Social Responsibility in the Supply Chain of the Garment Industry: A Practical, Innovative and "Systems Changing" Approach

International Master in Sustainable Development and CR

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List of Abbreviations and Acronyms:

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

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

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

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

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

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

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

EPZ: Export Processing Zone

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

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

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

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

MNC: Multinational Corporation

NGO: Non-Governmental Organization

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

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

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

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

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

TNC: Trans-National Corporation

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

WTO: World Trade Organization - an organization for governments to negotiate trade agreements and settle trade disputes. It operates a system of trade rules. www.wto.org

1. Introduction

In this paper, we offer an in-depth analysis of the current status of the social issues related to the supply chain in the apparel industry and offer solutions to how the key stakeholders in this sector can work to improve their social responsibility. We were motivated to take on this analysis because we hoped to contribute to a concrete and effective evolution towards a more responsible supply chain in this industry. To do this, we first looked at the "drivers", or pressures and incentives, that motivate the main stakeholder groups. This experience has been extremely interesting, specifically due to the fact that, a few weeks after we began our research, this topic became international news. On April 24, 2013, a factory building, known as Rana Plaza, collapsed in Dhaka, Bangladesh. This accident resulted in the deaths of approximately 1127 people and has been called the biggest industrial accident since Bhopal, India in 1984 (Burke, 2013).

While this accident has been tragic and has brought to light the issues related to health, safety, and workers rights within the garment sector, these questions are not new. The apparel industry, non-governmental organizations (NGOs) and international organizations have been working on these issues for over four decades. In a paper written by academics Ans Kolk and Rob Van Tulder (2005), they ask several representative questions about social responsibility:

> *Are companies indeed increasingly becoming socially responsible and responsive to societal concerns? Is civil society becoming more effective in pressing for responsible business practices? And are governments correct in putting their hopes on corporate self regulation?*

Although this set of questions was asked over 7 years ago, they are still relevant questions currently being asked by both academics and practitioners today.

We chose the topic of analyzing Corporate Social Responsibility (CSR) efforts in the Apparel and Footwear industry because we felt, that much of what we were seeing on the topic of Corporate Responsibility was related to either reduction of environmental impacts - often in environmentally intense industries, or projects related to Corporate Citizenship. However, there is less of a global trend of companies truly focusing on improving their own business activities. We believe that the strongest form of corporate responsibility (CR) that a company can do is related to improving their core business. If every company focused on making their own business model more socially inclusive, environmentally friendly, and long-term looking, many of the societal and environmental problems we are seeing today would likely diminish. For this project, we were interested in looking more closely at ways to improve a company's own business activities - from the inside, out. Therefore, we decided to analyze the Social Responsibility of the garment industry due to the fact that these companies have been focusing on improving the social conditions within their own supply chains for several decades. The research for this analysis was carried out through an extensive literature review of the topic in addition to six personal interviews with practitioners who have experience in this industry.

In terms of structure, this paper is organized in four sections. In part 1, we will analyze the drivers that push and pull the industry in a certain direction when it comes to supply chain organization. In part 2, we will discuss the current practices in supply chain management and how these procedures promote the development of a sustainable supply chain. In part 3, we will look at some of the "Best Practices" in the industry today in terms of supply chain development and where these practices fit in helping to "fill in the gaps" or relieve some of the tension within the system. Lastly, in part 4, we will conclude with three proposals that we believe should promote better, more responsible management of the supply chain within this sector, in order to promote sustainable and responsible development within this industry. These three proposals are based on the analysis presented within this paper.

For this paper, it is important to mention that the magnitude of both the environmental and social impacts that are brought about by the apparel and footwear industries are immense, and that these issues influence each other. Therefore, although this paper is focused on the social performance of the supply chain, we will at times briefly mention environmental aspects. As a possible topic for further research by future students of the International Master on Sustainable Development and Corporate Social Responsibility, we suggest the analysis brought forth in this paper be linked with the environmental issues related to this sector.

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

2.1 Introduction

In this section, we will look at the main drivers and incentives that affect the actions made by the four main stakeholder groups involved in the supply chain management of the apparel industry: Suppliers, Multinational Companies, Employees, and Governments. These stakeholders are the main actors involved in the success of the supply chain, and their decisions are influenced by pressures, both coming from one on another and from other external actors. By looking at these groups, we provide an in depth look at the incentive structures that are either helping, or harming, these actors' decisions to act in a more socially responsible way. We hope to answer the question: What pressures and incentives are these actors given that drive them to act as they do?

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

2.2 Multinational Companies, also called "Big Brands"

Multinational Companies, also called "Big Brands", form the most powerful and influential stakeholder group involved in the management of the supply chain in the apparel industry. As major economic engines, their capacity for wealth generation provides them with significant leverage for change towards a more socially responsible supply chain. However, as powerful as they are, they are also affected by some pressures from their constituency and other stakeholders.

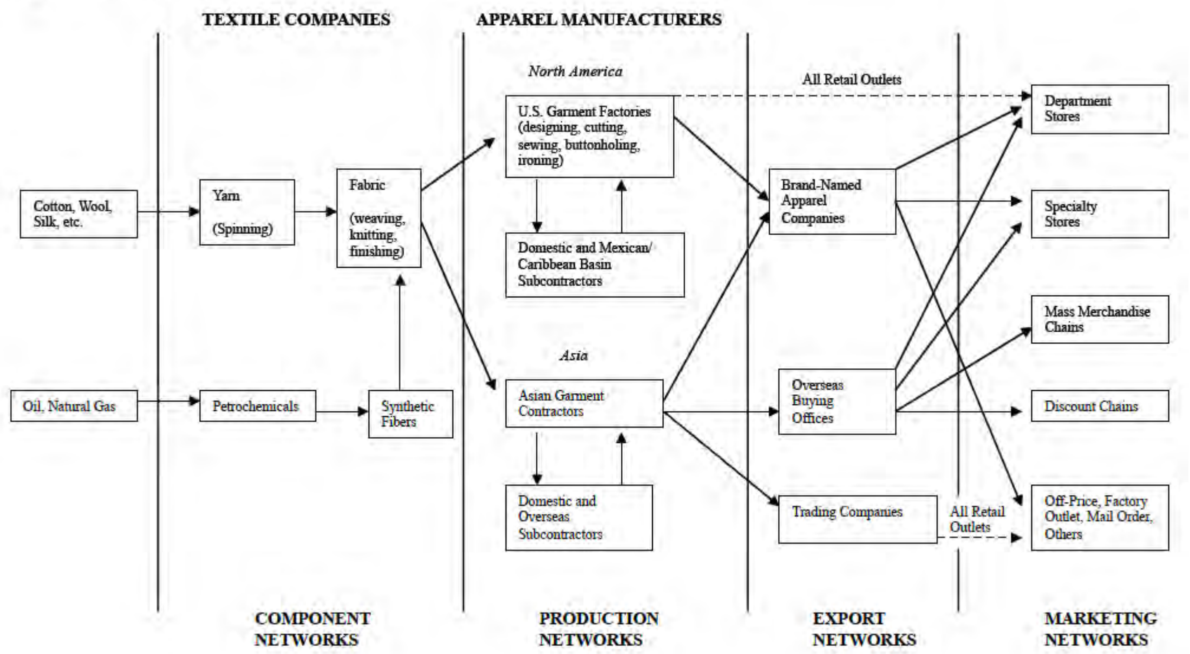
Table 1. Lead Firm and Brand Types with Regional Examples

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

(Fernandez-Stark et al., 2011)

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

Figure 1. The Apparel Global Value Chain



(Fernandez-Stark et al., 2011)

In the sector, although different companies have different business models, even companies with the most integrated business models outsource part of their manufacturing process. But, why would they do that?

MNCs are driven by profit maximization and economic growth. This incentive leads them to focus their efforts on improving the design of their products, marketing campaigns, etc., and also lower their costs and manage their risk. By locating part of their manufacturing process in countries where the workforce is cheaper, these companies are able to lower their costs, and therefore increase their profit - increasing the likelihood for success. For MNCs, it is crucial that the supply chain is constant, efficient, and timely. In order to lower costs, they outsource their production to factories in countries where the workforce is cheaper. To better secure their supply, they place many relatively small orders to several suppliers so that, if one fails, they do not risk their entire supply chain. Currently, the apparel industry has a quite deep supply chain from the extraction of the raw materials to the distribution of their products through commercial channels. Each level of the supply chain is often referred to as a "tier":

(Source: Authors)

Once a new business model has proven to work, and the brand starts gaining market share, such as the spur of *Fast Fashion*, in which stores like H&M or Inditex change their inventory every few weeks, the process of expansion and internationalization of the business requires, among other actions, the increase of production. The fact that - especially at the first stages of manufacturing - the job can be performed by a relatively unskilled workforce, allows textile companies to outsource some of their production to factories (suppliers) in other countries. In addition, the more diversified their supply chain is (a certain number of factories in a certain number of countries), the lower the risk they take. Since this is common practice in the sector, in many cases one single supplier receives orders from several brands at the same time. As for the governments of the countries where suppliers are located, they welcome apparel multinational companies business because they contribute to the country's economic development.

Reputation Management:

In terms of pressure, one of the key concepts that push companies to act is in the area of maintaining their reputation. Merriam-Webster defines reputation as "the overall quality or character as seen by people in general" (Merriam-Webster, 2013). In the case of companies, "people in general" can be translated into all its stakeholder groups. In general, every company cares about its reputation. Some companies just focus on trying to understand stakeholders' perceptions and expectations, while others integrate reputation management into their core business as a key component within their strategy and decision-making process. Unlike other sectors - like banking, pharmaceutical, telecommunications, oil & energy, etc - the textile industry does not tend to outsource consulting services for reputation management. Each apparel company, especially in the case of multinationals, usually handles reputation internally. Regarding the effect supply chain management has on reputation within the garment sector, Beverly Nanini (2013), Director at Reputation Institute Spain, explained that, nowadays, she does not believe that it is "a major factor in building reputation among society, but it definitely is one that can destroy it." Apparel companies are very much aware of this fact and they all have to manage reputational risks deriving from supply chain management. (Nanini, 2013) As mentioned previously, MNCs diversify their supply chain as a means for lowering their business risk. This risk derives from the fear of these multinationals to suffer supply insufficiencies or cuts. As already stated, the result of diversification is that one supplier with one or more factories usually work for several multinationals. Therefore, when there is an accident or any type of malpractice in one factory, the responsibility cannot be attributed just to one company. Reputational damage is shared amongst a group of MNCs. As a result, there is a transfer of potentially harmful individual reputational risks to sector-wide reputational risk without actual/real consequences. In spite of this transference, there are still remaining reputational risks for multinationals CSR departments deal with, especially when apparel MNCs are singled out by social media, traditional media or any other stakeholder.

The United Nations Guiding Principles on Business and Human Rights

As stated in Sean Ansett's (2013a) article, *Raise the Curtain: Human Rights in Retail Supply Chains* for the Shift Project, the United Nations Guiding Principles on Business and Human Rights are a positive development that defines the responsibility of brands and their suppliers in relation to human rights. In Ansett's opinion, since their unanimous endorsement by the United Nations Human Rights Council in June 2011, the UN principles have received extensive support from all sectors, including governments, civil society and businesses. He goes on supporting his opinion by recalling Former Special Representative to the Secretary-General, Professor Ruggie words: "The UN Guiding Principles will not bring all human rights challenges to an end, but their endorsement marks the end of the beginning. The principles provide a solid and practical foundation on which more learning and good practice can be built." The UN Guiding Principles provide an outline of best practices with relation to human rights by corporations and business enterprises. The following represent the policies and processes business enterprises should have in place, appropriate to their size and circumstances, in order to meet their corporate responsibility towards human rights:

- A policy commitment to meet their responsibility to respect human rights;
- A human rights due-diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights;
- Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute (Ansett, 2013a).

"The Guiding Principles can play an important role in reducing duplication, framing responsibility boundaries and roles, and setting expectations for business, including both brands and their suppliers by" (Ansett, 2013a):

- Distinguishing between the roles and responsibilities of global brands, their suppliers and the governments of the states where they operate;
- Emphasizing the notion of human rights due diligence through which companies should anticipate and mitigate risks;
- Ensuring that companies have put in place effective remediation processes to address grievances;
- Reducing the potential for "free riders" in the system (Ansett, 2013a).

The Pressure of NGOs Activism

MNCs are also pressured to improve their social performance by other stakeholders. NGOs have historically been very active in pushing MNCs to work on social issues. Multinationals have been feeling the pressure from NGOs for many years in the fields of Environment, Human Rights, and Labor Rights. Regarding social issues, for example, "apparel and footwear companies have been under significant pressures from student groups in recent years to meet ILO standards by avoiding child labor or abusive employment policies and implementing third party monitoring systems. This activism has pushed the industry forward, demanding changes that would otherwise be slow to take place." (Waddock et al., 2002) Indeed, NGOs campaigns against child labor in the 1990s, when companies like Nike were found employing children in developing countries to manufacture their products, have proven to be very successful. Today, child labor in the sector has practically disappeared, and reported cases are very rare.

Although these activist groups have achieved small victories, like the fight against child labor in factories, NGOs have struggled to significantly push MNCs to change their behavior. Kellie A. McElhaney, an expert on corporate social responsibility at the Haas School of Business at the University of California, Berkeley, has argued that the pressure companies are receiving to remediate the situation is coming from the NGOs, but it is not enough to make companies do more than the bare minimum. According to her work, in order for NGOs to be more influential, they should make companies feel that pressure in the marketplace by making consumers more aware of the industry problems (Greenhouse, 2013a).The recent accident in Bangladesh on April 24th, 2013 has tragically shown that problems in the supply chain of the apparel industry are far from being solved. This accident made the headlines of the media because of its scale and tragic loss of human life, opening people's eyes to the often sub-human conditions of those production sites. Yet, this accident has not been an isolated event. Fires which cause fatalities are common in the sector's supply chain.

