



# Designing a Worker-Focused, Factory-Level Corporate Responsibility Framework: Lessons from Bangladesh's Garment Factories

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## **Acknowledgements**

A combination of tireless efforts, encouragement, and determination made it possible to complete this research project in just four months. The team at the Corporate Accountability Lab (CAL) provided support in every possible way. Although we started ambitiously, it was difficult to reach those on the ground in Bangladesh from Chicago and collect the necessary data. Monira Munni from Financial Express, Dhaka provided support and connections that were crucial for collecting this data. When we stumbled trying to collect data, the team at CAL utilized design thinking and identified the best ways to overcome the difficulties. Charity Ryerson provided everything that was needed to run and complete the project. Katherine McDonnell provided useful contacts. Avery Kelly and Allie Brudney offered their expertise in editing and formatting the paper at the last moment. Any errors, omissions, or limitations are not intentional and are my own responsibility.



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## Executive Summary

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After the Rana Plaza disaster, transnational safety initiatives emerged within the Bangladeshi garment sector to address a pressing systemic problem in the garment industry. These initiatives focused primarily on the safety of factory premises. However, it remains unclear if these initiatives have led factories to comply with and implement broader human rights standards, especially policies related to social compliance. This paper explores whether participation in transnational safety initiatives or the sourcing influences in post-Rana Plaza garment business initiated changes in factory-level management policies relating to improved social compliance. It presents findings from primary and secondary research on social compliance and human rights in factories operating under transnational safety initiatives.

Our research focuses on twelve garment-producing companies in Bangladesh that supply reputed international buyers/retailers. All twelve companies are covered by transnational safety initiatives, i.e., the Alliance for Bangladesh Worker Safety (“Alliance”) or the Accord on Building and Fire Safety (“Accord”), and/or participated in the International Labour Organization’s (“ILO”) Better Work Bangladesh Program (“BWB”). Most of these companies have safety certificates from the Accord and/or the Alliance; some also have global reputations for strong social and environmental commitments and have built world-famous green factory buildings. These latter companies’ focus on social and environmental compliance and their workers’ well-being is a core part of their plans to remain competitive in the global economy.

*Our goal was to analyze social compliance from the factory managers’ point of view and use these insights to address some of the challenges facing factories in developing countries.*

This paper is based on survey responses from factory managers and oral interviews with three prominent Bangladeshi union leaders and labor activists. Our research focuses on factory managers’ views of social compliance: whether managers believe that social compliance improves producing/supplying companies’ ability to remain competitive in the global market; what limitations and structural challenges managers believe affect companies’ ability to implement social compliance; and what steps managers think could improve producing/supplying companies’ social compliance.

Although existing research on working conditions in garment factories and international buyers/retailers’ sourcing policies informed our research,<sup>1</sup> our research findings offer new insights. We deliberately focused on reputed companies, some of which have high global rankings for their social and environmental standards, and used their managers’ perspective to evaluate social compliance in Bangladeshi factories. Our goal was to analyze social compliance from the factory managers’ point of view and use these insights to address some of the challenges facing factories in developing countries.

### **We have several key findings from our survey:**

- **Companies’ participation in transnational safety initiatives and/or the ILO’s BWB program led to impressive changes in factories’ policies and practices.** These changes include (1) frequent factory inspections by international buyers/retailers and the Accord or the Alliance; (2) the creation of elected participatory committees consisting of workers and managers; and (3) increased attention to improving worker productivity and provision of opportunities for workers to improve their skills.
- **Despite this progress, it is still difficult for companies to implement social compliance in factories.** Companies face a diverse array of challenges, including: (1) Managers’ anti-union sentiment, which makes it likely that there are violations of workers’ freedom of association. (2) Intense competition in the industry, created by increasing costs of compliance, a decrease in order flows, international buyers’/retailers’ increasing ability to dictate sourcing policies, and the continuous lowering of sourcing prices. (3) A serious disconnect between workers’ and managers’

expectations about applicable norms. Workers and unions argue that international social compliance standards apply both to fundamental rights (e.g., the right to form unions) and to redistributive/ social rights (e.g., the right to a living wage). Most factory managers focus only on complying with national standards for wages and benefits, although they follow international standards for fire and building safety.

- **Decreasing sourcing prices is a key reason that producing/supplying companies are less interested in adopting and implementing social compliance policies.** Sourcing companies' access to cheaper and less regulated markets has led to decreased prices and a "race to the bottom" for wages, benefits, and social compliance.
- **There are significant power imbalances between supplier and sourcing companies that exacerbate noncompliance with social standards.** Sourcing companies currently have the power to dictate policies and control the market. Sourcing companies' commitments to introduce fair sourcing policies and effective post-supply monitoring might address these power imbalances.
- **Automation remains a serious concern for workers and union leaders and could lead to a precarious labor environment.** While managers, especially in knitting factory units (large producing companies can consist of several factories, referred to as a factory unit), are inclined towards automation, the labor activists and union leaders we interviewed expressed concern that automation will lead to massive unemployment and increase the disparities between skilled and unskilled workers.
- **Unionization in factories is slow, but it appears to be the only effective challenge to the deregulation of labor.** Only when independent factory monitoring is accompanied by unionization in factories, will it be possible for workers to realize their collective demands for workplace benefits and labor rights.
- There is a deep disconnect between sourcing companies (which focus on safety compliance), producing/supplying companies (which work to remain competitive, comply with national standards, and are mostly interested in finding less rigorous markets), and workers (who care about human rights and social compliance that would produce tangible benefits for them, such as living wages and fair working hours). Ongoing dialogue between all stakeholders is therefore essential.

Based on insights gained from our research, we urge all relevant actors to take the following steps: (1) publicly acknowledge and disseminate data and evidence showing that decent working conditions, increased worker productivity, and long-term business competitiveness are interconnected; (2) a lot could be done if sourcing buyers/retailers incentivize social compliance at producing factories by changing their sourcing policies and prices. Sourcing buyers/retailers should introduce and comply with ethical sourcing commitments, particularly those related to pricing, timelines, and the stability of commercial relationships; and (3) regulatory interventions (both by the producing factories' and sourcing companies' host states) are essential to initiate and sustain social compliance across the industry (including in both exporting and non-exporting sectors).

## **Introduction by Corporate Accountability Lab**

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Dr. Zobaida Khan came to us as one of our first Innovation Fellows. Our Innovation Fellowship program provides an opportunity for scholars and advocates to pursue a research or advocacy project of their own design. Our goal in creating this program was to find good ideas that would otherwise languish in someone's mind, someone's neglected dissertation, or academic articles that fail to impact those who need these ideas most.

This white paper is one of the products of Dr. Khan's work in the Lab. As an accomplished academic, Dr. Khan's perspective may be challenging to labor and human rights advocates. But in listening to diverse voices, we strengthen our analysis of the fundamental problems that drive abuses and create openings for innovation. Ultimately, Dr. Khan's findings are largely consistent with what advocates have been telling major brands for years: prices are too low, timelines are too short, and social compliance is often realized only on paper.

Beyond these findings, Dr. Khan also focuses on the issue of market competitiveness, and what relationship, if any, exists between competitiveness and compliance with international labor norms. One could sum up her findings as follows: (1) the real relationship between social compliance and competitiveness remains unclear; (2) that lack of clarity has left factory owners and managers anxious; and (3) as a result of that anxiety, many factory owners prefer to seek other, less restrictive, markets, rather than invest in social compliance. This leads us to an important insight: factory owners may be more likely to provide long-term, stable jobs (a model of employment that has more potential to support worker organizing) either (a) where there are no demands for social compliance from brands, or (b) where there are such demands, but those demands are supported by increased investment and meaningful monitoring. Under the current model, where demands for compliance are hollow, factory managers may be more likely to seek alternate markets and engage in precarious work arrangements to protect their investments.

While this issue requires further research, it raises important questions about the current social auditing model. Implementing ineffective, voluntary corporate social responsibility initiatives may be worse than companies doing nothing at all. The Bangladesh Accord, as a model that includes legally binding language and worker representatives in its design, is certainly a step in the right direction. This is a promising model, despite the many limitations identified in this paper. We hope to see similar models that address broader social compliance goals in the garment sector and elsewhere.

We hope that you find Dr. Khan's research and analysis as insightful as we did.

## I. Background

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The tragic collapse of Rana Plaza, an eight-story commercial building located in Savar, Bangladesh, on April 24, 2013 exposed the bitter reality of cheap fashion, the failures of voluntary social compliance by transnational corporations (“TNCs”), and the exploitative working conditions at producing/supplying companies. While much attention has been paid the non-binding and voluntary nature of corporate responsibility, the producing/supplying companies’ perspectives on social compliance has received less attention. Questions about how producing/supplying companies value compliance with labor standards, what challenges they face in implementing their social standards, and the connections between sourcing TNCs’ stronger commitments and factory-level social compliance have often been overlooked. This paper attempts to address these key questions.

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The idea of a transnational corporate responsibility framework for labor and environmental rights in TNCs’ production facilities dates back to the Sullivan Principles.<sup>2</sup> The Sullivan principles, enacted during the apartheid era, were introduced in order to require US corporations working in South Africa to comply with US laws prohibiting discrimination. Under the Sullivan principles, TNCs’ home states required companies to invest only in countries that followed minimum social and environmental

standards. At the same time, the higher standards prescribed by TNCs’ home states applied to firms engaged in foreign countries and only protected workers formally employed by those firms.

