricious. For example, do consumers need a new bathing suit every summer? Or do they simply want one? We must shift from a culture of want to one of need. This reflection will need to be made by every type of consumer and these new ideals will need to be incorporated within education and awareness campaigns - specifically addressing children and youth.

5.2.5. Investors

- Increased interest in responsible practices and the ethical sourcing of products: As with consumers, investors have a large influence on the actions taken by multinational companies due to the fact that the latter is in constant need for capital and depend on share price evaluation. When investors are interested in specific indicators, or specific types of actions, companies react to these demands. Therefore, if investors become more interested in a company's social responsibility and ask for key performance indicators related to this area, companies will start taking these issues more seriously. As Sean Ansett (2013b) explains, one of the biggest problems within these companies at the moment is due to their "short-termism", which is directly related to the global financial economic model in which they operate at the moment:

> *I think that short-termism is a problem and that relates directly to the economic model today, where... brands, especially in retail, talk about quarterly reporting, but they are actually judged on weekly sales orders. So, there is incredible pressure in the way these companies are measured on their performance. And, you have many share traders rather than shareholders out there... and the model itself doesn't actually lend itself to a sustainable supply chain. So, that short-termism is often brought on by the pressures and the current economic model that these companies function under.*

Investors need consider the long term profitability of these companies. They must understand that efforts that companies make to improve their corporate responsibility will make them more successful in the long term and reduce risks. The current financial model in which individual investors, traders, and investment funds gain from looking at the short term, quarterly earnings of a company, or gain by speculating about its possible gains and losses, needs to be re-evaluated in order for companies - and the economy - to function in a more responsible way. MNCs can play a role in teaching investors about new business models which create more value by incorporating social and environmental criteria.

Disney's Decision to Exit Bangladesh

A month prior to the collapse of Rana Plaza in Bangladesh in April 2013, Disney Corporation made an announcement that they were going to exit "high-risk countries". Bob Chapek, president of Disney's Consumer Products division, stated that "Disney is a publicly held company accountable to its shareholders and after much thought and discussion we felt this was the most responsible way to manage the challenges associated with our supply chain" (Rudawsky, 2013). In March, the company sent letters to its vendors and licensees to "transition production out of the 'highest-risk countries,' like Bangladesh, in order to bolster safety standards in its supply chain" (Fox, 2013). For the same reasons, Disney will also transition production out of Ecuador, Venezuela, Belarus and Pakistan, by April 2014 (Fox, 2013).

In the wake of the Rana Plaza accident, Disney's decision has caused severe backlash from human rights activists, academics, and practitioners around the world. Dr. Aarti Sharma (2013), founder of Sustainable Value Alliance, has stated, "The decision to stop production in Bangladesh demonstrates the company's lack of genuine commitment to its founder's values and corporate mission. Is the company's mission to 'promote happiness and well-being of kids and families' restricted only to kids and families who can afford Disney products and services?" In a statement from the UN Office of the High Commissioner for Human Rights, the UN Working Group on Business and Human Rights (2013) "urged international clothing brands not to disengage from Bangladesh, but to work together with the government, international organizations, and civil society to address working conditions in the garment sector". They also stressed the importance of companies working to prevent future industrial accidents, like the collapse of Rana Plaza. Pavel Sulyandziga, head of the Working Group, stated that these brands "'have a responsibility to conduct human rights due diligence to identify and address their own impacts on human rights. If they are linked with negative impacts on human rights through their suppliers, they have the responsibility to exercise their leverage as buyers to try to effect change'" (UN Working Group on human rights, 2013).

Many buyers for several other Big Brands are also looking at other countries for sourcing options due to the persistent fire and safety accidents in Bangladesh (Bradsher, 2013). These decisions have brought up a rather important debate about the multinational's responsibility in promoting good living and working conditions in the countries where their products are made. In our interview with Leda Stott (2013), a professional in global partnerships and international development, she argued:

> *In view of the fact that they went in there in the first place, and I am assuming that they went with some kind of knowledge of the circumstances, I think it's appalling that they pull out... I understand that they are doing it because they think that they are protecting themselves and they are reducing their risk, but I would actually say they would do much more by staying because what they are showing to me, as*

> *somebody looking on, is that they are not actually that bothered about their local stakeholders. That they are not bothered about their brand. And, it's a very short term way of looking at it. But if these companies are genuinely bothered by sustainable development, if they are genuinely bothered about their stakeholders and want to do it right, they should hang in that and try to sort it out. And that pulling out is actually damaging to a whole range of stakeholders, not least the workers who rely on that for their... daily survival needs*