The Role of Consumers

NGOs inability to influence companies is partly due to the fact that both consumers and investors have not shown much interest in this area. Consumers' position as the final customer of MNCs makes them (potentially) a powerful leverage for change. The problem is that consumers' nature is essentially capricious. Most of consumers demand two things: new clothes and low prices. "Our insatiable demand for variety and novelty has led to ever-shorter product life cycles... The rise of fast fashion means that clothing stores get new products almost every week. Richard Locke, a political scientist at M.I.T. who is an expert on global supply chains... states that 'instead of buying lots of inventory with long lead times, brands wait as long as possible before ordering.' That way, they can ramp up production if a product takes off or shut it down if the product bombs" (Surowiecki, 2013). That is how consumers put pressure on MNCs. The reality is that consumers don't care about supply chain issues when they go shopping. Even those who claim to be willing to pay more for ethically made products will not do it when it comes down to it (Bader, 2013). In May 2013, *The Guardian* argued that, according to America's Research Group, which interviews 10,000 to 15,000 consumers a week mostly on behalf of retailers, even in the aftermath of two deadly accidents in Bangladesh, American consumers seemed more concerned with fit and price than whether the working conditions of the factories where the clothes they buy were safe and workers received a reasonable retribution for their job. Not all consumers, however, have the same purchasing priorities. For example, apparel companies have the perception that European consumers are more sensitive to ethical issues. Helena Helmersson, Head of Sustainability for H&M stated in an interview last year that the company was adding sustainability value to its products as a way of strengthening its customer offering because European consumers were increasingly showing an interest in sustainability (Godelnik, 2013a). Another distinction can be made in terms of cost; speaking about Nike and Walmart, Raz Godelnik affirms that "in both cases [Nike and Walmart] we look at companies that have based their business on building cost-efficient supply chains. Yet, there is a profound difference between Nike and Walmart. Nike," he continues, citing Simon Zadek in Nike's 2004 HBR article *The Path to Corporate Responsibility*, "markets high-end consumer products, while Walmart sells for value items." Raz claims that "the difference is not just in the value proposition of the products sold, but also in the potential pressure from customers," and citing Simon Zadek again concludes that "value customers focus on price and are generally less responsive to ethical propositions—particularly those involving faraway problems like worker conditions in Asia or Latin America." (Godelnik, 2013b) However, in spite of the fact that there may be slight differences in consumers' behavior and perceptions on both sides of the Atlantic Ocean regarding ethical and sustainable issues, and in companies which market their products to higher or lower-end consumers, the bottom line is that, as a rule, consumers do not push companies to tackle social or environmental problems in the supply chain.

The Role of Investors

Investors have significant influence over the business decisions of Multinationals due to the need for capital of the latter. Investors are primarily concerned about the economic performance of the company and their return on investment. Specifically looking at the behavior of "Big Brands" which are listed in the main stock exchanges in the world, an analysis of the evolution of the performance of nine apparel multinationals (Adidas, GAP, H&M, Inditex, LVMH, Nike, Puma, VF Corp., and Walmart) since the beginning of this year (see graphs in Annex 1) reveals the following key findings:

1. There has been no correlation in the performance of the nine companies; the price of some of the companies' shares has risen (Adidas, GAP, etc.) whereas the price of others' has gone down (H&M, Inditex, etc.).
2. The Rana Plaza tragedy in Bangladesh on April 24th 2013 did not have any effect on their performance. None of their share prices plummeted nor did any of the companies experience an increase in the volume of shares exchanged.

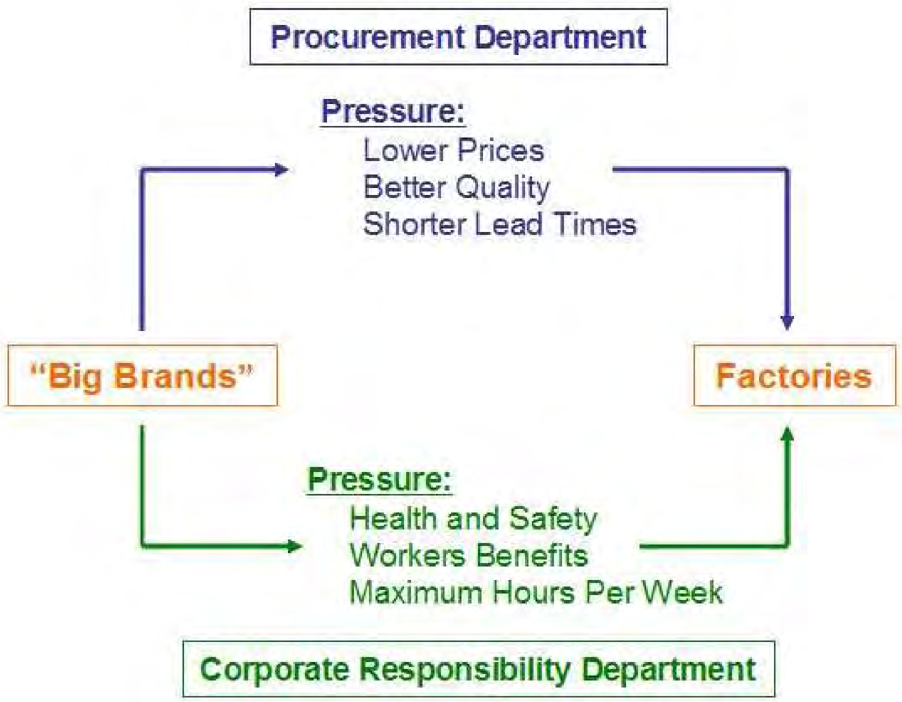
Cultural Difficulties

While Companies feel external pressures that contradict any motivation to work on their social responsibility, there are also issues related to culture and traditions within developing countries that make it difficult to move forward socially responsible practices. Cultural traditions and norms may sometimes make it hard for companies to include certain groups within the value chain and special measures may need to be taken in order to respect cultural norms. For example, Gap Inc. explains in their 2009-2010 Social & Environmental Responsibility report that most of their handwork and beading for their clothing is done in unconventional factories in India. This decision was made due to the fact that in many cases, it is culturally frowned upon for women to work alongside men. They state, "For many women in India, the ability to work at home or in other informal settings provides a critical source of income as well as a sense of autonomy. Yet it means that they have fewer protections when compared with workers in factory environments" (Gap Inc., 2011). In these settings, it is harder for Gap to monitor the working conditions of these women in terms of wages and working hours and to ensure that illegal labor, like forced labor or child labor, is not being utilized in production. Subcontracting also is an issue in these working styles. Gap states that "often, a factory will subcontract handwork out to an embroidery company, which subcontracts it again, only to have this process repeated. The result is that it becomes difficult to track and monitor the exact places where handwork is being done" (Gap Inc., 2011). In these situations, there is a friction between the multinational's ability to monitor the factory's behavior, and their interest to respect the cultural norms of the countries in which they are working.

2.3 Suppliers

The Push and Pull from Multinational Companies:

Suppliers face several pressures for performance from large apparel brands - both in terms of inventory output and responsibility issues. However, different departments within a multinational company are often pushing suppliers to achieve opposite objectives. Pressure for "responsibility" results often comes from the Corporate Responsibility (CR) Department, which is looking to monitor the factory's performance in terms of health and safety standards, good working conditions, decent pay, etc. The procurement department, which submits orders to the factory, has its own set of objectives for the supplier. It is looking to try to lower costs, shorten lead times, and increase quality of the products produced within the factory. In addition, they work on short term contracts with the suppliers, which do not provide incentives for suppliers to embrace the Company's social responsibility agenda. Therefore, the Procurement and CR Departments are sending contradictory and confusing signals to the factory managers - one asking for better and faster shipments at a lower price, while the other requiring fair wages, shorter work weeks, and better factory conditions. According to a study done by Richard Locke and Monica Romis (2010) in two factories in Mexico both producing for Nike, they state that suppliers feel that "brands are sending them mixed messages, insisting on faster cycle times, better quality, and lower prices while at the same time policing and admonishing them for poor working conditions". In other words, the means in which these two departments are pressuring their suppliers to reach these targets is often counterproductive and confusing.



(Source: Authors)

Pressures for Social Performance:

In terms of the factory's "responsibility" performance, multinational companies have diligently been working to ensure that their suppliers conform to the firm's code of conduct. Most Big Brands have created their own rules, in the form of Codes of Conduct, stating what responsible management of a factory should look like, and perform audits on a regular basis in order to ensure that these rules are being put into practice within their supply chain. Academics Kolk and Van Tulder (2005) argue that these Codes of Conduct have often "failed to take a supply chain approach, to reckon with home-based workers and to sufficiently involve employees, both in the formulation of the codes and, most notably, in the audit process." These codes of conduct have been imposed upon these factories without consultation of factory owners and managers who will have to implement them. They are written at a global level, without taking into consideration organizational and cultural contexts of the suppliers. Although it is necessary to create some international standards on health and safety and working conditions, it is also important to understand how these international standards will be implemented and may impact working conditions at the local level.

In addition, Factories have stated that these rules are sometimes difficult to comply with given that factories often work with several big brands at a given time, each with their own set of standards. More importantly, depending on demand, location, risk mitigation, and other factors, companies may only place a small amount of orders with the supplier in a given year. This offers the factory little incentive to invest in implementing every aspect of the company's code of conduct if they are not sure if they will receive enough business to have a return on their investments. Factories "do not have the resources. They are not willing, even if they have the resources, unless that Brand commits to further... orders" (Perez, 2013).

Pressures to Deliver:

On the other side, the procurement department is constantly looking for ways to meet their inventory targets quicker and cheaper. Given the evolvement of *Fast Fashion*, procurement departments are constantly looking to make their supply changes faster and more flexible. According to Locke and Romis (2010), "in order to accommodate rapidly shifting consumer tastes, global brands are pushing their suppliers to reduce cycle times, produce varied products in smaller lots, and rapidly change production from one style to another". By doing this, procurement departments are putting additional pressure on already strained factories. The business model of Fast Fashion erodes at the profit margins of suppliers in the developing world, and creates increased pressure on factories to complete orders at any cost. Richard Locke, a professor at MIT studying sustainable business and global supply chain states in an interview for the *New Yorker*, "Often, the only way factories can make the variety and quantity of goods that brands want at the price points they're willing to pay is to squeeze the workers..." (Surowiecki, 2013). If suppliers are unable to make the deadlines, they often lose the entire order. According to an interview for The VICE Podcast Show, Dov Charney (2013), owner and CEO of American Apparel, he states that from his own experience as a Third Party Garment Contractor in Bangladesh:

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

bankrupt. They are going towards crushing the union or taking some risks with health and safety.

Short Term Contracts:

Additionally, agreements between suppliers and Big Brands are often short term contracts of up to two seasons (Surowiecki, 2013), meaning that suppliers often feel like they cannot say "no" to the Big Brands when it comes to taking on additional orders, or making changes to an already existing order, for fear of losing future business. Given that these factories have invested money in compliance measures and infrastructure to support the demands of the Big Brands, and their profit margins are pushed down in order to stay competitive, these companies cannot afford to lose future business.

This vicious cycle creates what many academics call the "Race to the Bottom" in which health and safety measures and workers conditions are compromised in order to reduce costs and stay competitive. Often, the small profit that can be made relies on the factories sub-contracting the work to the "shadow economy", where wages are usually even lower and health and safety conditions are not monitored by the multinational companies. Problems of pollution and environmental hazards are also not regulated in these factories ("The new collapsing building", 2013). Evidence of these issues can be seen in the debates around China's growth model, which has come at the costs of income inequality and environmental degradation. This emerging market has been named one of the main drivers for this "race" which has now spread to neighboring countries as China's labor costs increase with economic development in the country (O'Rourke and Brown, 2003).

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

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

(Van Yperen, 2006)

<u>Internationalization speeds up economic development, yet creates capacity gaps.</u>

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

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

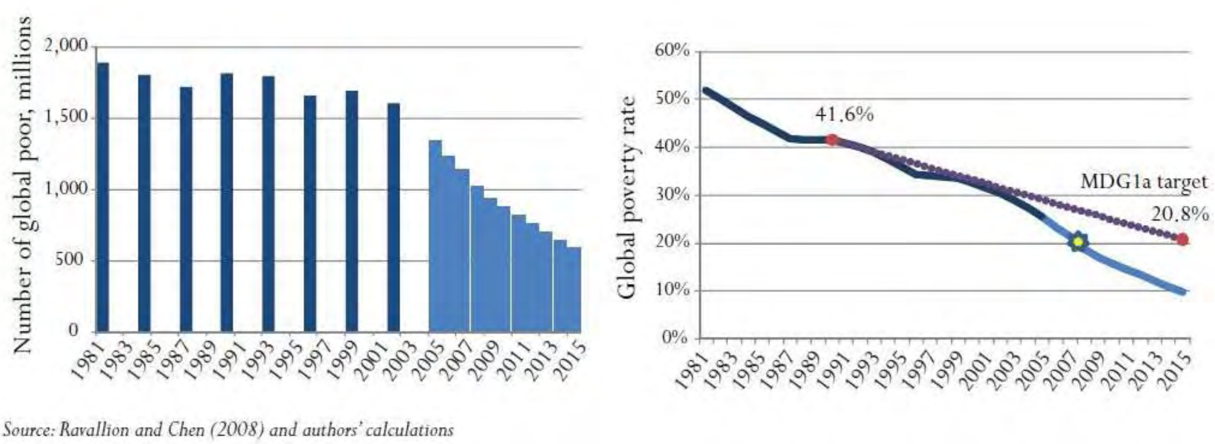
2.4 Governments of Developing Countries

While we understand that every government is different, and has its own way to create policies that help boost economic growth, protect its citizens' rights and safety, and protect its natural environment, in this section we would like to discuss some of the general gaps, drivers, and pressures felt by governments regarding their involvement with the apparel sector.