As globalization has increased, it has become clear that companies’ voluntary self-regulation and the limited duty to do no harm cannot deal with the sourcing pressures from TNCs. This is in part because TNCs now not only source their products from vertically-integrated production sites, but also outsource to cheaper suppliers.<sup>3</sup> A broader and stronger corporate responsibility (“CR”)<sup>4</sup> framework is essential both for sourcing companies and for producing/supplying companies. To make CR frameworks meaningful, producing/supplying companies must incorporate similar social standards into their policies. This paper considers the perspectives, insights, and challenges that factory managers at producing/supplying companies face in adopting worker-focused social standards.

### 1. Research background

After the collapse of Rana Plaza, two corporate safety initiatives, the Alliance for Bangladesh Worker Safety (“Alliance”) and the Accord on Building and Fire Safety (“Accord”), emerged. Both included remarkable extensions of CR which attempted to ensure building and fire safety of factory premises.<sup>5</sup> These transnational CR frameworks engaged a diverse group of regulatory actors (local firms, foreign buyers/retailers, the International Labor Organization, national and international unions, and activist networks), regulatory mechanisms (monitoring and public reporting), and standards/rules. Both frameworks focused on trans-border corporate responsibility to fund safety inspections and undertook elaborate inspections to ensure factory safety.<sup>6</sup> Both corporate initiatives ended their initial five-year terms in 2018.<sup>7</sup>

Both the Accord and the Alliance focused only on fire and building safety in participating brands’/retailers’ direct supply chains and how brands/retailers can improve safety conditions in their factories. For our research, we took a broader view and gathered insights on safety and social compliance from both factory owners and managers and from labor rights activists and union leaders.<sup>8</sup> We had three main reasons for focusing on both factory owners and managers and labor rights activists and union leaders.

First, existing supply chain research predominantly focuses on sourcing companies and workplace conditions, while giving limited attention to producing/supplying companies' perspectives. However, workers would benefit most if factory owners and managers were to implement high social compliance standards.

Second, labor rights activists and union leaders on the ground repeatedly stated that paper compliance, or compliance only during factory inspections, does not produce long-term structural changes. As a result, while some foreign buyers/retailers and transnational partnership initiatives incorporate strong labor standards into their corporate codes, agreements, or monitoring processes, it is difficult to ensure compliance at the factory level unless the producing/supplying companies' management also incorporate such compliance standards.

Third, while the sourcing "squeeze"<sup>9</sup> likely makes it difficult for companies to find the resources and incentives to improve social compliance in their factories, we decided that perspectives and insights from producing/supplying companies with strong social and environmental commitments would provide a helpful lens through which to view the problems and potential of social compliance in factories.

### **1.1 Research approach and objectives**

We focused on factory owners'/managers' perspectives in order to evaluate the producing/supplying companies' internal decision-making processes. We decided to focus only on garment factories covered by transnational safety initiatives (the Accord or the Alliance) and/or that participated in the ILO's BWB program (hereinafter referred to as "participating companies"). We did so because we wanted to understand whether these exporting factories differ from other factories with regard to social compliance, whether safety improvements have changed factories' social compliance policies, if attention has been paid to improving workers' skills and productivity, and to identify the challenges that these factories face.

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Our goal in this research was to explore the extent to which and conditions under which these companies have internalized social compliance as part of their factory management policies, whether safety compliance has influenced social compliance, whether increased social compliance enhances or hinders companies' global competitiveness, and what structural challenges affect companies' capacity to sustain or improve their existing social compliance programs.

We have tried to emphasize that to ensure attention is focused on workers' rights at their workplaces, the focus should not just be on sourcing brands/retailers and organizing responses like filing lawsuits after human rights abuses or violations have already occurred. Instead, the focus should be on transforming internal decision-making within producing/supplier companies so that crucial issues of social compliance are incorporated into companies' management policies and practices. We found that participating companies' perspectives provide a different lens that helps us to better understand issues related to social compliance in factories.



## 1.2 Research questions

This research focuses on the following questions:

- a. Whether and how producing/supplier companies' internal management accommodates social compliance? How participatory, transparent, and logical are these policies and programs?
- b. Does increased social compliance improve participating factories' competitiveness in the global market?
- c. What are the limitations of these management policies? What could be improved?
- d. What structural challenges affect social compliance or impede the adoption/continuance of improved social compliance as part of producing/supplying factories' internal management?

## 1.3 Research methodology

We used a number of different research methods to gather relevant information for this paper. First, as background research we reviewed Bangladesh's labor laws, international labor law, and labor standards. We also reviewed and relied on analysis and research from local and international NGOs, labor rights organizations, and media reports.

Second, we drafted a survey for owners and managers of garment factories in Bangladesh. The results and analysis presented below focus on the responses we received from twelve reputed producing/supplying garment companies in Bangladesh. Some companies that participated have several factory units. These survey questions were written to trigger answers about several aspects of social compliance. To encourage candid participation, the participating companies were assured that their answers would remain anonymous. Of the twelve companies, seven have safety certifications from the Accord; two companies have some factories that are certified by either the Accord or the Alliance;<sup>10</sup> and eight companies are involved with the ILO's Better Work Bangladesh (BWB) program.

Four of the twelve companies are "more compliant," meaning that they have strong social and environmental standards. Two of these four companies have high rankings from global social audit companies and/or US Green Building Council Certificate or LEED (Leadership in Energy and Environmental Design) certifications. We refer to this latter group as "more participating" factories.

In order to have a broader perspective, we also gathered responses from three prominent local labor activists and union leaders. We then used their insights to evaluate our findings from factory owners and managers. We deliberately refrained from focusing on a single institutional response. Instead, we analyzed and compared the perspectives and experiences of owners and managers, local labor activists, and union leaders in order to gain a more nuanced picture and better evaluate the scope and coverage of social compliance as part of factory-level management policies and practices.

Due to time constraints and logistical difficulties, our research relied on limited data. However, in analyzing the responses, we identified broad patterns that reflect whether and how factory owners and managers value social compliance, whether managers believe social compliance improves producing/supplying companies' global competitiveness, what limitations and structural challenges affect these companies' ability to implement social compliance policies, and what steps could improve or sustain social compliance at producing/supplying companies.

Although we focused on transnational initiatives' impact on participating companies, our objective was not to analyze the scope of these initiatives. Instead, we looked for connections between these initiatives and social compliance in factories. We then tried to offer ideas about how to utilize the initiatives' models in order to have producers/suppliers adopt crucial aspects of social compliance.

## **II. Worker-focused factory management policies: the existing scope and future prospects**

### **1. Moving towards enforceable, effective, and worker-focused factory-level management policies**

In evaluating the survey responses, we found that membership in the Accord or the Alliance or participation in the ILO's BWB program corresponded with positive changes in producing/supplying companies' policies. However, in order to incorporate decent working standards and sustain social compliance as part of the day-to-day factory management policies and practices, it is necessary to address certain limitations and structural challenges that garment producing/supplying companies face.

### **2. Worker-focused factory management policies: the contribution of transnational safety initiatives**

#### **2.1 Post-Rana Plaza sourcing initiatives contributed to increased social compliance in factories**

As a first step, the survey focused on understanding the direct and indirect benefits of these transnational safety initiatives in transforming producing/supplying companies' social compliance outlook and capacity. Thus, we tried to ascertain how companies' participation in safety initiatives for garment workers in Bangladesh improved or undermined their compliance with national and international labor standards. The goal was to determine whether safety training, safety inspections, or the formation of worker-level committees contributed to changes in factory policies. The survey asked how, in the managers' view, safety improvements taken after the collapse of Rana Plaza<sup>11</sup> impacted oversight of labor conditions through increased factory monitoring, by offering safety training, or by forming worker-level committees. The survey also included questions about whether participatory committee-level meetings helped to solve work-related problems that are not strictly safety issues.

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Our data provides crucial information about social compliance in factories and highlights an important shift in how these factories do business. In the wake of Rana Plaza, a number of prominent entrepreneurs built or transformed their garment factories into globally-ranked sustainable factory sites that emphasize both social and environmental compliance. Some of these companies' manufacturing/supplying factory units are built in world-famous green factory buildings, use low energy plants, emphasize their use of renewable energy sources, have elaborate plans for recycling and reusing natural energy, and have natural water management systems. Additionally, owners and managers from these more compliant factories reported that social compliance and the well-being of their workers is central to their strategies to undertake and implement sustainable business plans.

The survey also revealed that all participating factories implemented important policies to boost their factories' safety and social compliance. For example, most managers reported that the safety measures prescribed by the transnational initiatives led to frequent factory inspections both from buyers/retailers and from the Accord, the creation of elected participatory committees consisting of both workers and management, and improved worker productivity.

*Additionally, owners and managers from these more compliant factories reported that social compliance and the well-being of their workers is central to their strategies to undertake and implement sustainable business plans.*

The Accord covers all surveyed companies; eight participate in both the ILO's BWB program and are covered by the Accord; four are covered by both the Accord and the Alliance. Since the Alliance ended, the Accord has monitored safety compliance in these latter four companies. The responses from our survey demonstrate that participation in transnational safety initiatives, participation in the ILO's BWB program, and sourcing influences initiated after repeated factory accidents in Bangladesh have contributed to impressive changes in management policies.