When we asked the same question, Sean Ansett (2013a) wanted to "flip it around" and ask:

> *Why those companies that were sourcing from there before the major industrial accident - lets remember that in Bangladesh over the past six years there have been a large number of industrial accidents either due to fire or structural safety, so this is not a new occurrence - why they felt it was OK for them to stay during those times? And, how they made the decision to leave once this became a global issue? ... Did they really have the appropriate systems in place? Did they do their due diligence? And, did it come down to cost over ethics when sourcing from these countries? So, I think that that is a really important question to ask first...*

When looking at the social responsibility of these multinationals, it is important to look at what kind of societies they are creating when they use "arms length" supply chain models. More importantly: what responsibilities do these companies have when things do not go well in the factories that they purchase from in a country halfway around the world? In our interview, Sean Ansett (2013b) asks, "Is that really a responsible decision after you have benefited for many years from a country, like Bangladesh, to leave it and not be a part of creating change over time?"

6. Conclusion

The current situation within the footwear and apparel industry leads us to ask: Does the current economic model really promote social development and shared value for all groups in the supply chain?

The best way to improve the social performance of this sector will require that all stakeholder groups open a constructive dialogue, find common goals, and work together to provide industry-wide solutions to these issues. Governments and companies will have to play a large role and take the initiative, to make this change. However, these two groups have limited incentives to promote this shift; they face many pressures for results or actions which are often in conflict with their efforts to promote social improvement. Other groups such as consumers, investors and NGOs will also have to change their habits, interests, and practices in order to align their demands with building a more responsible and prosperous society.

As Michael Porter and Mark Kramer say in "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility", most Corporate Social Responsibility practices by companies have "been neither strategic nor operational but cosmetic: public relations and media campaigns, the centerpieces of which are often glossy CSR reports that showcase companies' social and environmental good deeds." We believe that, in most cases, cosmetic CSR is occurring within this sector. Multinationals are doing what is necessary to minimize their reputational risks, rather that truly working to promote a shared value approach that includes suppliers and factory employees. This sector should move toward Porter and Kramer's model of shared value. They state that:

> *Leaders in both business and civil society have focused too much on the friction between them and not enough on the points of intersection. The mutual dependence of corporations and society implies that both business decisions and social policies must follow the principle of shared value. That is, choices must benefit both sides. If either a business or a society pursues policies that benefit its interests at the expense of the other, it will find itself on a dangerous path. A temporary gain to one will undermine the long-term prosperity of both.*

The first strategy in this paper acts as a list of good, short-term operational steps within the existing structure that will help improve the current situation of workers in the supply chain. The second strategy proposed in this paper works to bring this sector closer to an inclusive model based on shared value. This shift will require the adoption of new habits and cultural views regarding consumption and economic success. It proposes a mind shift of all relevant stakeholders that will change the incentive structures in the system, allowing new key drivers to move the model towards a more prosperous society.