We understand that the generalizations made in this section are not applicable to all countries, nor do we attempt to argue that these pressures or drivers are felt by each government in the way described in this analysis. However, we believe that government involvement creates significant impacts, both negative and positive, on the apparel industry and the livelihood of its citizens that work in this sector. Therefore, we will discuss some of the main drivers and pressures that a given government may be facing, and provide some empirical examples that supports this analysis and explains the pressures discussed within this section.

Globalization and the Governance "Gap"

Globalization has created significant impacts on the economic opportunities for a large portion of the world's population in the last few decades. Some argue that this poverty reduction has come about due to the rapid economic development made possible by Capitalism ("Towards the end of poverty", 2013).



(Chandy & Gertz, 2011)

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

However, this rapid growth has also brought some negative impacts, specifically in the area of national governance. As globalization took hold, and companies began to spread their production and markets out across several regions of the world, workers were often left "in a vacuum in which the public sector often abdicated responsibility for enforcement of standards. Into the breach came codes, which have largely been undertaken in spite of government, rather than in concert with public institutions, policies and resources" (BSR, 2007). Governments often do not work at the same pace as private companies when it comes to decision making and policy development. As a consequence, as multinationals quickly have moved capital and supply chains from one country to another, governments have had a difficult time keeping up, and have often left a void in policy development that leaves workers and the environment unprotected from factory owners and multinational companies.

Companies themselves have turned to the creation of their own codes of conduct to help fill part of this void. In many countries, the Corporate Responsibility department's audit system has replaced the regulation enforcement historically done by government officials; they have replaced state regulatory actions with private initiatives. Yet, as we will discuss later (on page 42), these codes of conduct and audit schemes are not working. Many argue that governments need to step up and properly protect their own citizens; they should not let rights protection fall to private multinationals. These groups include labor unions, NGOs, and the United Nations:

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

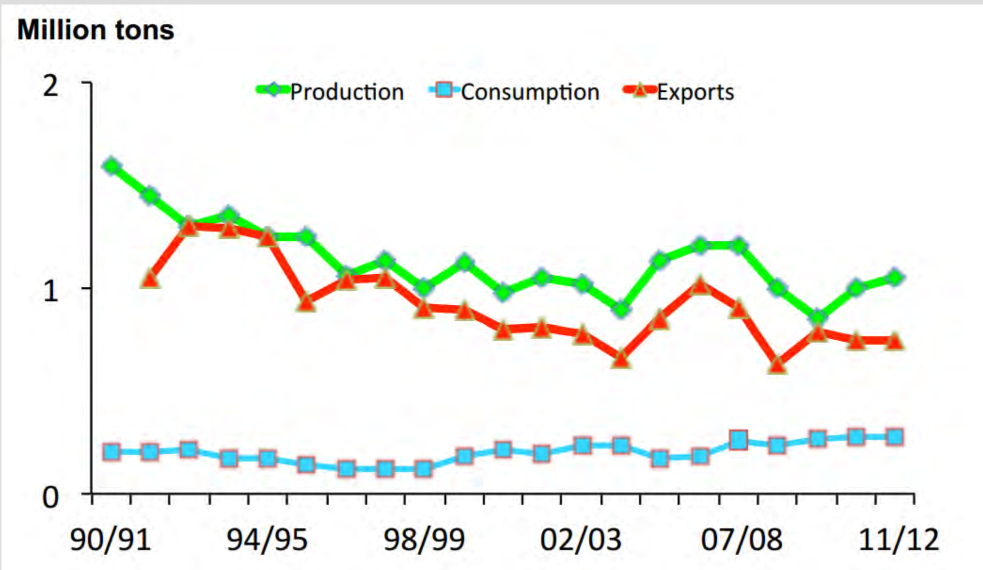
In some cases, governments have created policies to fill this void, yet they are often weak, or lack implementation and monitoring. This is often due to "the inability (i.e., budgetary and capacity limitations) and/or unwillingness (i.e., fear of driving out foreign investors) of host governments to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

Growing Pressure from the Multinational Companies:

Big Brands themselves are also starting to pressure governments to enact stronger policies and policing within their countries. Multinationals have realized that price is not the only important factor when it comes to deciding where to purchase. They also are looking for stable supply chains, reliable infrastructure, quality skills and innovation. With these needs, multinationals are also starting to promote that governments play a stronger role in protecting social and environmental rights, as it will provide greater stability and reduce risks for the companies. However, aside from a few individual cases, as of now companies have not gained much traction in these efforts (Ansett, 2013a). For an example of Big Brands coming together to pressure national governments, see the Highlighted Case Study, "Big Brands, NGOs, and Labor Unions Come together to Pressure the Uzbekistan government" (see below). That being said, it will be interesting to see if this trend of coalitions and lobby groups pressuring governments becomes more prevalent in the future. This responsible lobbying is included within our second strategy.

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

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



(International Cotton Advisory Committee, 2011)

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

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

This forced labor violates several international human and labor rights standards. Steve Swerdlow, from Human Rights Watch has been quoted saying that "Uzbekistan has one of the most atrocious human rights records of any nation in the world. It's longstanding President (Islam Karimov) has been in power for 23 years and he crushes dissent" (Clancy, 2013). Big Brands and international organizations have been working for years to try and pressure the Uzbekistan government to change this practice. However, their efforts have not been welcomed by the Uzbekistan government, which has shut down the offices of Human Rights Watch in the past and has refused to allow the International Labor Organization (ILO) to monitor the cotton harvest.

In order to pool their resources, Big Brands, NGOs, responsible investors, and trade unions have created The Uzbekistan Cotton Coalition in order to lobby the Uzbek government to put an end to the its practice of forced and child labor. They are also lobbying the ILO to intervene (Ansett, 2013a). Additionally, 131 apparel manufacturers have signed the Company Pledge Against Forced Child and Adult Labor in Uzbek Cotton and pledged to "not knowingly source Uzbek cotton for the manufacturing of any of our products until the Government of Uzbekistan ends the practice of forced child or adult labor in its cotton sector. Until the elimination of this practice is independently verified by the International Labour Organization, we will maintain this pledge" (Responsible Sourcing Network, 2013). The 131 signatories are up from 60 manufacturers the previous year.

This increased pressure, which has been mounting in recent years, seems to be finally being heard by the Uzbek government. In July 2012, Uzbekistan's Prime Minister communicated that school children under the age of 15 would not be sent to pick cotton (The Uzbek-German Forum for Human Rights Cotton Campaign and Cotton Campaign, 2012). This promise was, for the most part, kept. There were, however, a few reported incidences of some schools in certain regions being closed for the harvest. According to a report titled "Review of the 2012 Cotton Harvest in Uzbekistan" by the

Uzbek-German Forum for Human Rights Cotton Campaign, children between the ages of 15 and 17 were still forced to pick cotton, and the coercion for these children was reportedly stronger than in previous years. Additionally, "the government shifted a significant share of the burden of the cotton harvest to citizens over the age of 18, by forcing greater numbers of university students, government employees, private sector businessmen, and low-income residents to contribute to the harvest, under threats to their livelihoods" (The Uzbek-German Forum for Human Rights Cotton Campaign and Cotton Campaign, 2012). Confirmation of the human rights situation is hard for labor activists, as the country does not allow any third party monitoring. The ILO was not allowed to monitor the harvest in 2012, despite their continued request.

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

Export Processing Zones

In addition to external pressures from International Governance bodies and organizations to improve policies and legislation within their countries, Developing Countries also feel international pressures to compete with global markets for foreign direct investment in order to promote economic growth within their countries. One way in which Governments have found to incentivize this foreign investment is through the creation of *Export Processing Zones (EPZs)*, or *Free Trade Zones*, which they believe will help bring in foreign investment, increase employment, increase exports, and generate foreign exchange (ILO, 2003, para 5). The ILO (2003, para 2) defines Export Processing Zones as "industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being (re)exported again" (ILO, 2003). They are federally designated areas in which operations are considered outside of most government regulatory frameworks. In most cases, this means that activity within these zones - including storage, exhibition, assembly, manufacturing, processing, etc. - is not subject to federal entry procedure, excise taxes, and often minimal or no regulatory compliance from other government agencies including health and safety, environmental protection, transportation, energy etc. (CV Miami LLC, 2011). Garment and electronic manufacturing are the two most common industries found in Export Processing Zones (Wick, 2010).

Export Processing Zones exist all over the world, including in OECD countries such as The United States. The Miami Free Zone boasts that companies "not only save money, but operate more efficiently given the special status of being within a Foreign Trade Zone. By law, products that enter a foreign trade zone (or free trade zone, since the terms are interchangeable) are considered to be outside of the commerce of the United States, thereby exempting such goods from most federal and state regulatory oversight and compliance requirements" (CV Miami LLC, 2011).

Whether or not a country benefits from Free Trade Zones is often debated - not to mention who is receiving these benefits, and at cost to whom. The World Bank states that these zones " 'provide a country with foreign exchange earnings by promoting non-traditional exports, create jobs and generate income as well as helping technology transfer' " (Vidal, 2012). The ILO has argued that "Zones have created an important avenue for young women to enter the formal economy at better wages than in agriculture and domestic service. Women make up the majority of workers in the vast majority of zones, reaching up to 90 per cent in some of them" (ILO, 2003, para 11).

Critics of these zones, however, state that "Right from the outset, the growth strategies of industries in the export processing zones have been based on social discrimination against women and their greater willingness to accept poor working conditions" (Wick, 2010). The ILO (2003, para 16) has also expressed their concern for the lack of Freedom of Association and enforcement of labor legislation within EPZs. In come cases, they admit, legislation regarding occupational health and safety does not apply within Export Processing Zones, although they state that this is rare (para 22). Additionally, some critics believe that these zones contribute to the *Race to the Bottom* as governments often help finance the initial costs of setting up these factories and offer numerous benefits to large corporations who are interested in setting up factories in these zones. One example of this can be seen in the Chittagong EPZ in Bangladesh. *The Guardian* reporter, John Vidal (2013) visited Chittagong in August 2012. In an article, he stated:

> *Foreign businesses are treated royally. Bangladesh has a deep energy crisis, with demand massively outstripping supply, yet companies in the zone get cheap, reliable power, as well as generous 10-year tax holidays, freedom from red tape, duty-free imports, immunity from national laws, cheap labour and low rents. In Chittagong, companies pay just $2.20 monthly to rent a square metre of space, and I was told that the annual rent paid to the Bangladesh government by all the factories on the giant site was just $4m a year. So how much had Bangladesh invested in building the factories for the companies? No one could say.*

The debate about the economic benefits, and the equality of those benefits, is still out for debate; however it is has been empirically proven that in some cases the labor and human rights of workers have not been protected within these Export Processing Zones.

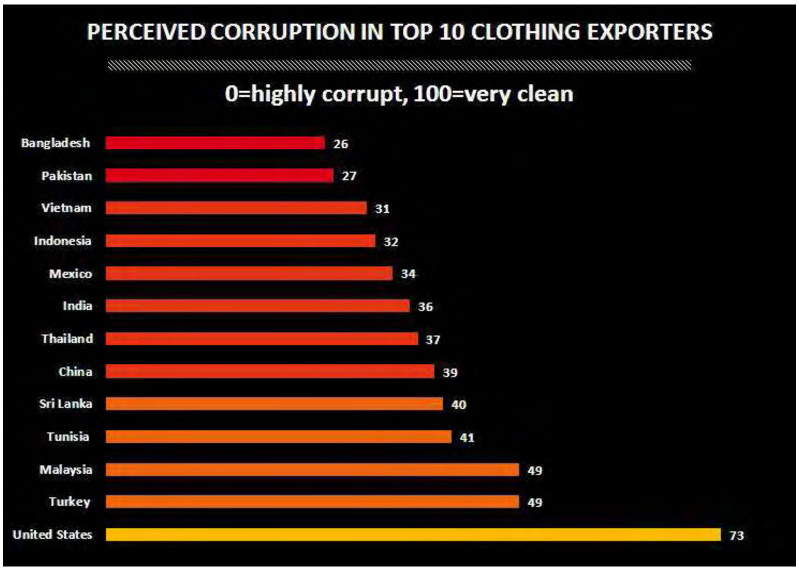
Corruption

Corruption is defined as "…the abuse of entrusted power for private gain" (Transparency International, 2000). There are several types of corruption that affect the apparel and footwear industries in developing countries. For example, in many of these countries, police, inspectors, and politicians often receive payments from suppliers in order for the latter to get some type of benefit. In terms of these payments, or bribes, there are two types of corruption:

- "According to rule" corruption - facilitation payments, where a bribe is paid to receive preferential treatment for something that the bribe receiver is required to do by law.
- "Against the rule" corruption - a bribe paid to obtain services that the bribe receiver is prohibited from providing.

(Transparency International, 200?)

Transparency International, an organization dedicated to fighting corruption around the world, publishes the corruptions perceptions index every year. In 2012, they compared the top 10 garment exporters:



(Zaman, 2012)

In an article for Transparency International, Iftekhar Zaman (2012) states that corruption in this sector can come in many forms including bribery or collusion, a lack of government protection for whistleblowers, and a lack of transparency from government. As examples, in Bangladesh, trade unionists have reported that there have been cases of harassment, torture, and even murders for people who speak out against poor working conditions. Also, the Clean Clothes Campaign has criticized the Pakistani government investigators for not disclosing information about buyers with victims from factory accidents or with worker's groups.