- a. Worker-level committees:** All factory managers responded that following Bangladesh's labor law amendments after Rana Plaza, they established elected participatory committees in their factories. These elected participatory committees usually resolve disagreements or other issues between workers and management and make decisions about worker discipline, leave, and holidays. Some factory managers have additional committees that focus on worker-related issues: health and safety committees (twelve companies), grievance or complaint committees (two companies), anti-harassment committees (four companies), and canteen (lunch) committees (two companies). While some participatory committee members are elected, these elected members then select additional committee members. In most participatory committees, workers represent at least 50% of the members. However, managers are responsible for implementing participatory committees' decisions. To resolve urgent issues, managers usually "discuss" such issues with the participatory committees.
- b. Improved benefits:** The surveyed factories all provide on-site medical and childcare facilities. Notably, two factories offer higher wages than Bangladesh's minimum wage and some of the more compliant factories offer other additional benefits. These benefits include free or subsidized lunch, a large dining space, a transportation facility or allowance (such as free shuttle or bus service to the factory), free accommodations, comfortable sitting arrangements, green space, and cultural and social allowances. Although no details were provided, managers at two factories reported that they offer scholarships for their workers' children.
- c. Worker training:** Most factories' social compliance packages include worker training. Although transnational safety initiatives focus on occupational health and safety training, most participating companies also conduct regular trainings to improve workers' skills, reduce production waste, and address worker grievances. Managers from two companies specified that they offer leadership training, training on relevant labor laws, and training on the types of leave permitted by national labor law (such as sick leave or maternity leave). While some factory managers arrange short training sessions (one to four hours) on diverse issues for all workers, three companies reported that they offer longer skill improvement trainings (from one week to one month) for select workers. All participating companies reported that worker training improved workers' pay and productivity. Additionally, the more compliant factories partnered with the ILO, foreign buyers, and/or national and international development and labor agencies to arrange additional training for their workers. The manager from one factory specifically noted that, after completing a fourteen-day training course, workers could move up from working as a raw helper to working as an operator. Since introducing a training program in collaboration with a reputed international development agency, worker productivity increased 50-60% amongst the 10-15% of workers who received training. Managers from two companies specifically reported that training programs increased workers' awareness of their benefits.

**d. Frequent factory inspections:** From January to September 2019, buyers/retailers and the Accord conducted an average of 6–8 factory inspections in seven of the twelve factories. While some managers did not tell us how frequently inspections were carried out, most reported that factory inspections usually occur at least 6–8 times a year. However, one company reported that its factories are inspected at least fifteen times a year. Factory inspections focus on safety (building, fire, and structural safety), social compliance (wages, working hours, and working conditions), and quality of production. One company reported that factory inspections also focus on unionization and the causes of labor unrest.

**e. Attention to gender-based challenges in the workplace:** Five companies have adopted policies to address women workers’ concerns. In one factory, managers provide a special orientation for women workers; three others have committees to address harassment issues; and the fifth conducts special training on maternity leave and benefits. Because women participate in the garment industry on a large scale, addressing their vulnerabilities and abuses became an integral part of improving social compliance in the sector. It is encouraging that increased attention has been given to gender-based challenges. However, in order to address structural barriers, such as workplace discrimination, and to establish real gender equality, significant changes must be introduced in individual factories.

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A large number of women workers work in entry-level jobs perform “cut and sew” functions. With fewer skills and less of an ability to adapt as garment production evolves,<sup>12</sup> women earn less and are less able to voice their concerns about the terms and conditions of their work. A number of recent initiatives involving sourcing brands/retailers, NGOs, and the ILO’s BWB program have introduced programs to address professional/economic inequalities and women’s health. These programs also aim to amplify female voices in order for women to be able to fight abuse and discrimination.<sup>13</sup> However, such programs benefit only a fraction of women workers – namely those formally employed in direct supply chains, meaning by companies that sell directly to sourcing brands/retailers. These initiatives do not reach the most vulnerable workers, namely those working at the bottom of the supply chain who have no formal employer. Therefore, although large exporting companies now have policies that address gender-based challenges, the industry also needs to develop concrete steps to reach and benefit the most vulnerable workers and holistically address women workers’ gender-based challenges. The ILO’s BWB program’s focus on gender equality could be a good starting point and a basis for developing factory-level management policies that address workers’ gender-based concerns and demands. The ILO’s BWB program focuses on four related aspects of gender equality: improving female workers’ skills and wages; ensuring improved maternity rights for pregnant and breastfeeding workers; preventing sexual harassment and discrimination; and increasing the representation of female workers in factory-level worker committees.<sup>14</sup>

## **2.2 Factory managers emphasized positive connections between safety measures, social compliance, and long-term competitiveness**

The increased attention to factory premises’ safety has led factory managers to consider social compliance in their factory policies. Managers from all participating companies reported that they see a connection between safety compliance, social and environmental compliance, and their companies’ ability to remain competitive in the long term. All companies reported that social and environmental compliance remains an important part of their business plan, even as they face increasing competition. In order to remain competitive, most managers reported that they plan to focus on effective, participatory management

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policies that comply with national laws, renovate or relocate factory sites to comply with international safety standards, and arrange "on-going training programs" for workers. However, despite their global reputations, owners and managers at more compliant factories were more pessimistic about their ability to remain competitive in the global economy. Due to the higher costs of compliance and declining order prices for garments, all owners and managers from these factories expressed concern about the companies' future. According to

a recent report, garment producers/suppliers experience price drops at a rate of 11% for US destinations and 9% for EU suppliers.<sup>15</sup> The data on price drop highlights a key contradiction in international brands'/retailers' public commitments and positions on ethical sourcing policies. In general, the producing/supplying companies have experienced falling terms of trade for ready-made garments despite the Accord's ethical sourcing commitment and the Alliance's commitment to review brands'/retailers' internal pricing policies. It is highly unethical and unrealistic to demand social compliance knowing that this price drop contributes to violations of labor rights in many forms.

### **3. The limits of management policies**

Our survey revealed important limitations that make social compliance in factories more difficult.

#### **3.1 Factory-level worker empowerment and unionization is not encouraged**

Despite the improvements cited above, a lack of respect for freedom of association and a general anti-union bias remains the norm in most factories. Recent worker protests to increase wages in the Bangladeshi garment sector were met with mass worker dismissals, false criminal complaints, and excessive police force.<sup>16</sup> It is therefore not surprising that our survey showed that owners and managers do not encourage worker empowerment and unionization. Of the twelve surveyed companies, only two had unions, and these were both unregistered. These unregistered unions represent only 1–1.5% of workers. From the survey responses it appears that, despite their low levels of worker participation, these two unregistered unions held monthly meetings with management. Their agendas included topics like factory safety, production, worker discipline, leave and holidays, and work hours during holidays.

In Bangladesh, there are special export processing zones ("EPZs") which have special labor laws. Unionization is not allowed in EPZs. Instead, workers are allowed to form Workers Welfare Associations ("WWA"), which regulate the worker-employer relationship. One of the more compliant factories that participated in our survey is situated in an EPZ; we were intrigued to find that it has an elected WWA. It reported that of its 1,600 workers, 1,593 participated in the election process for choosing members of the WWA's executive council. This company's description of the election process and its workers' enthusiastic participation contradict companies' long-standing argument that low-skilled, uneducated workers do not have the capacity to form unions, effectively voice their concerns, or demand appropriate labor rights. Irrespective of workers' educational capacities and skill levels, unionization at the factory-level provides workers with a capacity to organize that eventually helps to translate codified labor rights into practice.<sup>17</sup>

Most factory owners and managers expressed their preference for worker-level committees and hinted that unionization in factories would contribute to unrest and would negatively affect workers' efficiency. The survey found that to resolve urgent work-related concerns, managers at participating companies rely on both the participatory committees' recommendations and on management personnel who are "specially trained and skilled" to handle these issues. A manager at one factory specifically reported that its future policies will focus on the discussions and findings at participatory committee meetings "instead of" on unions. Except for the company situated in the EPZ, in all participating companies the labor unionization

process has been slow, represents only a fraction of workers, and has had little impact on everyday working conditions.

The slow unionization process and violations of freedom of association and freedom to form unions are, of course, not only issues in Bangladesh. These violations exist in garment producing companies around

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the globe and result from labor deregulatory processes that occurred as part of the neo-liberal market opening.<sup>18</sup> Sourcing brands/retailers also cause these violations to continue in their supply chains through their search for low-cost producers/suppliers. By relying on ineffective audits and failing to take “corrective action” when clear violations of associational rights, including the right to form unions, are detected,<sup>19</sup> sourcing brands/retailers incentivize factories to continue to violate workers’ fundamental rights.