7. Annex 1

Adidas

GAP

H&M


240
235
230
225
224.00
220
215
-0.40% (-2.26%ann.)
Last Price 224.00
High on 05/22/13 239.60
Average 230.123
Low on 06/24/13 215.60
HMB SS Equity - Volume 2.125M
10M
5M
2.125M
0
Jan 15
Jan 31
Feb 14
Feb 28
Mar 15
Mar 28
2013
Apr 15
Apr 30
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HMB SS Equity (Hennes & Mauritz AB)
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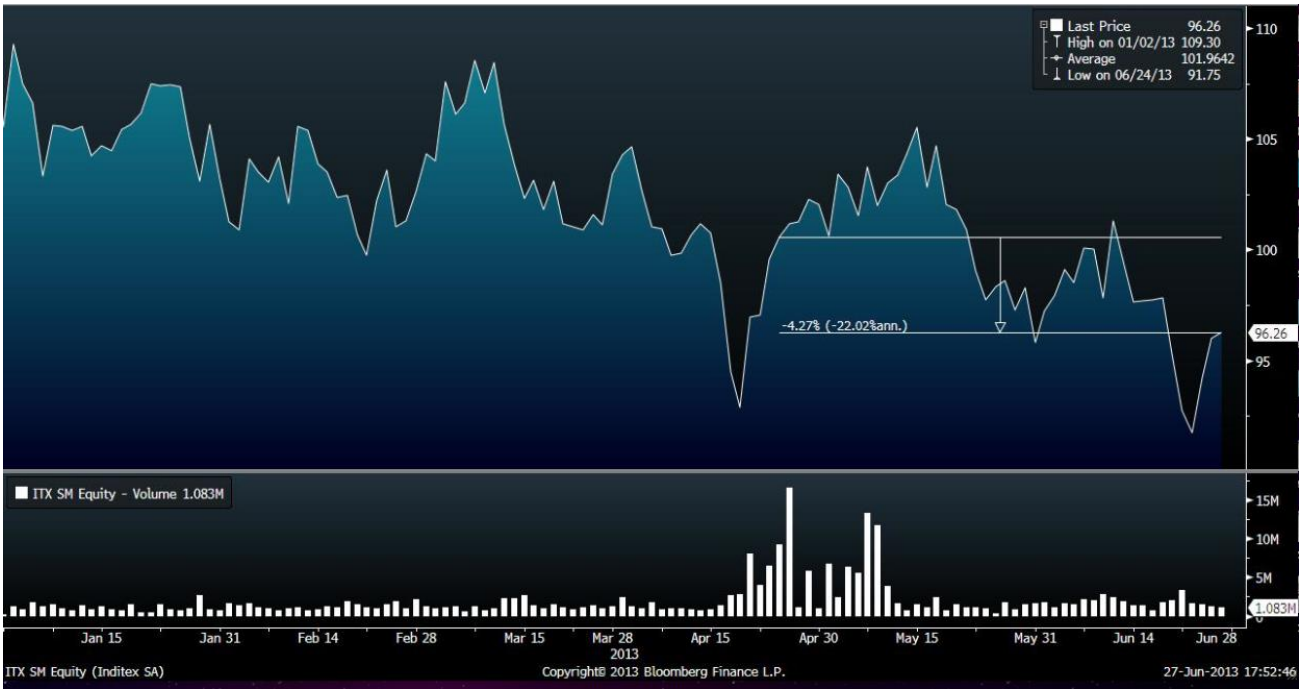
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105
100
96.26
95
-4.27% (-22.02%ann.)
ITX SM Equity - Volume 1.083M
15M
10M
5M
1.083M
Jan 15
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Feb 14