Conflicts of Interest

In addition, Zaman (2013) argues that in many of these countries, business owners are often heavily involved in politics; in some cases, private business owners hold government positions that allow them to make decisions that affect their sectors. In Bangladesh, for example, roughly two thirds of parliament also belongs to the country's three biggest business associations. Over 10% of Parliament members have a stake in the garment industry. This can cause, what Zaman calls, an "undue influence on policy" in which these industries can influence legislation in favor of their individual interests, rather than the interest of the society as a whole.

Pressures for Improved Performance from the Bangladesh Government

In Bangladesh, the lobby group Bangladesh Garment Manufacturers and Exporters Association (BGMEA) represents roughly 4,500 of the 5,400 manufacturing companies in the country ("The new collapsing building", 2013; "Factory Growth in Bangladesh", 2013). They represent these factories' interests in the political arena. Historically, the government has prohibited workers in the garment industry to create unions unless they receive permission from the factory owner. Interestingly, according to a special report written for Reuters, over 30 members of parliament have investments in the Garment Sector, which amounts to over 10% of representation (Chalmers, 2013). The industry brings in $20 Billion dollars in annual revenues and accounts for around 80% of all exports in Bangladesh (AFP, 2013b).

With the collapse of Rana Plaza in April 2013, the government has received significant pressure from the international community - including the International Brands -to look into the labour laws and working conditions within these factories. On May 13, the government decided to lift the restrictions on the ability for workers to unionize. Mosharraf Hossain Bhuiyan, a spokesman for the Bangladesh government spoke to reporters after the meeting which was presided over by the Prime Minister Sheikh Hasina. Bhuiyan stated that "No such permission from owners is now needed...he government is doing it for the welfare of the workers" (Burke, 2013). Additionally, the Government began working on a labor reform bill that is expected to increase the rights of workers.

The ILO has also increased pressure since the Rana Plaza accident. The organization sent a team of investigators to the site in a "high level mission" and on May 4, they released a formal statement that included a list of minimum actions that they expect the country to take, with the support of the ILO, in the short and medium term order to rectify many of the issue that are prevalent within the garment sector in the country. This list includes:

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

(International Labour Organization, 2013a)

OECD governments have also been feeling the pressure within their own countries to put pressure on the Bangladeshi government regarding their human rights policies. Since the accident at Rana Plaza, the European Union has come out and said that they would "look at how it might use its rules on preferential trade treatment to arm-twist Bangladesh into doing better" ("Avoiding the fire next time", 2013). Bangladesh currently enjoys tariff free exports to Europe on ready made garments (RMGs).

In January 2013, the US government responded to official complaints filed by The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), the largest federation of unions in the US, stated that the Bangladesh government had been working with manufacturers in order to suppress labor unions. This action was taken just two months after the Tazreen fire that killed 112 people. A senior official in the trade representative's office stated shortly after that "'There are serious concerns in Bangladesh related to freedom of association, worker safety and other issues' " and that in June the trade representative's office will decide in June "whether to take action against Bangladesh, although under esoteric trade rules, any penalties could not be directed against that country's apparel industry" (Greenhouse, 2013a). Bangladesh is one of more than 125 countries that participate in a World Trade Organization (WTO) program called the Generalized System of Preferences and received tariff breaks from the United States. The program is intended to promote economic growth. In December, US officials gave a list of items in which that needed improvement in order for the country to maintain their tariff benefits. Yet, according to officials, little progress has been made since then (Urbina, 2013).

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

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

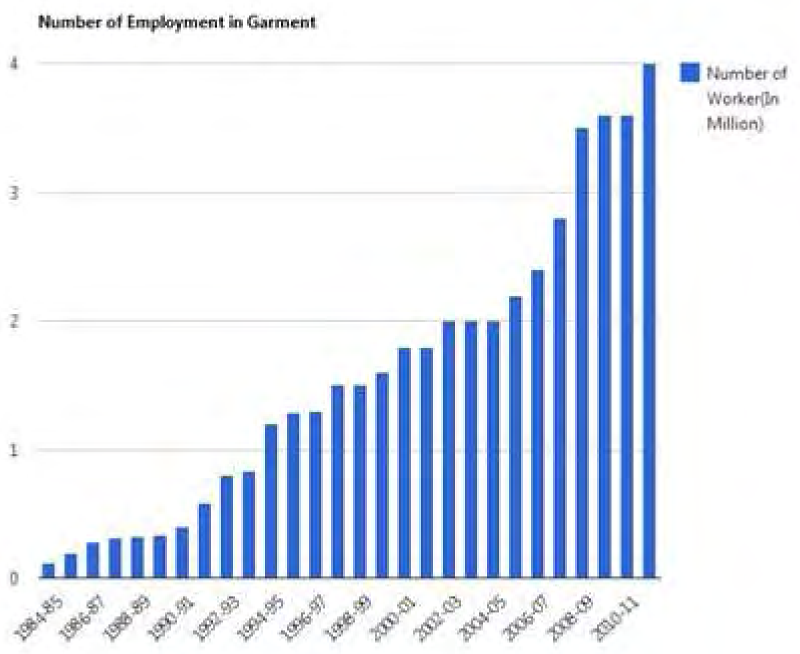
From these pressures, it is easy to see how the Bangladesh government is being pushed and pulled in different directions, with different groups vying for their own interests. There is no doubt, however, that recent events have made the international and national voices in favor of stricter laws favoring the rights of workers much louder than in the past - and now the government is being forced to listen and react.

2.5 Factory Employees

Employees play an important role in the garment industry and face distinct pressures and challenges. For this paper, employees are defined as those individuals who work in the factories contracted by multinational companies to supply the garments they sell worldwide. This group has been having huge difficulties for several decades in terms of low pay and poor working conditions. In this section, we attempt to answer: What are some of the reasons for these poor working conditions and poor living standards? What incentives do these employees have to work in these garment factories?

Sector Size and Importance

The textile industry is one of the oldest and largest industries when considering the levels of employment generated and quantity of exports in this sector. Several countries have engaged in international textile production as a starting point for economic development. Much of the growth of exports and GDP in Southeast Asia in the last decade has been based on garment production based on these activities. This has a direct impact on local workers in these countries, as this industry has dramatically increased the amount of jobs available. The Bangladesh garment industry is a good example of how important the garment sector is for the local workforce and the developing economy:



("Factory Growth in Bangladesh", 2013)

Women

As mentioned previously, the garment industry has undergone a major internationalization of its manufacturing and operations. One of the most important changes within the sector has been the inclusion of the women into the workforce. Over two thirds of the global workforce in the apparel and footwear sector is fulfilled by women. Women are particularly drawn to the garment sector due to the lack of alternative opportunities in other sectors. Often, their alternatives are either working in agriculture, which is often very physically demanding, or informal jobs, which often have even worse conditions and do not guarantee salaries nor stability. However, the wages paid in the garment sector often do not reach levels which allow them to make dramatic improvements to their quality of life.

Working conditions for all workers in clothing factories consist of very long working hours, low wages, and unsafe workplaces. In some cases, women may also be victims of sexual harassment from staff working in factories. This often occurs due to the fact that, in this industry, most factories do not have mechanisms to denounce these situations. Additionally, most of these workers are not represented by organizations within these factories that can help them claim poor working conditions or human rights violations. There are, however, new structures emerging that allow women working in the sector to informally organize through local cooperatives, international initiatives, and resistance or protest activities. Much of the shifts that will occur towards finding solutions to the problems women face will be through these movements such as international initiatives and protest activities. All strategies that are focused on discussing women's issues at the local, national and International level can help solve some of these issues. Actions taken by NGOs or advocacy groups should be accompanied by initiatives which work with traditional workers organizations, like unions, as much as possible in order to achieve an improvement in current working conditions. The importance of including and integrating unions within the solution will be discussed further later in this section.

Living Wage

Given that working in the garment factories is often the best alternative for unskilled workers, there is often no incentive for factories to provide competitive wages. Therefore, in most countries where these factories are located, the salary package and benefits given a worker does not necessarily meet the criteria for what the industry calls a *Living Wage*. According to a paper written by Richard Anker (2013) for International Labor Organization (ILO):

> *The idea of a living wage is that workers and their families should be able to afford a basic, but decent, life style that is considered acceptable by society at its current level of economic development. Workers and their families should be able to live above the poverty level, and be able to participate in social and cultural life.*

Given this definition, the concept of living wage to be truly effective it must allow workers to achieve:

- It must apply to all workers; there should not be a salary lower than this wage.
- The scheme must be obtained from a normal work week, no more than 48 hours of work.
- The composition of the basic salary should exclude benefits, bonuses or overtime pay.

- It must meet the basic needs of the worker and his / her family, where the average family is considered to be two adults and two children

Yet, in most of the factories in the garment industry, these conditions are not met. For example, in Southeast Asia, work related to garment industry initially offers salaries that could be between $30 a month for people without experience and $60 a month for those who already have some time on these tasks. However, according to research done by the Clean Clothes Campaign, the monthly living wage in Bangladesh is estimated to be about $280 a month. Also, according to the Clean Clothes Campaign (2013):

> *A living wage for any worker should be enough to cover her or his basic needs, and the needs of her family. In the Cambodian garment industry, over 80% of workers are women, aged 18-35. Many of these have children and families to provide for. With escalating living costs in housing, food, clothing, education, transport and healthcare, the minimum wage simply isn't enough. In fact, the Asia Floor Wage Alliance calculates that a living wage in Cambodia is 283 USD / month. This is over 4 times the minimum wage*

This means that workers are far from achieving the wage levels that enable them to meet their daily commitments. Wages within this sector are held below the living wages for several reasons.

1. The majority of the workers in this sector have a low level of education and training and therefore are unable to acquire to more appropriate alternatives and obtain salaries that meet their needs. Additionally, without proper experience and skills, these workers have no leverage to push factories to achieve higher wage benefits.
2. Most of these workers do not have the possibility of the Freedom of Association nor are they covered by Collective Bargaining Agreements to help ensure that they receive proper benefits and decent working conditions accepted by both employer and the employee. More detail on Freedom of Association and Collective Bargaining Agreements are discussed in part two of this paper (see page 52 for Freedom of Association and page for 50 for Collective Bargaining).
3. The factories are unwilling, or incapable, to improve the current working conditions of employees. This may occur because suppliers are not able or willing to reduce their profit margin, or not able or willing to renegotiate the terms of the agreements signed with the multinational companies.

4. Finally, and perhaps most importantly, governments in these developing countries are often unwilling, or feel they are unable, to enact policies and apply pressure in order to improve the situation. If they were able to promote proper legislation and enforcement, they could help protect employees and promote responsible development within the country.

Without change related to these issues, employees will not be able to improve their current living conditions. Unfortunately, these conditions have been established for many years and are deep rooted in politics and organizational structure. Employees do not have much influence within the sector to promote thee changes. They have an immense uphill battle ahead of them. Given the current situation, it seems difficult that workers will be able to tip the rules of the game in order to achieve change.

<u>Neo-Slavery</u>

Neo-Slavery is a term that has been used in recent years to describe the conditions of workers in the garment industry. At first, it may seem like a strong term that has been taken from another context. However, taking into consideration the real situation of workers in this sector today, this term may not be that far from the truth. There are three elements in the current system that show that this form of neo-slavery could become a trend in the sector if we do not introduce changes in the current industry conditions:

1. *Salaries are inappropriate for the development of employees*:

   This point has been described in preceding section regarding living wages (see page 33). However, given that this sector is growing, and no change is being made regarding worker's benefits, the aggregate social impact of this problem is worsening.

   Given the size of this industry, developing countries are achieving greater economic growth, which in turn contributes to their development. However, the level of inequality within these societies is increasing proportionally with this growth. This is due to the fact that, without changes in the system, more and more people are succoring to the same conditions and wages. These effects can be devastating for the local societies. It further entrenches the current business model of the industry and leaves workers totally behind in the pursuit of the economic and social development.

2. *Employees work under unfavorable conditions*:

In recent times, thanks to globalization, it is easier to communicate things that are happening around the world. For the case of Garment Industry, public now knows the conditions that are prevailing in this sector are not as they should be. It is not a secret to any stakeholder that a significant percentage of these factories, called by some people as "sweatshops", do not possess the minimum conditions of safety, hygiene that employers should provide their employees.

This situation makes the occupational risk higher for factory workers. Recent events in Bangladesh (the Rana Plaza building collapse) or Pakistan (Fires in Factories) show that garment workers are giving more than just their time and production outputs to these suppliers, they are putting at stake their health and personal safety. This situation cannot go unnoticed. These occupational risks must be corrected to ensure the social responsibility of the industry and its employees.

3. *Misconduct on the part of those responsible for the factories*:

   One element that makes the situation worse is the fact that supervisors and managers of factories, due to their own pressures (see page 19), often must make tough decisions in order to ensure that they meet production deadlines set by the multinationals and corporations. These decisions often include locking employees inside the factories so they cannot leave the factory and work continue until complete or achieve the expected levels. Also, factory owners may put pressure on employees to work longer hours to ensure the completion of orders; these hours are not necessarily paid to employees.

For these reasons, this situation can be considered *Forced Labor* or *Neo-Slavery*. Today these practices may be seen as an extreme way of doing business; yet for Garment Industry, unfortunately it is a normal trend. At the end of the day, multinationals demand quality products in a short period of time, factory owners must deliver in order to receive payment, and the employees must work long hours for low wages in order to maintain profit margins for those above them. The employees are therefore at the bottom of this economic model. The employees live without knowing what is going to happen and without opportunities to change their situation. This situation creates practices which can be classified as a new model of modern slavery. Pope Francisco reflected on this situation after the Accident at Rana Plaza in Bangladesh:

A headline that really struck me on the day of the tragedy in Bangladesh was 'Living on 38 Euros a month'. That is what the people who died were being paid. This is called slave labour...