### **3.2. Compliance with the minimum wage and required benefits are considered to be the most that companies must do**

Garment producing/supplying factories use the steady flow of low-skilled workers to remain competitive in the global garment industry. However, wages far below the living wage continue to be the primary reason for worker protests in Bangladesh. A portion of our survey questions therefore focused on factory policies and perspectives on workers’ wages and benefits. All except three of the surveyed factories reported that they pay the legal minimum wage and provide required benefits such as maternity leave, maternity benefits, and an on-site nurse and doctor. One company, however, offers wages above the minimum wage; this factory’s wages range from 100–150 Euro, about twice the current minimum wage. The second company provides 15% of their workers with wages above the legal minimum; they allocate 2% of their production costs to provide these extra wages. Without stating how much they pay, managers at the third company reported that they offer wages above the minimum wage. Based on the survey responses, it is clear that most companies do not provide a living wage or social benefits above the national requirement. However, all surveyed factory managers stated that they comply with international standards for safety compliance. Since brands’/retailers’ constructive undertakings and productive sourcing pressures already encouraged garment producing/supplying companies to adopt international safety standards, a similar approach could successfully provide wages and work benefits beyond the legal minimum.

*...wages far below the living wage continue to be the primary reason for worker protests in Bangladesh.*

Positive sourcing pressures from international buyers/retailers can play an important role in addressing this issue. In December 2018 and January 2019, workers peacefully protested Bangladesh’s low minimum wage. Both factory owners and managers and government security forces responded with “out of proportion” retaliation.<sup>20</sup> In response, international labor activists and unions urged international brands/retailers to adopt a living wage in their supply chains. A report by the Clean Clothes Campaign clarified how brands/retailers could turn their support for a living wage in their supply chains into a reality:

“It must be noted that the 2014 Cambodia minimum wage struggle showed that garment brands’ public support can make a crucial difference. The letter that eight major brands back then jointly sent to the Deputy Prime Minister and the Garment Manufacturers Association clearly emphasized that

their purchasing practices would enable the payment of a fair living wage, and that a wage increase would be reflected in the prices they pay to their suppliers. The current situation in Bangladesh provides a very similar window of opportunity for action by brands.<sup>21</sup>

International brands/retailers need to express their support for a living wage, but they also need to do more. They must modify their sourcing prices, sourcing policies, and sourcing commitments and pressure producing/supplying companies to adopt meaningful and concrete steps to improve working conditions. One such step could be the formation of an Accord-like partnership in which buyers'/retailers' tie their sourcing prices and commitments to supplying factories' obligations to offer living wages and other social rights and integrate this commitment into factories' policies.

*International brands/retailers need to express their support for a living wage, but they also need to do more. They must modify their sourcing prices, sourcing policies, and sourcing commitments and pressure producing/supplying companies to adopt meaningful and concrete steps to improve working conditions.*

#### **4. Participating companies face several structural challenges**

Several structural challenges decrease the likelihood that owners and managers will embed social compliance issues into producing/supplier companies' management policies. First, we found a serious gap between factory managers' and workers' expectations. Second, the liberalized market allows factories to sell their products to less regulated markets. Third, the buyers/retailers dictate sourcing policies and practices and greatly limit producing/supplier companies' ability to negotiate. Fourth, the knitting industries' increasing automation will likely decrease the number of workers in the industry.

While the first challenge focuses on enforcement issues in factories, the other challenges are the direct results of a liberalized market which was implemented without appropriate social protections. These challenges are bound together by the fact that unless they are addressed with appropriate commitments and resources, they will eventually affect social compliance at the producing/supplying factories and will ultimately harm vulnerable workers the most.

##### **4.1 There is a disconnect between factory managers', sourcing companies', and workers' expectations**

*...workers work long hours and earn low wages that fail to cover basic expenses and do not keep up with the present rate of inflation.*

Based on the survey responses and interviews, we found a large gap between workers' expectations and factory management policies geared to address social compliance. Our interviews with prominent labor rights activists and labor union leaders revealed that, despite post-Rana Plaza improvements in the safety of factory premises, corporate codes and transnational initiatives do not

consider social rights (like a living wage and shorter working hours) and social rights are not integrated into management policies. As a result, workers work long hours and earn low wages that fail to cover basic expenses and do not keep up with the present rate of inflation. Together, these pressures cause most workers to be physically unable to work after only 5–10 years.

The labor rights activists and union leaders we interviewed rejected the idea that certain rights are more important than others. They do not believe that paper compliance of selective labor rights creates a sustainable, healthy working environment in factories or is conducive to companies remaining competitive in the long-term.<sup>22</sup> While much international attention has been given to compliance with fundamental labor rights (i.e., freedom of association, the right to collective bargaining, the elimination of discrimination in employment, the abolition of forced and child labor), the labor rights activists and union leaders we interviewed insisted on the connection between different labor rights. One labor rights activist noted,

“How do you categorize or rank these essential rights? In order to raise awareness about the type of rights and benefits that the workers are entitled to receive, there is no alternative other than reaching out to them through an effective factory-level union. While management-controlled or management-selected unions stall the awareness programs, without the wages to live and to sustain them, workers really don’t care about what is happening.”<sup>23</sup>

The activists and union leaders we interviewed reiterated the need for both fundamental and redistributive/social rights, such as the right to form unions, the right to a living wage, and the right to a safe workplace. They argued that it was necessary to continue grassroots capacity development programs through labor organizations, both to maintain a healthy working environment in the garment sector and to increase its competitiveness in the global market.

In contrast, most factory managers were interested in finding alternative export markets and focused mainly on complying with national standards for wages and benefits and international standards for fire and building safety. However, the more compliant factories use their social and environmental standards as a way to remain competitive and intend to “set a benchmark for others in the industry to follow.”<sup>24</sup> It is encouraging that even in this fiercely competitive market, three participating companies offer wages above the national minimum wage and follow the legal working hours and overtime schedules. However, the fact that nine of the twelve companies pay only the minimum wage is illustrative of the current business model and companies’ preference to comply with Bangladesh’s low national standards.

*...the more compliant factories use their social and environmental standards as a way to remain competitive and intend to “set a benchmark for others in the industry to follow.”*

#### **4.2 The liberalized market greatly affects factories’ willingness and capacity to comply with social compliance policies**

The liberalization of the global market greatly affects factory owners’/managers’ willingness and capacity to adopt and maintain social compliance policies. In the current market, sourcing companies can source from the cheapest supplier and producing companies can decide to shut down abruptly.<sup>25</sup> A recent report by the Worker Rights Consortium (“WRC”) reveals that it has become a “standard operating procedure” for garment producing/supplying companies to shut down their factories without providing their workers with severance pay. Facing pressure to cut production costs, some garment producing/supplying factories have systematically adopted this route of “grand larceny at a massive scale.”<sup>26</sup> The WRC’s report connected the producing/supplying companies’ actions to those of the sourcing brands/retailers, as the latter allows the “exploitative dynamics” to operate within their supply chain. Reporting on the Indonesian garment industry, the WRC report explains:

“Because big name brands ... make a profit through inadequate compensation of factory suppliers,



there is a structural incentive for factories to maximize competitiveness at the expense of contributions to severance funds for workers during normal operation. And because their sudden departures are often due to bankruptcy within the highly aggressive garment industry, there is no money available to pay workers once they leave.”

In our research, we found that market pressures also encourage producing/supplier companies to search for less regulated markets that offer “better” deals. Companies explained that they are looking at export markets in different regions, including South America, East Asia, Russia, Poland, Australia, Japan, India, and South Africa. One manager specifically noted that his company is exploring “less traditional markets,” such as Tunisia, Morocco, Egypt, and Mexico. The producing/supplying companies’ freedom to search for markets that have less rigorous social compliance requirements (or none at all) poses a challenge to social compliance in post-Rana Plaza factories. The survey found that safety compliance requirements that owners and managers found expensive to install or operate, the higher costs of social compliance or environmental certification, the continuous decrease of garment order prices, and the declining order flow by sourcing brands/retailers caused nine of the twelve companies to search for alternative markets. The more compliant factories also faced these sourcing challenges, despite data indicating that safety compliance improved overall competitiveness. Irrespective of their level of compliance, all factory owners and managers (except one) noted that their main challenge is to survive in the global market, even as costs of compliance increase, order flows decline, and sourcing brands/retailers continue to lower sourcing prices.

*In our research, we found that market pressures also encourage producing/supplier companies to search for less regulated markets that offer “better” deals.*

Another recent challenge comes from fast fashion online retailers. In the past few years, the number of online retailers has increased dramatically. To keep pace with consumer demands, online retailers depend on quick turnover and low sourcing prices. These retailers incentivize labor rights violations at the supplier level and have significantly lowered the profit margin for regular brands/retailers. A recent *Wall Street Journal* investigation found that Amazon, which currently dominates the online clothing market, and other sourcing brands/retailers that offer marketplaces for third-party sellers, have allowed garments from “dangerous” factories that were “blacklisted” or “suspended” under the Accord or the Alliance to be sold on their platforms.<sup>27</sup>

*To keep pace with consumer demands, online retailers depend on quick turnover and low sourcing prices. These retailers incentivize labor rights violations at the supplier level and have significantly lowered the profit margin for regular brands/retailers.*

While there were positive changes in the aftermath of Rana Plaza – for example, the average duration of buyer-supplier relationship increased to six years<sup>28</sup> – declining profit margins make it increasingly difficult for regular brands/retailers to incur the additional costs of monitoring their supply chains. It has been estimated that most brands/retailers that participated in the Accord have a very slim profit margin, ranging from 3–5%.<sup>29</sup>

The sourcing pressures from online retailers shrink the regular brands’/retailers’ margin of profit. To compete with these online retailers (who have

no or minimal monitoring) the regular brands have no option but to lower their profit margin. These considerations, i.e. (1) sourcing companies’ freedom to source from any destination, (2) the availability of less regulated markets, and (3) supplying/producing companies’ freedom to produce for any market all embed a cost reduction tendency in the garment pricing structure. This creates a consistent pattern in the garment business model: racing towards the bottom for wages, work benefits, work conditions, and social compliance.