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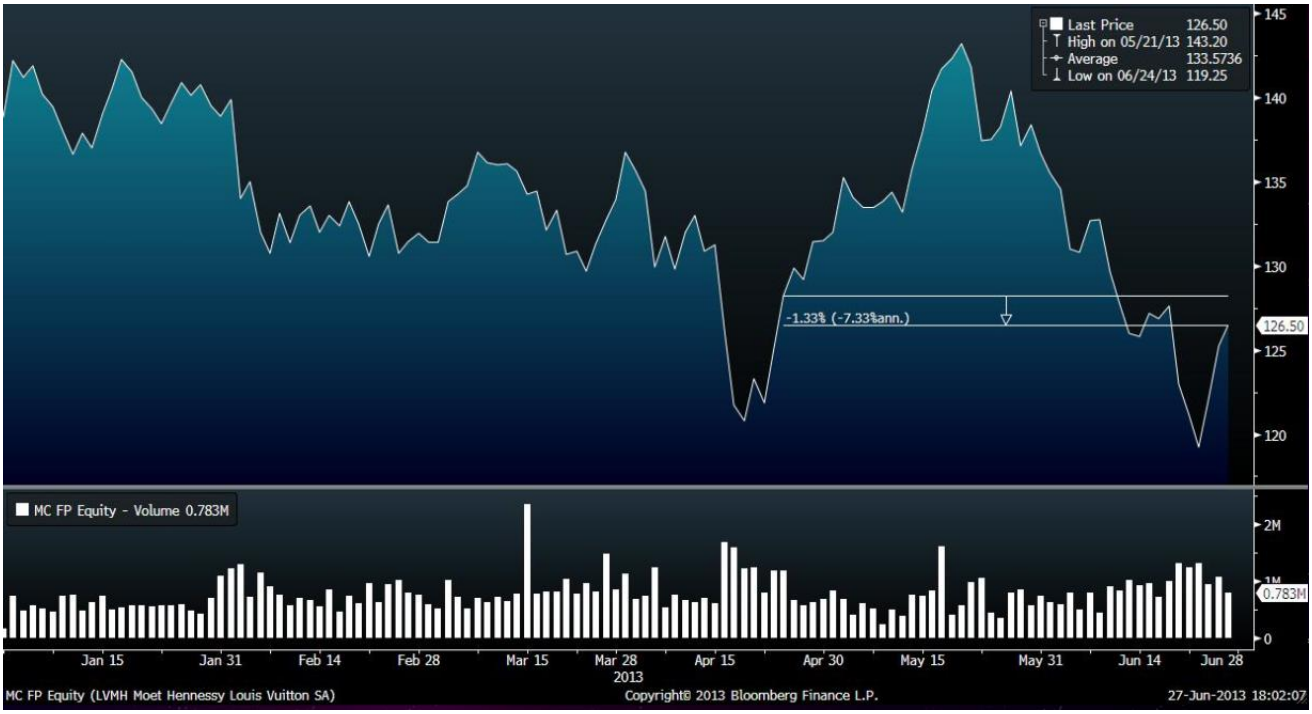
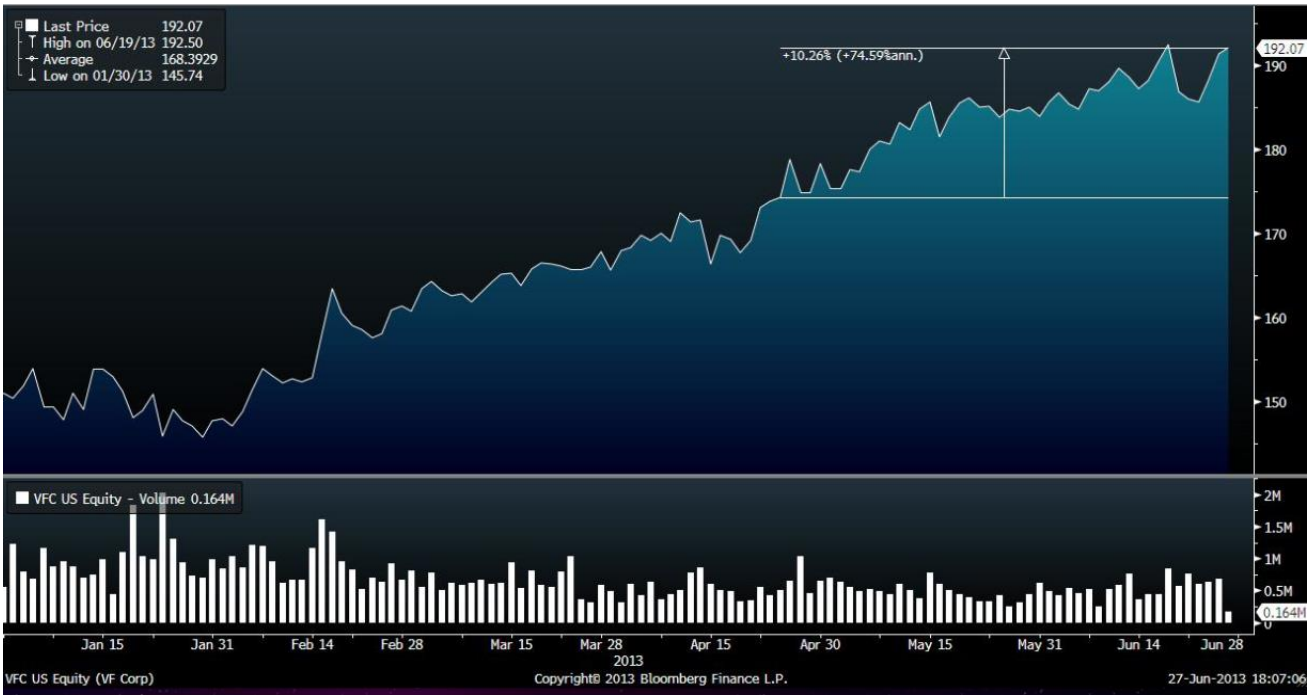
Louis Vuitton (LVMH)



Nike

Puma

Timberland (VF Corp.)



Walmart


Last Price 75.80
High on 05/15/13 79.86
Average 74.0043
Low on 12/31/12 68.23
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80.00
78.00
75.80
74.00
72.00
70.00
68.00
WMT US Equity - Volume 2.537M
20M
10M
2.537M
0
Jan 15
Jan 31
Feb 14
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Mar 15
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Jun 14
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WMT US Equity (Wal-Mart Stores Inc)
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