Pope Francisco

("Bangladesh factory collapse", 2013)

Grievances

As part of any work activity, one of the most important elements is that workers should be supported by their employers. In the case of a practice that violates a human right or a company policy, the company must have internal procedures in place in order for the workers to notify the situation to their superiors and an action must be taken to correct it. This process is known as a grievance procedure. Through proper grievance procedures, factories within the Garment industry give workers the opportunity to notify managers, without worry of punishment, of unethical situations or violations of human rights. Implementing proper grievances procedures within the company is important for social improvement within the sector. When companies ensure that this happens, it can create a breakthrough for business development and help make the company more transparent in the eyes of its stakeholders. However, currently, the trend within the garment sector is toward suppressing these processes.

Factories often do not like the idea of exposing abuses committed in these factories to the world; therefore, reason they have practices that isolate employees. Also, often factory owners do not know how to handle these types of complaints, and therefore shy away from implementing these types of procedures. Most importantly, employees are not willing to risk their job by raising an issue since they do not feel they will be supported by the company, or an organization. A collective bargaining agreement or any organization would reverse the situation without affecting their future (see page 50 for more on these agreements). It is essential to have a shift in this trend in order to ensure the social responsibility of the industry.

Migrant Workers

The migration of workers, both regionally and internationally, is another element that affects many workers in the garment industry. Migrant workers often face worse conditions, and even exploitation, within these factories - defrauding the expectations these people had when they set out looking for work that would allow them to ensure access to basic needs.

Today there are two types of labor migration. First is migration for work within the country. Most of these people are from rural areas where opportunities are scarce. The second option is international migration which brings people from "*non-developed*" countries to other countries by offering better working conditions. However, in some cases these conditions are not met and not guaranteed by the employers.

The issues that migrant workers face include to the following:

- Low Pay
- Long Hours of Work
- Deductions from the wages of employees
- Freedom of Association
- Legal Status

Whether Employers can hire local and international migrant labor depends on labor market conditions. In case Garment industry, some studies indicate that the hiring migrant labor is growing and these workers are often very vulnerable to abuse.

> *According to NGOs working in Laos most workers leaving from Laos to Thailand or elsewhere do not know their rights, what wage they should be paid, or how much they are getting because the documents are almost always in English.*
>
> (Clean Clothes Campaign, 2009)

In many cases these workers leave their country and go to places without proper documentation, and as a result they automatically lose any ability to ask for better working conditions. The consequences of this lead them to a more vulnerable and often work in forced labor conditions, especially if they become locked in a relationship of dependency upon their employers.

Another example of potential abuse to migrant workers is that employers often charge workers exorbitant rates for transportation, training, provision of legal documents, etc. In these cases, undocumented workers often do not have channels to claim their rights; they fear not only the loss of work, but deportation, if they complain.

> *A Vietnamese worker in Malaysia injured his arm in a garment printing machine. He was hospitalised, lost one of his arms, and had to take three months off*

without pay. When he returned to work the medical costs for the operation and treatment were deducted from his wages.

(Clean Clothes Campaign, 2009)

These practices are signs of a serious social problem because they combine the migrant workers' desperation to get a job and the abusive practices of those who control the job market.

Where is the industry going to go in the future with all these problems for employees? It is possible to say that employees have no power over the industry. Yet, they are the most affected. Factory employees are an integral actor in the supply chain, but to date they have not had great influence on changing the rules, motivations and incentive structures within the system.

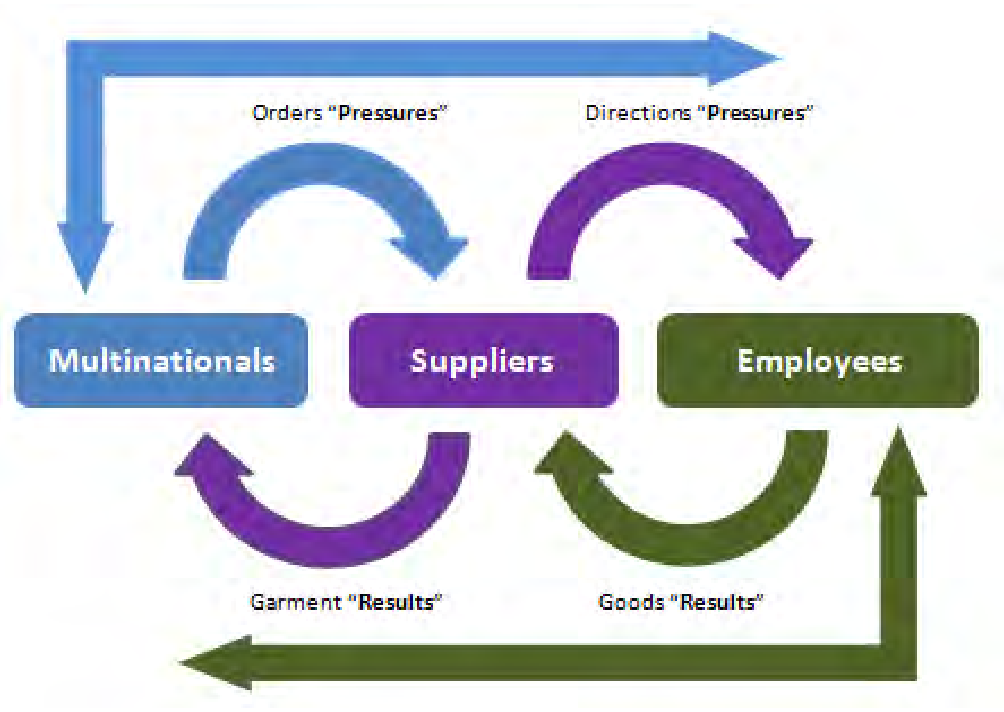
<u>Incentives and Opportunities working within the Garment Sector:</u>

The incentives for employees to work within these conditions come from the lack of real alternatives in other sectors to work and obtain the capacity to live, earn a living wage, obtain benefits and safe place to work. In many cases employees have a lack of alternatives to improve their situation and therefore, employees continue to work in these risky conditions, with such poor pay. For example, in Southeast Asian countries, unskilled people can either work in: agriculture, informal jobs, or the garment industry. (Wrinkle, Eriksson, and Lee, 2012)

Agriculture is considered a tough profession and requires hard, physical work. The sector is also affected by weather (seasons may vary, natural disasters may occur, pollution can affect yields or salability) and therefore can cause income insecurity for workers if the crop does not make it to harvest. Additionally, due to the low benefit and high risk ratio, men who have traditionally worked within the field are now leaving agriculture to find other opportunities. Women have begun to fill these positions within the agriculture sector; however, many have found the work quite difficult and often find that they have physical limitations that do not allow them to perform the work efficiently (False Promises, 2009).

Unskilled workers can also find jobs in the informal sector. These jobs are often within formal industries, yet the people are not listed as formal workers. In the case of the informal sector, employers do not guarantee income stability for informal employees. Oftentimes, employers do not guarantee wages that allow employees access to basic needs. Therefore, these workers never are given the opportunities to develop themselves (Wrinkle, Eriksson, and Lee, 2012).

Given these alternatives, the garment industry is often the best option for unskilled workers in these countries. Although the working conditions in the sector are not good, it is often the best alternative for many unskilled workers, specifically women. Women working in this sector give men the opportunity and freedom to seek a job in a different sector and combine their incomes to make ends meet (Wrinkle, Eriksson, and Lee, 2012). It is a job that guarantees stability - if they meet the demands of the employer, which are determined by the demands of multinationals. In other words this stability can be seen as a cycle between multinationals and factories as well as factories with employees; the needs of the multinationals affect the working conditions of the employees, and the effort made by the employees, affect the results given to the multinationals:



(Source: Authors)

From a domestic perspective, the labor force adapts to the possibilities available. The situation at hand is rooted in lack of alternatives within a labor market. Also, the options for these people are seriously limited due to the large percentage of workforce that has a very low level of training, as this does not make them eligible for other types of work. To compare, the monthly wages of the average worker in a multinational company within their retail, marketing, etc. activities is about U.S. $ 1,200 a month. As previously mentioned, an average worker in any factory in Southeast Asia is about $ 30 when they start to $ 60 with experience per month.

Employees in this sector are mostly people who come from very humble and poor areas. These jobs guarantee at least a roof and a plate of food to keep going. Most of these people tend to move from rural areas to big cities in order to find better alternatives that can ensure their survival. The survival instinct is very powerful and knows no limitations; however, regardless of the conditions (as explained in the employees section starting on page 31) the garment industry is helping to pull millions of people out of poverty and contributing to the growth of counties who desperately need it.

3. Current Practices Being Implemented:

3.1. Introduction

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

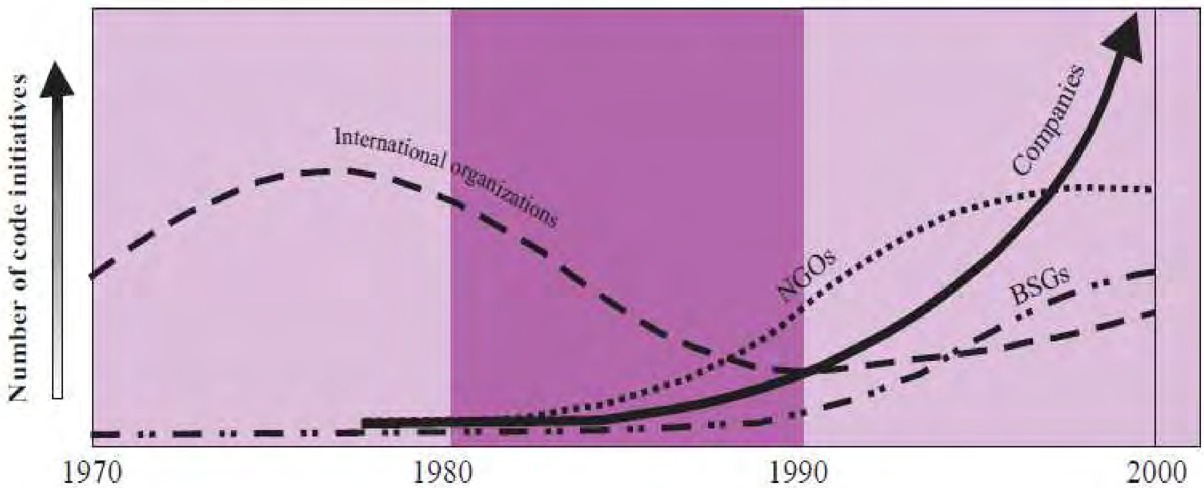
3.2. Codes of Conduct

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

In the 1980s, International Codes of Conduct began to fall out of favor. NGOs had begun to write their own versions of industry codes of conduct. Yet, in research, it has been proven that neither codes written by International Organizations nor NGOs have been strongly enforced by Corporations who sign them (Kolk & Van Tulder, 2005, p. 12). It is certain, however, that some of the Codes of Conduct written International Organizations, such as those written by the UN, were written to serve as "Model Codes", meaning that their purpose was not to be strictly enforced, but rather to promote certain ideas for future codes written by partnerships and corporations.

In the mid 1990s, due to reputational risks such as Nike's child labor scandal in Pakistan and Gap's sweatshop scandal, codes of conduct have become a tool that multinationals have taken on and implemented themselves, rather than following codes written by other groups.

Figure 1. Waves of codes of conduct since 1970



(Kolk & Van Tulder, 2005)

Voluntary Codes of Conduct:

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

Without some specific consequences tied to code of conduct compliance, research shows that these companies do not follow these voluntary codes with strict compliance.

Code Effectiveness:

When looking at the effectiveness of the codes of conduct that these Multinationals - or Transnational Corporations (TNCs) - create for their own company's, results vary among the types of apparel manufacturers. According to research done by the ILO in 2003:

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

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

Some critics say that many codes of conducts are too general, which makes implementation difficult. When asked what are some of the most difficult things that factory owners face when working with Multinational Companies, Helena Perez - former labor law officer for the ILO and current owner of improvingworklife.es - (2013) answered, "More generally. Knowing how to apply the codes of practice... in the sense, you know, a codes says don't discriminate. But, what does that mean in a hiring procedure? They might say 'we don't discriminate' but it is hard for them to actually put in practice in policies and procedures what those codes say. What it means." As an example, Nike's Code of conduct states that "HARASSMENT and ABUSE are NOT TOLERATED: Contractor's employees are treated with respect and dignity. Employees are not subject to physical, sexual, psychological or verbal harassment or abuse" (Nike Inc., 2010). While this may seem rather straightforward, specific behavior that is considered harassment in one culture may not be considered harassment in another. Without specifying culture specific guidelines for what is, and is not, considered harassment - and how to deal with cultural differences if a factory has contracted migrant workers for different cultures - these codes of conduct are not offering practical guidelines to their suppliers. Without specificity, and training on how to implement these codes, factory managers may struggle with compliance purely due to lack of capacity, rather than lack of interest or will.

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

3.3. Audits

Audit procedures are a common practice in the business world given the way in which companies have developed their operations throughout recent history. For the specific case of garment the sector, since at least the 1980s, Multinational Companies that have created complex supply chains have been including auditing as part of their activities in order to ensure that members of their supply chains meet certain elements that are key for multinationals. Audits, along with Codes of Conduct, are implemented as a control mechanism by MNCs in order to ensure the social and environmental performance of suppliers.

> *Since at least the 1980s, major multinationals have become more globalized, building ever-longer, more flexible and complex globalized supply chains while avoiding whenever possible the limits placed on them by the state and unions. Since the 1990s, this only has accelerated. As manufacturing work has left countries in which there were laws, collective bargaining and other systems in place to reduce workplace dangers, jobs instead have gone to countries with inadequate laws, weak enforcement and precarious employment relationships with limited workers voices to defend day-to-day worker interests or raise the alarm before disaster strikes.*
>
> (The American Federation of Labor-Congress of Industrial Organizations, 2013)

Nowadays, audits are at the center of attention for many stakeholders including NGOs, governments, lobby groups, international organizations, and media. However, auditing activities have been proven to be quite weak and the results have not been reliable in all cases.