### 4.3 Buyer/retailer-dictated sourcing prices and policies directly impact social compliance

Buyers'/retailers' search for the cheapest supplier squeezes producing/supplying companies' profits and, as a result, workers' wages. Frequent changes in turnaround time and volume also increase workers' workload and lead suppliers to employ larger numbers of part-time or seasonal workers. This unsteady buyer-supplier relationship squeezes suppliers and encourages human rights violations at factories and by subcontractors, who are not party to the brand-supplier relationship and whose workers are therefore the most vulnerable.

*...participatory, long-term, and transparent sourcing policies, as well as higher sourcing prices, improve workers' wages and working conditions, prevent labor rights violations by sub-contractors, and lead to long-term social compliance.*

A Human Rights Watch report explains that low sourcing prices and brands'/retailers' "one-sided" and unreasonable sourcing policies incentivize human rights violations and abusive practices in supplier factories.<sup>30</sup> In contrast, participatory, long-term, and transparent sourcing policies, as well as higher sourcing prices, improve workers' wages and working conditions, prevent labor rights violations by sub-contractors, and lead to long-term social compliance.

Based on these structural challenges, our survey questions focused on how sourcing policies and practices affect social compliance at participating factories. In cases in which local companies offer higher pay and better benefits, we aimed to understand what, if any, role the sourcing buyers/retailers played in improving standards. We hypothesized that there is a direct relationship between social compliance and (1) the price the factory receives for its garments and/or (2) the nature of the contractual relationship between the local firms and sourcing buyers/retailers. To a limited extent, the survey questions also elicited information on how the buyers'/retailers' sourcing pressures directly improved, undermined, or otherwise impacted workers' wages, work relationships, and working conditions.

While managers at four factories noted that buyers/retailers request information from the supplying factories about quantity and timeline, almost all owners and managers agreed that brands/retailers determine contract terms and order volumes and schedules. Fluctuations in supply order and schedule are common. All factory owners and managers (except one) pointed to the buyer/retailer-dictated supply policy and noted that if they fail to comply with the terms of the supply contract, the buyers/retailers can impose penalties. These consequences can include air shipment (having to ship the supplies by air, which can be very expensive), discounted rates, or cancellation of the entire order. Even the more compliant factories reported that they face similar sourcing pressures and penalties. One factory owner wrote with great desperation:

*All factory owners and managers (except one) pointed to the buyer/retailer-dictated supply policy and noted that if they fail to comply with the terms of the supply contract, the buyers/retailers can impose penalties.*

"The [factory] owner had completed all the formalities to set up a green factory, but stopped the project as [foreign] buyers are not offering green price for green production. [Safety] compliance is enough for them, it doesn't matter how manufacturers are investing in green technology or getting recognition on green project."

Although owners and managers at five factories declined to answer questions on how foreign buyers/retailers have improved or undermined their ability to implement social compliance, seven pointed to their

lack of negotiating power. They responded that elaborate safety, social, and environmental compliance demands from buyers, declining sourcing prices, and the increase of garment workers' wages in Bangladesh affect their ability to implement social compliance programs.

Based on our understanding that low sourcing price is the biggest challenge to social compliance, we also asked managers what price increase would allow them to implement social compliance. While some declined to give an exact percentage, the overall expected percentage increase varied from 8–30%. Managers from eight factories reported that an increase in sourcing prices by 8–15% would be necessary for social compliance and to remain competitive in the market. One factory manager, who asked for a 30% increase over the current price, specifically explained that low prices make it difficult to comply with national and international labor laws and international safety standards. One manager noted that buyers will not “increase price automatically” and it may be useful to use the producing/supplying factories' negotiation capacity to gain at least a 5% increase in sourcing prices. It is intriguing that this last suggestion came from a globally-reputed participating factory with high-ranking social and environmental compliance certifications. Similar negotiating powers are simply not available for other factories. One factory manager wrote: “[I]n the case of many buyers we lose money on our orders. But [we have no other option but to] take the order [at a low price in order] to keep the factory running.”

Our survey findings highlight the need to evaluate the content, coverage, and effects of sourcing policies. Are the policies impacting producers'/suppliers' business decisions? Do they drive producers/suppliers to pay lower wages, increase workers' workloads, or illegally subcontract? Do the policies incentivize cost-cutting practices, labor rights violations in factories,<sup>31</sup> or informal contracts with remote suppliers?<sup>32</sup> Is it possible for these sourcing prices and policies to instead incentivize social compliance at the subcontractor or remote supplier level?

Although the recent trend to maintain long-term buyer-supplier relationships is conducive to better working conditions in factories, low sourcing prices and buyer-driven sourcing policies still generate slim profit margins that make it difficult for producing or supplying companies to implement social compliance. Our data from the more compliant factories corroborated this finding. Even with increased social and environmental compliance and high global rankings/certifications, all of the more compliant factories' managers expressed concerns about their factories' future and ability to survive the fierce competition. One owner-manager of a world-famous green garment factory wrote: “The biggest challenge is the price factor, as the current wage structure is affecting the business financially along with continuous price drop from client(s) respectively... the cost of compliance and certifications are increasing... search for new export market is a key factor to improve the situation.”

*Even with increased social and environmental compliance and high global rankings/certifications, all of the more compliant factories' managers expressed concerns about their factories' future and ability to survive the fierce competition.*

A connecting thread runs through the data irrespective of the factories' different levels of social compliance. Most factory owners and managers, including those at more compliant factories, expressed their concerns about buyer-dictated sourcing prices, policies, and commitments.

#### **4.4 International buyers/retailers do not carry out post-supply monitoring**

International buyers/retailers generally do not carry out effective post-supply monitoring of supplier factories. Our survey found that six of the twelve producing/supplier companies experienced no post-supply monitoring by brands/retailers; five companies had post-supply monitoring, but only to report

*Unlike sustainability reporting and indirect social audits, post-supply monitoring of supply-chains would include a formal process for mapping and communicating with suppliers, receiving suppliers' feedback on purchasing practices, and capacity building for suppliers.*

on the garments' quality. Only one manager from the more compliant companies reported that the companies' buyers recently introduced a post-supply monitoring system through Better Buying's platform.<sup>33</sup>

To improve compliance with corporate codes, an elaborate, independent, and participatory post-supply monitoring program should be developed. Currently, sourcing companies often simply "check the boxes" on sustainability reports and report how much they spent.<sup>34</sup> To increase compliance with written corporate codes, companies should evaluate the impacts sourcing policies have on

wages, working conditions, and work relationships. Unlike sustainability reporting and indirect social audits,<sup>35</sup> post-supply monitoring of supply-chains would include a formal process for mapping and communicating with suppliers, receiving suppliers' feedback on purchasing practices,<sup>36</sup> and capacity building for suppliers.

#### **4.5 Automation will likely replace unskilled workers in knitting factories**

Some garment companies, especially knitting factories, are increasingly moving towards automation. One owner-manager explained that to remain competitive, his factory plans to modernize its existing machinery and become more automated. However, all labor activists and union leaders we interviewed expressed concern about automation's effects on employment. They fear that automation will lead to massive unemployment and increase the level of inequality between skilled and unskilled workers. Because automation requires fewer workers – and only skilled ones – it will likely replace unskilled workers. Professor Erik Brynjolfsson, director of MIT's Initiative on the Digital Economy, clearly articulates the effects of technological improvements: "It's one of the dirty secrets of economics: technology progress does grow the economy and create wealth, but there is no economic law that says everyone will benefit."<sup>37</sup>

### III. Conclusions and Policy Recommendations

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Based on our research, we found that the increased attention paid to factory premises' safety has led to positive changes in garment producing/supplying factories in Bangladesh. In the aftermath of Rana Plaza, participation in transnational initiatives, combined with positive sourcing influences, helped to counteract some negative effects of globalized production and distribution. By learning from these partnership initiatives and contextualizing the realities and challenges of the garment industry, these safety models could be replicated and extended to other areas, including improving labor skills, wages, and work-related benefits.

However, in light of recent developments that will pave the way for national regulatory agencies to begin overseeing factory safety,<sup>38</sup> we must rethink how transnational regulation of the garment industry can continue in Bangladesh. To bring about long-term, structural changes in the garment industry, there must be concrete regulatory measures and cooperation from both sourcing and producing companies' host states. Participatory, transparent, and effective regulatory measures for social compliance must be combined with the capacity and willingness to enforce these measures. It is dangerous to shift to national oversight of social compliance without first considering the government's bias towards factory owners and managers, its inadequate regulatory capacity, the risk of paper compliance by ineffective and unaccountable national regulatory bodies, and the absence of workers in the oversight process.<sup>39</sup>

*To bring about long-term, structural changes in the garment industry, there must be concrete regulatory measures and cooperation from both sourcing and producing companies' host states. Participatory, transparent, and effective regulatory measures for social compliance must be combined with the capacity and willingness to enforce these measures.*

While international assistance, national commitments, and regulatory measures are needed in this process, it is essential to involve both the sourcing companies and the producing/supplying companies as drivers of meaningful and sustainable changes.

With continuing sourcing squeezes, it may be hard to find the resources and incentives to improve social compliance in factories. However, it is encouraging that some producing/supplying companies have transformed the usual model of doing business. In adopting sustainable business plans, some globally-reputed companies not only built or transformed their factories into green factories, but also adopted environmentally-friendly manufacturing processes and combined social and environmental compliance into their daily operations. These post-Rana Plaza companies, which combine innovative commitments to develop sustainable business plans with increased social compliance, provide important lessons on where we can start and how this newer model of business needs national and international support.

Our survey revealed an important connection between safety improvements, worker productivity, and business competitiveness. Management at three factories explained that safety improvements have increased worker productivity between 2% and 5%. One factory owner even responded that safety improvements have caused a 10% increase in worker productivity. Owners and managers at the more compliant companies found a relationship between safety compliance and increased worker productivity, but refused either to "quantify" or to "evaluate [it] in such a way." One factory manager wrote:

*"It is hard to identify the ratio (between improved safety and worker productivity) and we never do that. But a safe workplace ensures a risk free, hazard and tension free working environment that ultimately psychologically will help workers feel safe and increase productivity."*

However, one factory manager expressly denied any connection between worker productivity and safety compliance. While reviewing this data, we found that the factory manager who denied this relationship runs a company with strong safety, social, and environmental standards and offers wages above the minimum wage. Because this company already had strong standards, we posited that it may not have encountered the compliance-productivity relationship in its factories.

Transnational initiatives can play important collaborative functions in supporting social compliance in factories. Most factory owners and managers reported that complying with safety standards helped to maintain relationships with sourcing buyers/retailers. If sourcing companies and/or partnership-type transnational initiatives required or funded compliance programs for other labor rights, we believe that they could stimulate long-standing behavioral changes in producing/supplying companies.

Survey responses from the more compliant factories also helped us to better understand the relationship between increased social compliance and business potential. Factories with excellent global ratings for environmental compliance generally also have strong policies for social compliance and worker training. According to owners and managers at these factories, increased social compliance contributes to lower levels of worker absenteeism, reduced levels of waste, a shorter time for workers to learn new skills, and operational excellence (excellence in the day-to-day management of the factory). With higher productivity and global reputations, these companies are also moving towards product diversification (e.g., manufacturing or supplying lower quantity but higher value-add products) as one strategy to survive the growing competition.

*According to owners and managers at these factories, increased social compliance contributes to lower levels of worker absenteeism, reduced levels of waste, a shorter time for workers to learn new skills, and operational excellence (excellence in the day-to-day management of the factory).*

However, these factories have undertaken huge investments to adopt higher social and environmental standards. Our interviews with labor activists and union leaders and the survey responses confirmed that only a few entrepreneurs were able to undertake such large commitments. Despite their higher rankings, these companies reported that their biggest challenge is maintaining the “current wage structure” and social compliance as sourcing brands/retailers pay lower and lower prices. These owners and managers complained that sourcing brands/retailers take “advantage” of their good reputations and global certifications, but refuse to increase their prices.

Sourcing brands/retailers have a crucial role to play in improving social compliance. Numerous reports explain that sourcing companies can avoid unintentionally participating in supply chain violations by incorporating concrete and meaningful steps into their sourcing policies and practices.<sup>40</sup> Sourcing companies should begin by adopting ethical sourcing policies and restructuring how they monitor factory-level social compliance. A recent report argued that companies should address sourcing challenges that result from the “asymmetric” power of buyers over suppliers and suggested that “ineffective” and “multiple” audits exacerbate these challenges.<sup>41</sup> While independent auditing, post-supply monitoring, and thorough risk assessment of suppliers’ labor practices are useful steps,<sup>42</sup> without concrete commitments to increase sourcing prices and change buyer-dictated policies, significant changes may not be sustainable. Sourcing brands/retailers should take a number of steps to improve social compliance in their factories:

- a. Exert meaningful and realistic pressure on producing/supplying companies to incorporate decent working standards into their management policies. As a preliminary step, it would be useful to initiate a dialogue with the producing/supplying factories in order to better understand and accommodate their perspectives.

- b. Analyze why producing/supplying companies have such a low level of social compliance and trace the relationship between sourcing prices and policies and producing/supplying companies' social compliance.
- c. Introduce supply chain transparency by having a clear and traceable supply-chain system.
- d. Carry out a detailed analysis of sourcing prices, including if and how price incentivizes social compliance; utilize costing tools to account for labor and social compliance.<sup>43</sup>
- e. Implement joint initiatives with regional and international development and labor agencies or with organizations that conduct labor rights' awareness programs and worker skill development programs. In our survey, we found that the more compliant factories used these programs, which contributed to increased social compliance and worker productivity.
- f. Introduce a comprehensive, post-supply monitoring system that evaluates existing sourcing policies. This could include independent and transparent audits conducted by third-parties, as well as transparent, post-supply feedback from producing/supplying companies. The latter would be used to ensure workers' rights, rather than to improve the company's reputation. Some expenses incurred by conducting non-transparent, brands/retailers reputation-focused social audits<sup>44</sup> or sustainability reporting on paper could be diverted for these commitments.

We also found a disconnect between workers' expectations and those of producing/supplying companies. To bridge the gaps between the rhetoric of worker-focused corporate monitoring and appropriate internal management policies from the producing/supplying companies, there is a need to foster ongoing dialogue with labor activists, union leaders, producing/supplying companies, and sourcing companies about the necessity for social compliance and the "business case" for effective corporate responsibility.<sup>45</sup> An ongoing dialogue needs to be stimulated in the labor governance debate focusing on two particular steps: (1) wide sharing of tangible data and evidence that good working conditions, worker productivity, and long-term business competitiveness are interconnected; and (2) appropriate, ethical sourcing commitments from buyers/retailers.

With gaps in the policies and expectations of sourcing and producing/supplying companies and with the pressures of the open market, regulatory interventions (both by producing companies and by sourcing companies' host states) are essential to initiate and sustain social compliance in the industry. These regulatory interventions should also take into account the growing role – and accompanying challenges – of automation. Before embarking on technology-based production processes, producing firms' host states need to rethink the distributional consequences of automation and the allocation of resources. All stakeholders – government, industry, and union leaders – need to collaborate and make realistic plans to train workers who can adjust to new technology. These stakeholders should also work to create appropriate training and alternative job opportunities for the many low-skilled workers who will likely lose their jobs to automation. It is also necessary to undertake a detailed analysis of the distributional effects and find ways to tackle the related problems, such as creating institutional framework for sharing the gains of improved productivity of newer technologies.

*These stakeholders should also work to create appropriate training and alternative job opportunities for the many low-skilled workers who will likely lose their jobs to automation.*

Finally, to improve social compliance it is essential that factory workers can unionize. Elected participatory committees can handle day-to-day issues in factories; however, they are not and cannot be a substitute for unions, which allow workers to speak with one collective voice. While transnational initiatives have been found to bring certain changes to factories, these changes are often short-lived and mostly made

for reputational purposes. Our interviews with union leaders and labor activists revealed that only when independent monitoring is accompanied by unionization in factories is it possible for workers to develop collective demands for workplace benefits and labor rights. Unionization also allows workers to network and form alliances with other social groups in order to push powerful brands/retailers to accepting various forms of corporate responsibilities. Unionization is the first step towards empowering workers to challenge the deregulation of labor in the national and global economies.

*While transnational initiatives have been found to bring certain changes to factories, these changes are often short-lived and mostly made for reputational purposes. Our interviews with union leaders and labor activists revealed that only when independent monitoring is accompanied by unionization in factories is it possible for workers to develop collective demands for workplace benefits and labor rights.*

We conducted this survey with a limited group of factory owners and managers, labor activists, and union leaders. Although responses varied, all stakeholders focused on structural challenges and the limits of corporate responsibility in factories. Our analysis provides an overview of how to utilize relevant stakeholders' resources and design worker-focused factory-level policies that value social compliance. None of the issues mentioned above can be traded for another; only a holistic approach that incorporates effective labor governance, long-term business competitiveness, and sustainable growth for this crucial export sector can turn the rhetoric of effective corporate responsibility into a reality.

The nature of work in the Bangladeshi garment industry is changing rapidly. To ensure social compliance in garment producing/supplying factories, stakeholders must consider diverse concerns, including the pressures of global competitiveness, the informalization of work, the difficulties of tracing supply chains, increasing government interventions in determining the boundaries of international and transnational forces related to work, and increasing automation. While stakeholders' understanding of these concerns are evolving and have created new challenges, only a collective and holistic plan can address contemporary social compliance challenges. Factory-level management constitutes a key location where significant improvements could be fostered.