To understand the fundamental reasons for the success or failure of the auditing process, it is important to first understand what the companies' objectives for performing the audits are. Each company has different reasons, which depend on the nature of their social responsibility. Most Multinationals regularly use audits as part of their compliance process. It is a tool that allows them to get information about whether or not the supplier is compliant with the elements listed in the audit. However, MNCs may also use audits to determine the particular conditions of a process or activity at a specific moment. Lastly, some multinationals go as far as to consider audits as a key element of their own auditing strategy. Ideally, the auditing process and results should be considered in order to help the decision making process of the Multinationals in when setting their strategic plan for auditing for the next year.

However, auditing practices alone do not produce changes in the factories; they only serve to determine where the deviations of compliance are and to warn companies of situations that require attention and remediation. Audits must be accompanied by remediation plans in order to transform, fix or restructure the situations identified in the audits.

Audits that are carried out in the garment sector have always had an important social component given that employees have always been a very sensitive issue for the Multinationals. The main issues evaluated in an audit in a garment factory are related to employees' health and safety and working conditions of the factories. In the Garment industry, a large percentage of multinationals have identified potential benefits from implementing the auditing system in their supply chain. Companies began to drastically increase their audit programs once they had implemented Codes of Conducts within their supply chains (see page 42 for more information); auditing became the way to verify that these codes were being followed. Audit programs give companies the opportunity to protect their brand image and reduce risks related to reputation. Companies are interested in making sure that the operations of suppliers linked to their brand adhere to their business interests.

Multi-stakeholder auditing systems:

One of the first multi-stakeholder models that was used to audit was the SA8000, which is a 15 year old system overseen Social Accountability International (SAI). It is considered by many to be the gold standard labor certifications and was developed and pioneered by many multinationals. However as time passed, SAI began to receive many poor reviews regarding the effectiveness of this system because there were several proven cases that the Big Brands may be interested more in hiding labor violations rather than reporting them. The SAI system showed that within these types of initiatives there may be conflicts of interest, since the program was initially developed, and is funded by, Multinationals. For example, The American Federation of Labor-Congress of Industrial Organizations (2013) questions:

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

It seems that companies have sought to counter these criticisms by promoting new procedures and policies that could encourage transparency within organizations. Initiatives that have had the greatest impact have been those which certify auditors for multilateral initiatives such as the Fair Labor Association and the Fair Wear Foundation. These institutional mechanisms are meant to enhance the credibility of the monitors.

As time has passed, audits have been established as a common practice for the evaluation of supply chains the garment industry. The emergence of corporate social responsibility policies of multinationals has positioned the auditing system as the first line of defense to understand the operations of these companies and their supply chains. However, today the critics against the auditing system are increasing as oftentimes audit activities are not accompanied by additional remedial actions and plans taken by the factories and their employees. In fact, audits are often seen by employees as activities that respond to the pressures of the industry - allowing multinationals and factories to cover minimum operating risks, yet ignoring the reality that these workers deal with on a daily basis. According to The American Federation of Labor-Congress of Industrial Organizations (2013), "Auditing is more about securing orders than improving the welfare of workers. That is why the management only makes cosmetic changes to impress the auditors and not to better the conditions of workers.

The idea of including audits within the monitoring process industry supply chains has been much debated in recent years; however it would be unfair to question this activity solely because its design has not been the most appropriate. While audits must be performed taking into account all the factors that are within the sector and should be carried out by experts with appropriate training, audit programs should also consider a remediation plan for any violation identified in order to improve the situation.

3.4. Transparency

Where does transparency fit in all the practices and initiatives which are being undertaken in the supply chain of the apparel industry? Which stakeholders are being or should be affected? What does transparency really mean? Why is it important?

The concept of transparency is one of those abstract concepts which are difficult to be defined. It adopts different shapes according to the environment or situation. In the case of the garment industry, transparency has historically been demanded to the MNC. "Beginning in the late 1990s, a private movement emerged that pressured corporations to disclose the identity of their global supplier factories. These activists believed that factory disclosure would lead to greater accountability by corporations for the working conditions under which their products are made, which in time would improve labor practices. In 1995, Nike and Levi-Strauss (Levis) surprised the business community by publishing their supplier lists" (Doorey, 2011). But this is just one example of the variety of forms transparency can help improve the situation. Transparency must be offered to consumers, but it must be facilitated to workers and governments too. The American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) has reported a failure in transparency where hundreds of employees have lost their lives in factories with unsafe working conditions because CSR programs refused to report such unsafe conditions to the employees in those factories (factories which have gained access to global markets based on certification by well-known CSR brands) and to the governments who have the responsibility to protect workers (The American Federation of Labor-

Congress of Industrial Organizations, 2013). However, nowadays suppliers are also being required to be transparent. For many years, there has been a systematic lack of transparency in the supplier end of the MNC-supplier relationship which inefficient audit models have not been able to correct. Partnership models are increasingly substituting the pass/fail audit model. The promising models are changing the standard approach, with suppliers analyzing their own challenges and then working jointly with MNC to remediate. For instance, the FLA 3.0 program asks suppliers to complete a self-assessment questionnaire identifying their challenges and why they think such challenges may exist (Beyond Monitoring, 2007).

3.5. Traceability

The business of producing clothing in countries that are far from where the initial design has been made makes the supply chain system complex and difficult to monitor. The idea of traceability seeks to understand and monitor all the inputs throughout the process of production. The goal is to ensure that these sources are reliable and part of a transparent process. In other words, the traceability process should include more detailed information and monitoring checkpoints in order to show all sub-parts of the process. These efforts can then be verified or observed by individuals, groups, governments and companies, to ensure that the process is correct and to understand where the process can be improved.

In terms of the Garment industry, there is a lack of traceability occurring in these supply chains. Multinationals annually publish their CSR reports with data related to many sections of the company; yet, few mention all the processes and inputs related to their production processes. Often, Multinationals report significant information about tier one production, yet do no not speak much about the tiers below the manufacturing portion of the process. They do not include much information about the resources used to make their goods.

Multinationals have two options when it comes to procurement of raw materials. The first is to purchase the raw materials themselves and transport it to the textile factories. The second is for factories to arrange purchasing of the raw materials and textiles in order to fill orders for Multinationals. Based on this idea, several questions have to be answered: Who has control of these operations? How are these practices being controlled? One example of an initiative that is working to improve the traceability of the supply chain is through the Clothing Traceability Project, being piloted by the Clean Clothes Campaign. According to the initiative:

The Clothing Traceability Project visualizes the clothing supply chain – essentially where and how a garment is made, and the people involved throughout the process. Connecting businesses and consumers to a deeper understanding of the impact of the clothing life-cycle through documentation of a local supply chain from fibre through manufacturing and production, the project builds on established tools for supply chain transparency to develop a leading approach to sustainable fashion.

(Clothing Traceability, 2013)

Traceability can play a key role in this sector in order to respond to the current social issues. It will force all groups to be more transparent in their operations. The lack of progress within the sector shows that significant change is needed and that multinationals, factories and governments have to look at different alternatives that may have positive impacts on the sector.

3.6. Capacity Building

Strengthening people's capacity to determine their own values and priorities, and to organize themselves to act on these, is the basis of development.

(Eade and Williams, 1995)

This definition of capacity-building, from over fifteen years ago, has its origin in development theories. The fact that some multinational apparel companies are doing some capacity-building in the management of their supply chain reinforces the idea that supply chain in this sector is also a development issue. Whether the development model brought by MNCs through capacity building to the countries where they have built their supply chain is desirable and beneficial to the people living in those countries is often debated; however, given the current situation, capacity-building is certainly a tool which has been widely used. The questions remaining are: What is capacity-building in the apparel industry? Who is it addressed to? Who should receive it?

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

Another successful story of positive impact of capacity building is a worker program launched by the Levi Strauss Foundation in China, Egypt, India, and Pakistan which showed that for every $1 invested in women's health education, $4 of savings was delivered in Egypt. (Levistrauss.com, 2012)

3.7 Collective Bargaining

Collective Bargaining Agreements is one mechanism that has allowed governments and Multinationals to regulate all the actions related with workforce. The idea of the collective bargaining is to create a legal document with a series of statements and clauses that cover labor contracts and working conditions in a particular sector. In the case of the Garment industry, this practice has fallen out of favor when decisions are taken. The reasons for this trend are very diverse, but one fact that is certain is that every day Collective Bargaining Agreements are used less and less. Specifically, in the case of many countries in Southeast Asia, collective bargaining agreements do not exist. In some cases, they are prohibited by factories.

> *The only thing workers have to bargain with is their skill or their labor. Denied the right to withhold it as a last resort, they become powerless. The strike is therefore not a breakdown of collective bargaining-it is the indispensable cornerstone of that process.*
>
> (Clark, 1989)

When workers do not have a Collective Bargaining Agreement they lack a proper voice to represent their needs and interests. As consequence, employees do not have the opportunity to be able to express ideas that could lead them to achieve better labor standards and proper working conditions. The lack of organization and collective bargaining puts the workforce against the wall; it is not possible for them to organize in order to decide on what things need to be addressed by their employers. Collective Bargaining Agreements is a mechanism that levels the playing field for workers and starts a process of self-organization. Once the company agrees to implement a collective bargaining agreement and begins to negotiate with their employees this type of contract, they have the possibility to reach an agreement that allows for the improvement of specific conditions inside company.

How will the employees organize the agreement? In many cases this is where unions come in the picture. Unions are very important; however their reputation has not always been good and their role has been debated in recent years. Historically, once unions have gained prominence within their sector their role has been questioned. The reason for this is linked to their expectations and to questions regarding what their real objectives are. Some people claim that unions are creating their own agendas, and only bring problems. Others state that unions work to achieve better conditions for their representatives and allow them to be at the table with the factory managers in negotiations. During the process of researching this topic, we spoke with Helena Perez (2013) who explained that unions have very low influence in many countries, specifically due to:

- Bad reputation on unions in general in the country
- Union leaders do not represent the workforce
- In many cases defend their own interests
- In some cases, unions may be linked to politics

These issues affect the leverage of unions to influence change within the industry. Helena Perez explains some of the reasons why unions may be failing. The idea of the unions is to allow workers to address their concerns, be treated in an equitable way, and have the opportunity to obtain better working conditions.

Within the industry, any practice that is performed without taking into consideration the views of the labor force cannot be said to be good labor practices. The goal is to reach a better level of collaboration amongst stakeholders. If this is achieved, there will likely be a boost in the social conditions within these factories. Without this collaboration, the likelihood of abuse and unfavorable working conditions will be much higher.

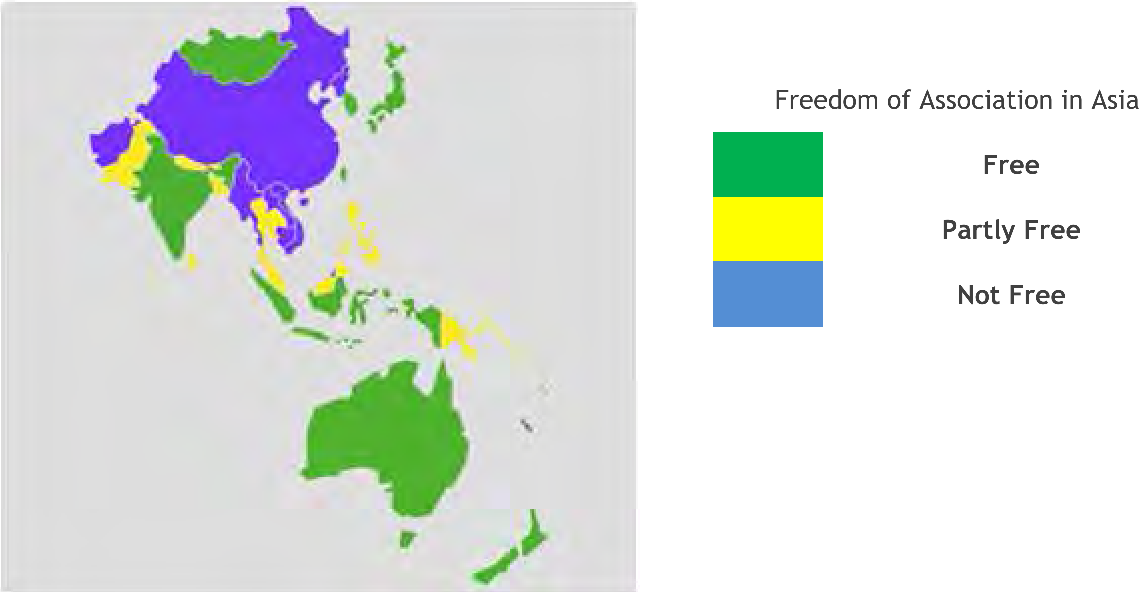
Multinationals and Governments can work to improve the likelihood for Collective Bargaining Agreements and unions by supporting these efforts and working to ensure these options are given freely to employees. If this happens, the situation of the sector could undergo dramatic positive change, as it would create more pressure on the factories to allow these types of agreements with their employees.

3.8. Freedom of Association

One of the most important elements in today's workplace is the possibility for Freedom of Association, which can be defined as the ability for employees of a company to be able to form groups in order to communicate the topics that are of interest to them. When people have the power to organize, they can generate ideas that may have different goals. In the case of Garment Industry, Freedom of Association creates an open communication channel to make decisions and communicate these decisions to employers, governments or any other group that has interest or influence regarding the issue.

Freedom of Association has been on the global agenda for many years. The concept of Freedom of Association is considered a human right by many international organizations. The United Nations Universal Declaration of Human Rights "explicitly protects both freedom of association in general and the right to form and join trade unions in particular" (Freedom of Association and Workers' Rights, 2013). Nowadays, the concept of Freedom of Association has been defined, developed and implemented within the international labor law. It is a fundamental provision underpinning the work of the International Labour Organization (ILO). While international organizations strive to improve Companies and Governments in this area, it appears that there are still countries where these rights are not guaranteed to its citizens.

In recent years, the Asia-Pacific region has seen an increase in political rights and civil liberties. This is a very important step forward, given that Asia is the home of China - a country where, according to organization Freedom House (2013a), the people are considered "not free" - and North Korea, the least free country in the world according to Freedom House (2013b). Many of the problems are related with social issues; the possibility to organize, form civil society organizations, and advocate for human rights are historically difficult in many of these countries. People in these countries continually are struggling to improve their situation.



(Freedom House, 2013c)

The ability to promote freedom of association in Southeast Asia has declined dramatically in recent years. In fact, the situation is quite worrying when considering the conditions of the labor force in countries such as Bangladesh, Laos or Vietnam. This is due to the fact that strong pressures exist to prohibit the creation of unions or organizations to monitor economic and working conditions of workers in the sector.

The effect of these situations could devastate the aspirations of workers and further hinder the progress of the sector since there is no process for inclusion of all stakeholders within the sector. It is extremely important that everyone has their own voice so any agreement reached takes into account everyone's expectations. This will likely be difficult for factories, but it is obviously much more difficult for their employees, which as previously mentioned, are in a very difficult position and have little influence. Additionally, Employees currently lack the knowledge and capacity to be part of a more collaborative scenario - most employees do not know their own country’s labor laws, their labor rights not skills to negotiate properly (Perez, 2013). Governments are not helping the situation; in most cases, they have not shown a real interest to in protecting these rights, empowering workers, and showing a real commitment to comprehensive advancement.

To promote the change of status of workers, some initial actions would likely need to take place in order to create a more open situation for the workers. In our interview with Leda Stott (2013), a specialist in partnerships and development, she discussed that, if freedom of association were protected and increased, the four areas that could be worked on by these associations were:

- Commitment from Governments and Factories
- Improvement of Labor Rights
- Efforts for Stakeholder Engagement
- Capacity Building of workers

In the future it is important to continue making efforts to change the current trend in the industry towards prohibiting Freedom of Association. If workers were empowered, they could work on areas within the company that they know should be improved and how to improve them. Employees are one of the biggest sources of innovation and ideas for a company. By promoting their collaboration, they could become a large asset for factory owners.

Freedom of Association in Bangladesh - Labor Law Reform in June 2013

According to an article written for Agence France-Presse (AFP) (2013b), on June 13, Bangladesh Unions rejected the labor law proposals that have been written by government since the Rana Plaza accident. While Government Officials state that the new law will make it easier for workers to set up unions in garment factories and includes protections for workers affected by industrial accidents, the labor unions do not approve. According to union representatives, the reform allows for the creation of a "participation committee" within factories. This committee will be overseen and led by factory managers and will be in place of unions organized and led by workers. One union leader named Wajedul Islam stated " 'A participation committee cannot be a collective bargaining agent because it will be headed by the owner. It won't ensure worker rights, rather curb them'" (AFP, 2013b). Some activist groups do, however, recognize that the law does show a few possibilities for improvement in workers' rights. As an example, the reform removes one former stipulation in the labor law that stated that factory owners had to be given the names of factory workers who chose to join a union (IndustriALL, 2013). The reform bill, however, will not apply to the eight export processing zones within the country - where Freedom of Association and Collective Bargaining are still illegal (IUTC, 2013).

4. Highlighted Cases of some of the “Best Practices” currently being implemented:

4.1. Introduction

Some current initiatives truly stand out as “Best Practices” within the industry. The programs like the Better Work Program, initiatives working to change procurement and design processes within the Multinational Companies, and innovative ideas like “Whistleblower Hotlines” are attempting truly change certain aspects of the supply chain system. In this section, we will describe how these programs work, look at their pros and cons, and explain why these programs are considered to be “best practices”.

4.2. Capacity Development: Better Work

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

Practical Tools and Services:

- *An assessment tool for measuring compliance with international labour standards and national labour law, as well as tailored advisory services that support continuous improvement. These tools are put into practice in factories in Better Work’s country programmes, helping factory owners, management and workers improve compliance with labour standards.*

- *Specially developed training programmes and good practice guides addressing key issues in the garment sector, such as supervisory skills, human resource systems, and occupational safety and health.*
- *STAR, an information management system used to record, store and disseminate Better Work assessment and improvement reports. This system allows factories to share compliance information with international buyers quickly and easily.*

Stakeholder Engagement:

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

(Better Work, 2010a)

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

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

In addition to factory assessments, for those factories that were not found in satisfactory conditions, EAs work directly with the factories in order to provide advisory services to improve the issues identified. EAs work with management to "establish and facilitate a Performance Improvement Consultative Committee (PICC), which includes representatives of workers and management create and implement improvement plans, and recommend training services" (Better Work, 2010b). The incorporation of workers within the PICC to be apart of the process is fundamental, as is provides a space for their concerns, and their ideas for improvement, to be heard. Throughout the process of remediation, Better Work EAs also perform additional compliance assessments to ensure that the factory meets its targeted remediation activities (Better Work, 2010b). All plans and progress made during this process is updated to buyers so that they are fully aware of the non-compliance issues occurring in the factories and the steps being taken to remediate them. This process creates a factory specific approach to process improvement. It also promotes transparency in up-to date communication between buyers and suppliers. This enables buyers to make more socially conscious decisions when purchasing from these factories.

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

The Better Works Program is believed to be a "Best Practice" in the Industry by both Practitioners and Academics. BSR, a non-profit dedicated to developing sustainable business strategies and business solutions, states that the Better Work Program's "focused approach holds considerable promise and is likely to generate more support from suppliers due to its focus on their own working environments" (BSR, 2007). They believe that the program has created better "Buyer Internal Alignment" by ensuring to include dedicated buyers in the process within the countries they source from. BSR also states that the program aims to support "Worker Empowerment" by focusing on training employees on their rights and responsibilities and bringing them to the table in order as part of the PICC to create the factories remediation plans. A tactic that, according to many practitioners, including Helena Perez (2013), is crucial in order for things to improve in these factories.

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

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

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

> *Better Work is an interesting project that can do a lot for a country, but I think that it would be more useful if they had further programs for the labor inspectorate instead of creating an alternative system to the public inspection*

system... all the tools and all the trainings that they are giving auditors - their specific auditors - they should be giving to the public inspectors.

It is important to understand that while programs like Better Work are creating a positive impact in the lives of those whose factories are enrolled in the program, there is the possibility that these programs are only furthering the "governance gap" within these developing countries. The Better Work Program is indirectly supporting the privatization of tasks that government has historically undertaken. As Perez argues, this effort could make it much more difficult for these tasks to be undertaken by the government in the future. She states that "labor inspectors in these countries have very low salaries. If you train them, if you give them tools, they will just go off to the private sector where they will get more career advancement, more recognition, and better salaries. So, it is not just, 'lets train labor inspectors and things will work'... It is a systematic problem..." Therefore, given these risks, simply training government labor inspectors is likely not going to be the solution to building the capacity of the government to take on these tasks in the future.

Better Work in Bangladesh

Due to the recent building collapse in Bangladesh, the ILO sent a "high level mission delegation" to the country in order to assess the situation of the factories. In the assessment of this mission, the ILO (2013a) "called upon the Better Work Joint Management (ILO/IFC) to meet immediately after the adoption of the labour law..." The ILO then expects the Better Work Joint Management to create an action plan that "will include a follow-up mechanism to measure in 6 months time, progress made in the implementation of the measures announced" (International Labour Organization, 2013a). These measures are outlined in the Bangladesh Highlighted Case Study, "Pressures for Improved Performance from the Bangladesh government" on page 28. The Better Work program has helped other nations with weak government support strengthen the protection of its workers, proving that change is possible. In an interview for *The* New Yorker, when asked about the possibilities of improving the situation in Bangladesh, MIT Professor Richard Locke smartly stated, " 'If Cambodia can do it, why can't Bangladesh?' " (Surowiecki, 2013).

While the short term impacts of Better Works have been positive and have improved the daily lives of hundreds of thousands of people, we also need to critically look at the long term impacts of this program on the society as a whole, and critically analyze the sustainability of the program in the long term. Do companies plan on funding Better Work programs in all developing countries for the foreseeable future? How do these programs get institutionalized once the program has been developed?

4.3. Aligning Communication between the Procurement and CSR Departments

As previously mentioned when discussing the pressures and stresses felt by suppliers (described in section 1, see page 16), companies have realized that their Corporate Responsibility Department and their Procurement Department are sending mixed messages and pressuring suppliers in opposite directions through their work. In order to remedy these opposing messages, many companies have begun to look within their companies in order to assess how these activities can be changed. Companies are taking several different strategies in order to solve this issue. Levi Strauss & Company, for example, has integrated the Code of Conduct Department within the Sourcing Department in order to improve communication and integration between the two units (BSR, 2007). More importantly, they have also integrated the environmental and social performance of their suppliers within the annual goals and the performance assessments of leaders in its Global Sourcing Organization. As another example, Nike has created an Overtime Task Force, which includes representatives from several departments - and the CEO - in order to understand how overtime hours in the factories is directly linked to procurement and design decisions taken by the corporate offices. In our interview with Sean Ansett (2013b), founder of At Stake Advisors- a supply chain sustainability and strategy consulting group, he also remarked about the efforts being done by Nike stating that the company "has done a tremendous job over the last years really focusing on internally how their people are measured... that social and environmental performance is now part of their Key Performance Indicators for buyers. I think that they have done that better than any company I am aware of..." (Ansett, 2013b)

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

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

4.4. Collaboration

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

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

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

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

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

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

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

Accord on Fire and Building Safety in Bangladesh

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

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

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

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

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

4.5. Whistleblower Hotlines

"Whistle Blower Hotlines" are meant to improve working conditions in the factories by empowering workers to report their complaints directly to the Multinationals. In order for workers to be able to report their complaints, they not only need to have safe reporting systems in place, but they must also be knowledgeable of their rights and obligations. Currently, there are some examples of MNCs and organizations working together to launched these sorts of programs. The Walt Disney Company, for example, has worked with a local NGO to help develop and implement a worker helpline in southern China. This helpline was installed as a prototype, with factory management support, in ten factories that produced Disney-branded products. It is managed and operated by the NGO. Another example is Verité's Mobile Van and associated Advancing Women Program that delivers tools and education on a variety of topics in a large number of factories. Additionally, a partnership between Timberland and Verité created a peer-to-peer education model in which workers distribute information to their own colleges on nutrition, labor laws, mathematics, etc. Some workers are trained as peer educators and commit to teach two or three workers on topics such as the Timberland Code of Conduct, wage calculations, personal health and interpersonal communication skills (Beyond Monitoring 2007).

In the opinion of Helena Perez (2013), these types of mechanisms are "a very useful tool but more than for what a phone call achieves". She goes on to explain that the Big Brand "is trying to send a message... saying: 'Hey guys, somebody is watching.' Regardless if people actually use the line or how effective it is... if Walmart is actually going to do anything because of that phone call..." The Big Brand is telling these factory owners, "Hey, if you don't solve your problems internally, these people have the resource of coming to me. And I'm watching. And I'm going to be there twenty four hours a day..." These hotlines maintain a constant watchful eye over the factory owners, increasing the level of monitoring from once a year, through audits, to every day, through these whistleblower hotlines.

5. Strategies:

5.1. Introduction

In this section, we offer three different strategies, each explaining a set of proposals that would improve the sector. These three strategies are based on three different systemic situations. We have called the first strategy "Proposals Applicable within the Current Industry Structure and Social Environment", in which, taking into consideration the current industry model, we believe certain stakeholder groups can make changes to better the social responsibility of the supply chain. The second strategy is called "Proposal in Order to Create Transformative Change in the Sector", in which we explain an idea for trying to work on a transformative change of the sector through a new international platform. Our last strategy is called "Proposals to Shift the "Business as Usual" Mindset" in which we will explain the systemic changes in the business model that will need to occur in order to truly transform the sector toward a more responsible supply chain management.

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

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

Suppliers:

Suppliers are often left with little room to develop their own initiatives due to the pressures put on them by Big Brands and the little support that they receive from their governments. It is true however, that factories will need to be open and willing to work with MNCs in order to improve conditions and management procedures within their plant. As explained in the Nike/Mexico Case study regarding Capacity Building (on page 49), factories that are not willing to work with MNCs in order to improve their performance can be losing out on the abilities to gain competitiveness and a stronger relationship with their clients. Additionally, there is the possibility that Big Brands may choose to supply from other factories that are more receptive and proactive.

Employees:

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

Companies:

- Reducing the number of suppliers:

  Companies should work to purchase from less suppliers, giving each of them a larger quantity of orders. As previously mentioned (in the companies section starting on page 8), companies often choose wider supply chains to diversify risk of production and reputational issues. By reducing the number of suppliers, companies can improve the monitoring of their supply chain, and can be more effective in influencing factories' social performance. Research has shown that companies with a smaller list of suppliers are more effective in implementing their code of conduct within their supply chain (Kolk & Van Tulder, 2005).

- Reducing the Depth of the Supply Chain:

  The deeper the supply chain, the more difficult it is to identify and address social issues. By promoting a shorter supply chain, it will be easier for companies to trace and monitor resources and processes used at each phase of production to complete orders. With better monitoring, companies will be able to more effectively quantify the inputs used in each phase of production. As one of the typical adages for business management says, "You can't manage what you don't measure".