#### **IV. Further Research**

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This paper is based on a limited set of data from a group of participating garment companies in Bangladesh. After analyzing voluntary survey responses from garment factory owners and managers and interviews with three local labor activists and union leaders, we tried to identify both the potential and the problems of social compliance in garment factories. A broader set of data might reveal other factors that we failed to observe. As a next step, we believe there should be (1) more dialogue among relevant stakeholders (including labor unions, activists, the national government, the ILO, industry leaders, representatives from sourcing companies); (2) sourcing companies should make concrete commitments; and (3) we must collect more data about how social compliance could be embedded into company management policies in order to gain a better understanding.

Although we relied on a limited set of data, both producing/supplying companies and local labor activists' and union leaders' perspectives informed the broader pattern we identified. Our research examines the realities on the ground in Bangladesh and the challenges that labor-intensive manufacturing/supplying processes face in a liberalized market system. We hope that these findings will be used to determine social compliance in other labor-intensive manufacturing/supplying industries operating in similar socio-economic environments.

**Annex**

**Table: Participating companies' safety certification status and related information**

<b>Company</b>	<b>Participation in the Accord</b>	<b>Participation in the Alliance</b>	<b>Participation in ILO's BWB Program</b>	<b>Green Factory Building</b>	<b>Worker-level committees</b>	<b>Factory-level Union</b>	<b>Above Average Wage</b>	<b>Post Supply monitoring</b>	<b>Worker Training</b>	<b>Sourcing Challenges</b>
<b>A</b>	Yes (7 factory units) SC: 3 factory units received SC; 2 factory units yet to receive SC	Yes  SC: 2 factory units	Yes		Health; Safety; WPC; Grievance;	No	No	Yes: (for quality monitoring only)	Yes (5% of trained workers moved to supervisory level; 20% moved to operator level)	Low price; Order quantity; Harsh penalty
<b>B</b>	Yes SC: Yet to receive	Yes	Yes		Health; Safety; WPC	No	No	No	Yes Better pay and productivity	Low price; Getting government support; Harsh penalty
<b>C</b>	Yes  SC: Yes	Yes  SC: Yes	Yes		Health; Safety; WPC	No	No	Yes (better buying program)	Yes (In-house Training; ILO initiated training program) Better pay; productivity hard to measure	Low price; Harsh penalty; Higher tariff when Bangladesh loses its preferential access
<b>D</b>	Yes  SC: Yes		Yes		Health Safety WPC	No	No	Yes (for quality monitoring only)	Yes (In-house training; Buyer-led training) Better pay and productivity	Low price; Harsh penalty; Orders shifting to competitors
<b>E</b>	Yes  SC: Not yet received	Yes	No		Safety; WPC; Anti-harassment; Complaint and suggestion committee; Canteen (lunch)	No	No	No	Yes Better pay for 850 trained workers; 5% productivity increased; 30 trained workers moved to supervisory level.	Price sufficient
<b>F</b>	Yes (2 factory units) SC: one factory unit received; SC: one unit yet to receive		Yes		Health and Safety; WPC	No	No	No	Yes	Low price; Harsh penalty; Low productivity
<b>G</b>	Yes  SC: Yes		No	Yes	Health and Safety; WPC; Anti-harassment	Yes (WWA as the factory is in an EPZ)	Yes; above average wage	No	Yes (Partnered with international development agency; For trained workers efficiency increased 50-65%)	Low price; Higher costs of compliance; High certification costs; Harsh penalty

SC: Safety Certification  
WPC: Worker Participatory Committee

WWA: Workers Welfare Association  
EPZ: Export Processing Zone

Company	Participation in the Accord	Participation in the Alliance	Participation in ILO's BWB Program	Green Factory Building	Worker-level committees	Factory-level Union	Above Average Wage	Post Supply monitoring	Worker Training	Sourcing Challenges
<b>H</b>	Yes SC: Yes		No	Yes	Health Safety WPC	No	Yes, above average wage	No	Yes (Foreign buyer initiated training program)	Low price; Order decline; Harsh penalty
<b>I</b>	Yes SC: Yes		No		Health and Safety; Anti-harassment; WPC; Canteen	No	No	Yes (for quality monitoring only)	Yes (better pay; 30-35% efficiency increased)	Low price; Order schedule and volume; Harsh penalty
<b>J</b>	Yes SC: Not yet		Yes		Health Safety WPC	Unregistered Union; only 1.5% workers are union members	Yes, above average wage to 15% of the workers	No	Yes (better pay; promotion to supervisory level; 10% productivity increase)	Low price; Harsh penalty
<b>K</b>	Yes SC: yes		Yes		Health; Safety; WPC	Unregistered union: 1% workers are union members	No	Yes (for quality monitoring only)	Yes (5% increase of labor productivity; 7% trained workers promoted to supervisory level)	Low price; Order volume; Absence of negotiation power; No long-term relationship with the buyers
<b>L</b>	Yes SC: yes	Yes	Yes		WPC	No		Yes (for quality monitoring only)	Yes (10% increase in labor productivity; 10% of trained workers moved to supervisory level; 20% moved up the production chain; 50% receive better pay)	Low price; Harsh penalty; Inconsistent order schedule; Costly compliance

SC: Safety Certification  
WPC: Worker Participatory Committee

WWA: Workers Welfare Association  
EPZ: Export Processing Zone

## Endnotes

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1 This study builds upon work by the Worker Rights Consortium, Clean Clothes Campaign, Human Rights Watch, Professor Mark Anner, and others who have been reporting on garment sector social compliance for many years.

2 George DeMartino, GLOBAL ECONOMY, GLOBAL JUSTICE: THEORETICAL OBJECTIONS AND POLICY ALTERNATIVES TO NEOLIBERALISM 2000.

3 According to its critics, the Sullivan principles are easily avoidable and act as a barrier to foreign direct investment flow while not offering any “proactive incentive (such as financial assistance) for ... advancement of standards.” *Ibid.*

4 The term corporate responsibility is used here intentionally to distinguish it from the narrower and voluntary term corporate social responsibility.

5 Accord on Fire and Building Safety in Bangladesh, May 13, 2013, [www.bangladeshaccord.org](http://www.bangladeshaccord.org); Member Agreement, Alliance for Bangladesh Worker Safety, 2013, [www.bangladeshworkersafety.org](http://www.bangladeshworkersafety.org).

6 Zobaida Khan, “Six years of Rana Plaza Collapse: Some thoughts on the Corporate Safety Initiatives,” Corporate Accountability Lab, <https://legaldesign.org/calblog/2019/10/1/c9ur2trna4zylc766lt6x2bt7nntpa>.

7 At the end of its term, on December 2018, the Alliance announced that the participating brand members would collaborate with a local organization to monitor the safety conditions in sourcing firms. See “The Alliance announced end of its tenure,” *Newage*, Dec. 14, 2018, [www.newagebd.net](http://www.newagebd.net). When the Accord wanted to extend its initial five-year term through a transition Accord, its validity was challenged in the High Court of Bangladesh. Eventually, the Supreme Court allowed the Accord to work for 13 more months after it reached a memorandum of understanding with the Bangladesh Garment Manufacturers and Employers Association (BGMEA). See Serajul Quadir, “European fashion brands agree new deal in Bangladesh,” Thompson Reuters Foundation News, Sept. 3, 2019.

8 The term social compliance is broad and covers many aspects of workplace rights and benefits, such as workers’ fundamental rights, social/redistributive rights, health and safety, etc. Although the term is used in its broad sense, the discussion in this paper focuses mainly on compliance with safety, fundamental labor rights, and some essential redistributive rights (such as living wage and work hours) of workers.

9 The word “squeeze” is used most appropriately by Professor Anner to describe the sourcing pressures of the international brands/retailers. See Mark Anner, “CSR Participation Committees, Wildcat Strikes and the Sourcing Squeeze in Global Supply Chains,” 56:1, *British Journal of Industrial Relations*, March 2018, pp. 75–98.

10 A table is attached at the end of this paper detailing the safety certification status. See the Annex.

11 On April, 24, 2013, Rana Plaza, an eight-story commercial building located in Savar, Bangladesh, collapsed, killing approximately 1136 people and injuring 2500 workers employed in garment factories. Before the collapse of Rana Plaza, a fire at Tazreen fashions had killed approximately 112 factory workers who were trapped in a locked premise when the fire started. See Julfikar Ali Manik and Jim Yardley, “Bangladesh Finds Gross Negligence in Factory Fire,” *The New York Times*, Dec. 17, 2012, <https://www.nytimes.com/2012/12/18/world/asia/bangladesh-factory-fire-caused-by-gross-negligence.html>.

12 “Empowering Female Workers in the Apparel Industry,” June 27, 2017, [https://www.bsr.org/reports/BSR\\_Empowering\\_Female\\_Workers\\_in\\_the\\_Apparel\\_Industry.pdf](https://www.bsr.org/reports/BSR_Empowering_Female_Workers_in_the_Apparel_Industry.pdf).

13 *Ibid.*

14 For details, see Better Work Bangladesh Newsletter, “Stories From Supply Chain and Beyond,” Better Work, 2019, <https://betterwork.org/blog/portfolio/better-work-bangladesh-newsletter-may-2019>.

15 Human Rights Watch, “Looming Accord Closure a Risk to Bangladesh Sourcing,” Nov. 22, 2018, <https://www.hrw.org/news/2018/11/22/looming-accord-closure-risk-bangladesh-sourcing>.

16 Human Rights Watch, “Bangladesh: Investigate Dismissals of Protesting Workers, Unions Claim at Least 7,500 Dismissed Arbitrarily From Work, Others Targeted in Violent Police Raid,” March 5, 2019, <https://www.hrw.org/news/2019/03/05/bangladesh-investigate-dismissals-protesting-workers>. After the protest in December 2018, the minimum wage increased to \$96, although workers and union leaders had demanded a minimum wage of \$193. In January 2019, there was a modest increase for lower and mid-level workers.

17 After Rana Plaza, Bangladeshi labor law was amended to allow factory-level unionization. Before 2013, the workers could only organize at a national level and within industry-specific unions.

18 I have discussed these in my article: Zobaida Khan, “Transnational labor Governance: A Critical Review of Proposals for Linkage through the Lens of the Rana Plaza Collapse in Bangladesh,” 33:2 CJLS, 2018, pp. 177–97.

19 Worker Rights Consortium, “Unholy Alliances: How Employers in El Salvador’s Garment Industry Collude with a Corrupt Labor Federation, Company Unions and Violent Gangs to Suppress Workers’ Rights,” Jan. 22, 2015, <https://www.workersrights.org/wp-content/uploads/2016/02/Unholy-Alliances-January-2015-1.pdf>.

20 Worker Rights Consortium, “Banning Hope: Bangladesh Garment Workers Seeking a Dollar an Hour Face Mass Firings, Violence, and False Arrests,” April 2019, <https://www.workersrights.org/wp-content/uploads/2019/04/Crackdown-on-Bangladesh.pdf>.

21 Clean Clothes Campaign, “Full support for Bangladeshi garment workers’ demands on minimum wage,” July 6, 2018, <https://cleanclothes.org/news/2018/07/06/full-support-for-bangladeshi-garment-workers2019-demands-on-minimum-wage>.

22 A recent report also pointed to differences in factories’ compliance with different labor rights. After Rana Plaza, although there were improvements in the areas of job security, health and safety, social benefits (such as paid maternity leave), and worker representation through worker participatory committees in exporting factories, these initiatives and CSR codes do not address wages, working hours, and abuses at workplaces. “Garment Supply Chains Since Rana Plaza: Governance & Worker Outcomes,” Aug. 2019, <https://www.business-humanrights.org/sites/default/files/documents/04-09-Changes-in-the-Governance-final.pdf>.

23 Excerpts from our interview with a prominent local labor union leader. Translated by the author.

24 Survey response by one of the participants. On file with the author.

25 See Worker Rights Consortium, “Ethiopia is a ‘North Star’: Grim Conditions and Miserable Wages Guide Apparel Brands in their Race to the Bottom,” Dec. 31, 2018, [https://www.workersrights.org/wp-content/uploads/2019/03/Ethiopia\\_isa\\_North\\_Star\\_FINAL.pdf](https://www.workersrights.org/wp-content/uploads/2019/03/Ethiopia_isa_North_Star_FINAL.pdf). Ethiopia is reportedly the latest country that offers the lowest wages in the garment sector. Worker Rights Consortium found severe labor abuses and wages as low as 12 cents an hour, which is half of what workers make in Bangladesh and one-seventh of the pay in China.

26 Worker Rights Consortium, “Organized theft on a massive scale’: the reality of severance theft in Indonesia,” June 26, 2019, <https://www.workersrights.org/commentary/organized-theft-on-a-massive-scale-the-reality-of-severance-theft-in-indonesia/>.

27 Justin Scheck, Jon Emont, and Alexandra Berzon, “Amazon Sells Clothes From Factories Other Retailers Blacklist,” *The Wall Street Journal*, Oct. 23 2019.

28 *Supra* n.22. However, for an analysis that found no connection between purchasing commitments and sourcing pressures, see Better Buying, “First independent global index rates the purchasing practices of 65 leading brands and retailers,” May 2018. The Better Buying’s Purchasing Practices Index (BBPPI) and the 2018 report found that that the length and stability of business relationships has no “impact on the nature of buying practices. This means that it does not matter whether buyers have had relationships with suppliers for one, five, or even 20 years – suppliers experience generally the same purchasing practices. Furthermore, the report shows that over 60% of the suppliers are not incentivized for being compliant to buyer codes of conduct.” See also Marsha A. Dickson, “Better Buying TM Index Report 2019: Purchasing Practices Performance in Apparel, Footwear, and Household Textile Supply Chains,” 2019. In its 2019 report that included country-level analyses, BBPPI found that “locations with the lowest production costs, such as South-East Asia and Bangladesh, experience the highest pressure from their customers to lower prices. Moreover, ... the longer retailers/brands and suppliers are in a business relationship together, the more suppliers experience pressure on cost negotiations.”

29 *Supra* n.22.

30 Human Rights Watch, “Paying for a Bus Ticket and Expecting to Fly’: How Apparel Brand Purchasing Practices Drive Labor Abuses,” April 2019, [https://www.hrw.org/sites/default/files/report\\_pdf/wrdo419\\_web2.pdf](https://www.hrw.org/sites/default/files/report_pdf/wrdo419_web2.pdf).

31 Samantha Subramanian, “Is Fair Trade Finished?” *The Guardian*, July 23, 2019.

32 Two managers reported that they sometimes subcontract parts of orders, depending on the order size and schedule. While one only subcontracts with buyer-nominated producers, both managers reported that they had no policy for monitoring working conditions at subcontractor factories. Only one manager at the more compliant factories subcontracts printing tasks; this manager vets sub-contractors to ensure compliance with their own standards.

33 Better Buying is a global initiative that utilizes anonymous data from suppliers and evaluates and rates buyers’ and retailers’ sourcing practices. Suppliers indicate the risks they face and rate crucial aspects of buyers’/retailers’ sourcing practices, including planning and forecasting, design and development, cost negotiation, sourcing and order placement, payment, managing the purchasing process, and sustainable partnerships. The rating results are generated and published twice a year. It is hoped that this publicly available information will encourage buyers/retailers to adopt fair and transparent sourcing policies and practices and initiate a “race to the top” amongst the buyers for higher ratings. This could improve negotiation methods and sourcing terms of the buyers/retailers and change the existing nature of sourcing squeezes and uncertainties that suppliers face. It would also maximize profitability for both suppliers and sourcing brands/retailers by ensuring efficiency and creating stable buyer-supplier relationship. See Better Buying, [www.betterbuying.org](http://www.betterbuying.org).

34 Clean Clothes Campaign, “Fig Leaf for Fashion. How social auditing protects brands and fails workers,” Sept. 2019, <https://cleanclothes.org/file-repository/figleaf-for-fashion.pdf/view>.

35 *Ibid.*

36 A 2019 transparency index showed that only 9% of the brands surveyed have a formal procedure to receive supplier feedback on their purchasing practices. See “Fashion Transparency Index,” 2019, [www.fashionrevolution.org](http://www.fashionrevolution.org).

37 Quoted in David Rotman, “How technology is destroying jobs,” MIT Technology Review Magazine, July/Aug. 2013, <https://www.technologyreview.com/s/515926/how-technology-is-destroying-jobs>.

38 For an in-depth analysis of how the national regulatory agencies are not ready to take over the Accord's work, see Worker Rights Consortium, Clean Clothes Campaign, International Labor Rights Forum, and Maquila Solidarity Network, "Bangladesh Government's Safety Inspection Agencies Not Ready to Take Over Accord's Work," April 2019, <https://www.workersrights.org/research-report/bangladesh-governments-safety-inspection-agencies-not-ready-to-take-over-accords-work/>.

39 Seven local garment workers' unions in Bangladesh alleged that they were not consulted while the transition agreement with the Accord was being designed. See Ruma Paul and Serajul Kadir, "Bangladesh garment unions say new factory oversight deal risks worker safety," *Reuters*, May 21, 2019, <https://www.reuters.com/article/bangladesh-garments-accord/bangladesh-garment-unions-say-new-factory-oversight-deal-risks-worker-safety-idUSL4N22W1WY>.

40 For reports that suggest useful steps relevant stakeholders should take, see *supra* n.30 and n.34.

41 *Supra* n.34.

42 "Addressing Human Rights Issues in Global Supply Chains," UL, 2015, [http://library.ul.com/wp-content/uploads/sites/40/2015/02/UL\\_WP\\_Final\\_Addressing-Human-Rights-Issues-in-Global-Supply-Chains\\_v7-HR.pdf](http://library.ul.com/wp-content/uploads/sites/40/2015/02/UL_WP_Final_Addressing-Human-Rights-Issues-in-Global-Supply-Chains_v7-HR.pdf).

43 *Supra* n.30. The Human Rights Watch report explains how sourcing companies could use standard costing tools to improve their sourcing practices. It also suggests that written sourcing contracts should become an industry norm and that companies must vet these contracts to ensure they are fair, transparent, and include necessary provisions for human rights compliance.

44 *Supra* n.34.

45 "Progress and Potential: How Better Work is improving garment workers' lives and boosting factory competitiveness: A summary of an independent assessment of the Better Work Programme," 2016, International Labor Office. Geneva: ILO; S.M. Akterujaman, et al., "Business case of corporate social responsibility: A case study on Columbia Garments Limited in Bangladesh," *Business Strategy and Development*, June 12, 2019, <https://doi.org/10.1002/bsd2.67>.

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