- Creating longer term contracts:

Longer contracts foster stronger long term relationships and improve two-way communication. This allows suppliers to be more open to discuss issues, and to be more secure and receptive when MNCs ask them to invest in improving the working conditions in their factories. For example, if a supplier realizes they cannot meet a deadline in time and are tempted to lower their social standards or subcontract in order to fulfill the order, they would feel more secure in talking to the buyer about these issues since they are not risking losing all future business. According to American Apparel CEO, Dov Charney, "the biggest problem in the apparel industry is that all of the contracts are short term. That's one of the things that keeps Sweatshops, Sweatshops... they never can invest in the equipment, they can't make the long term investment" (Charney, 2013).

- <u>Promoting Capacity Building with Suppliers:</u>

As explained in the analysis of the pressures put on suppliers (on page 16), one of the biggest issues facing factories is the lack of capacity and knowledge to efficiently manage their business. For example, factory owners may improperly calculate the hours needed in order to finish a piece of clothing. Therefore, they take on too many orders and are then pressured to subcontract or require overtime from employees. Companies should offer more capacity building programs in order to improve the management quality and reliability of these factories.

As mention previously (on page 37), Factories also often lack the proper communication channels that allow employees to express their grievances. This is due to the fact that factory owners are not willing, or not able, to manage these types of grievances. To fill this gap, companies have created their own grievances procedures to offer these channels to factory workers (see page 65 on Whistleblower Hotlines). However, MNCs would better solve this issue by improving the knowledge and capacity of factory owners in managing and promoting grievance procedures within the workplace. They should first create awareness within factory owners of the benefits of implementing these processes, and then build the capacity of factory owners and managers to do so.

Research done by Richard Locke and Monica Romis (2010) of two factories in Mexico (see page 49) shows that better communication and capacity building between companies and managers of factories not only improves working conditions for employees, but it also boosts productivity. This way, these factories provide more value to the supply chain.

- <u>Promoting collaboration through participation in multi-stakeholder initiatives:</u>

Collaboration is one of the most effective ways to promote industry-wide change. It also helps tackle issues that cannot be solved individually (see page 61 for more details). By implementing initiatives that promote shared research and implementation, the industry will benefit from sector-wide changes toward more effective practices with a better chance of "buy-in" from all the stakeholders involved in co-creating the solution. Coalitions of businesses also help faster transitions to better processes and practices by removing first-mover risk

- <u>Inclusion of social and environmental performance indicators in the performances assessments of management:</u>

Management's performance should not only be assessed by economic performance indicators, but also by social and environmental factors, to incentivize managers to make decisions incorporating all three aspects. As explained by BSR, a non-profit consulting organization that works on developing sustainable business strategies, "structural goals succeed when they are backed up with accountability and incentives" (BSR, 2007). Levi Strauss & Company has begun to include these performance indicators through their Global Sourcing organization. Levi Strauss and Company is thus creating a more coherent communication to its suppliers and customers. This promotes a significant shift towards incorporating social responsibility into the company's core business therefore increasing the likelihood of gaining competitive advantage. However, as mentioned in the "Best Practices" section (on page 60), these companies unfortunately have not released information to know to what extent these actions have impacted the company's performance in terms of social responsibility.

- <u>Increasing Transparency:</u>

Increasing transparency helps companies show their stakeholders what they are doing to improve the conditions within their supply chains. It helps bolster stakeholder's credibility in the company and maintain positive relationships with these groups. This credibility is especially beneficial to companies, as they are competing in a fast changing increasingly open world with social media making them more accountable to its stakeholders. This is a fundamental element to maintain the company's "license to operate" in the future.

Governments in Developing Countries where the Suppliers are Located:

- Protection of workers' rights to Freedom of Association and Collective Bargaining:

Freedom of Association is considered a basic human right by the Universal Declaration of Human Rights from the United Nations (Article 20). As argued in this paper (see page 52), Freedom of Association is fundamental in order to assure that the needs of employees are heard.

Collective Bargaining is considered one of the fundamental rights by the ILO. They state that "combined with strong freedom of association, sound collective bargaining practices ensure that employers and workers have an equal voice in negotiations and that the outcome will be fair and equitable" (International Labour Organization, 2013c). In other words, Collective Bargaining allows the employees to defend their rights by giving them some bargaining power.

By recognizing these rights, developing countries ensure that their citizens have the freedom to come together to protect their rights and interests as workers. Collective Bargaining and Freedom of Association create a two-way dialogue in which citizens are included in the conversation. These efforts could prevent the increase of civil unrest, specifically relevant considering the civil demonstrations sweeping countries such as Egypt, Brazil and Turkey. They are also considered essential elements of human rights, and many international organizations such and the ILO and the UN Human Rights Council are continually working to improve these situations within these countries. Lastly, as MNCs are becoming more interested in the "social conditions" of the countries where their products are manufactured, governments who have these types of protections in place are more attractive to socially responsible and risk-averse companies.

- Create minimum standards for labor conditions:

Minimum wages, benefits, and contract law allow employees to feel protected and ensure that their basic needs are met. As an example, whether the employee is under a temporary contract or a permanent contract, employees should have a legal agreement with the employer and should be protected by the national labor law. By promoting these minimum labor conditions, governments would reduce pressures placed upon them because they are responding to the demands of their citizens. Also, these efforts could increase social peace and be in the interest of responsible companies.

- Improve protections for migrant workers:

Immigration law and the regulation of migrations is complex and every country in the world has found it to be a difficult issue to tackle. While developing countries should work to improve the immigration laws and the effectiveness of managing the immigrant population, we understand that this change will take a long term commitment and will require systemic changes to international immigration practices.

However, Developing countries should take steps to work to monitor the level of migrant workers within the country and ensure that migrant workers are not working in forced labor conditions or being held against their will. As mentioned previously (on page 37), migrant workers are often working in worse conditions and are not protected by labor law within their host country. By protecting and respecting the rights of migrant workers, Governments will benefit from the better integration of migrants, more social cohesion and increased stability. Governments can work to protect migrant workers through the inspection process of these factories. Inspectors should make sure that migrant workers have their passports, have been explained their rights and benefits for working in the company, and have been informed about the factory's grievance procedure for any issues that they may have. In addition, during these inspections, government workers should make migrant workers feel as though they can notify the government of any human rights violations that occur within the factory.

- Promote investments in the physical and legal environment surrounding the industrial sector of the economy:

Companies are now looking for more than a cheap place to produce; they are also looking for other benefits that come with producing in a given country including "supply chain stability, good infrastructure, quality, skills and innovation" (Ansett, 2013a). Companies are looking for workforce stability, decent infrastructure and a decent legal framework within which to operate. For example, companies are interested in working within countries with a fair system of arbitration and judicial mechanisms. Therefore, if a government is able to provide or promote some of these conditions, companies will be more interested in these countries, and less concerned about increased labor costs.

- Better Policing and Enforcement of Labor and Human Right Legislation:

In most of these countries, legislation protecting the rights of workers already exists, however the enforcement of these laws is very weak. In our interview with Sean Ansett (2013b), he states that "many governments have good labor laws but they have no capacity to monitor the factories". He refers to the example of El Salvador, who has a very small labor inspections department to cover thousands of factories and concludes, "So, it is just impossible. It is not going to happen." By providing protection for basic human rights to their citizens, the country will become more competitive for foreign investment by the socially responsible and risk-averse companies. Sean Ansett (2013a) states that some companies "have taken the step of making clear that they welcome the effective enforcement of labor and environmental standards, as this provides greater predictability and less risk for their business."

- <u>Create minimum standards for health and safety conditions in factories:</u>

Governments should offer more specific health and safety requirements to the factories operating in their country and provide a detailed description of these standards. They should promote the use of permits and enforcement policies in order to ensure that buildings are up to safety standards. These minimum standards will help increase political support and reduce the risks of civil upheaval. This will also make these countries more attractive to responsible and risk-averse companies. Additionally, in countries which provide public health services, these types of health and safety standards will help lower the health bill of the public health system, therefore lowering the costs to the government.

- <u>Steps towards the reduction, with the ultimate goal of eliminating, corruption within the political sphere</u>

As previously mentioned in part 1 (page 27), corruption within these developing countries has a major impact in the effectiveness of the social conditions in the countries where these supply chains are located and the likelihood that Big Brands will do business there. Governments should therefore work on ways to reduce the level of corruption in enforcement mechanisms within their country. For example, if enforcement agencies, such as labor inspectors or building inspectors, are receiving bribes that allow factories to not meet legal requirements, then these governments will never be able to effectively monitor these issues. Policing and sanctioning these practices is critical. Governments should also take steps to improve the level of transparency regarding government actions and processes.

Lastly, these countries could work to encourage the engagement of civil society, which will promote their inclusion in solving these types of issues. By reducing corruption, governments will decrease the risk of industrial accidents, making their country more desirable to large multinationals. Also, transactions will become cheaper within the country, as it cuts out "extra-payments" to obtain administrative permits, licenses, etc.

- Improving governance by reducing the possibilities for conflicts of interest

In some of these countries, part of the reason for corruption comes from the fact that government positions are held by people who have a conflict of interest between their government position and their private work. In our research, we have identified a number of cases in which government positions are held by garment factory owners. As Ifthekar Zaman (2012) argues in an article for Transparency International, conflict of interests within politics can create "undue influence on policy" in which these government officials' decisions are more influenced by their personal interests in the issues than the public interest. Removing the possibility for conflicts of interest in politics helps to ensure that the government is democratic and is serving the best interests of the public.

- Incremental increase in legislation in Export Processing Zones regarding social protections

In many cases, labor standards are lowered in export processing zones, creating worse conditions for employees who work in these factories (see page 25). This difference creates a sort of double standard for workers inside and outside of these borders. Governments should maintain the same labor standards for all workers, including those in export processing zones. Governments may feel that by removing these types of "benefits" from export processing zones, the inflow of foreign direct investment may decline; however, as explained previously, multinational companies base their decisions on a number of business reasons and are increasingly looking to source from countries with at least a minimum level of social standards.

Governments in Developed Countries

- Increase the regulation regarding investment speculation

    One of the biggest pressures felt by Multinational Companies comes from investors interested in obtaining quick short-term financial returns, regardless of the future economic performance of these companies or their social and environmental consequences. These investors create a sense of "short termism" in which companies worry about their short term sales and profits, rather than focusing on the long term sustainability of the company. The inclusion of some provisions in laws regulating speculation in financial markets (mainly in Europe and USA) can change this trend, but it will have to be agreed upon and implemented by not only one country, but by at least a first group of regulatory bodies in influential countries, with others then encouraged to follow that example. The risk of non-ethical practices deriving from speculation activities would be mitigated, creating a level playing field in which companies can operate. Governments will benefit by showing that they are responding to increasing demands for an integral economic development based on value creation, rather than speculation.

Governments in Developed Countries, International Organizations, and NGOs:

Governments in developed countries, along with International Organizations and NGOs, should continue to apply pressure upon those countries in which clear violations of human rights or labor standards are being committed. Continued pressure from these institutions is necessary in some situations, like in the case of forced child labor in the cotton industry in Uzbekistan (See page 23). Without a continued effort from these groups, change is not likely to occur.

However, Developed Countries and International Organizations need to be willing to work with these Developing Countries to ensure they have the capacities necessary to protect these fundamental rights. As Helena Perez mentioned regarding the Better Work program (see page 55), the solution is not always as easy as training additional government labor inspectors for a country. Developed Countries and International Organizations need to be willing to work with these developing countries in order to ensure that they have the capacities necessary to protect these fundamental rights. These types of programs should be focused on institutionalizing this work within the government sphere and not promoting the continued privatization of these tasks.

Consideration of the specific context of the developing country has to be a first step before any top down pressure is imposed. Developed Countries will also be responding to their citizens who increasingly care about the ethical treatment of workers in other countries.

Developed Countries can benefit from these actions due to the fact that citizens are increasingly more aware about the treatment of workers in other countries, and asking about their governments' role in the issue. About 70% of Americans heard about the Ran Plaza Accident in Bangladesh according to an article written for Bloomberg (Townsend, 2013). Additionally, Developed Governments can ease the pressure on them from lobby groups and NGOs who are fighting for positive change in the sector. As previously mentioned (see page 28), the US government has been receiving pressure from the AFL-CIO to remove trade benefits to Bangladesh until they improve their workers conditions.

A Strategy for the Current Situation

All of the proposals mentioned within this first strategy have provided actions that different actors should take in order to improve the social performance of the supply chains - based on the industry model as it is currently organized. These actions do not require significant change to the incentives structures and pressures explained in part 1 of this paper. However, by implementing the proposed actions in this strategy, some of these issues will improve. The next two strategies proposed in this paper discuss ways in which some of the systemic issues related to the garment sector can and should be changed in order to truly create transformative systemic change within the industry. Only through a more systemic look at the issue will the sector be able to properly address all of the issues related to social responsibility of this sector.

Muhammad Yunus' Proposal to Improve Factory Conditions in Bangladesh

Since the Rana Plaza accident, Muhammad Yunus, economist and Nobel Prize winner, has come out with two proposals in order to improve the working conditions in Bangladesh. In one of his ideas, he proposes creating the "Grameen (or BRAC) Garment Workers Welfare Trust", which, according to Yunus, "could resolve most of the problems faced by the workers-- their physical safety, social safety, individual safety, work environment, pensions, health care, housing, their children's health, education, childcare, retirement, old age, travel..." (Yunus, 2013a) He gives an example to explain how this would work. In Bangladesh, when a piece of garment is produced and sold for $5, this total cost includes production, packaging, shipment, and management in the factory

- plus the input costs for every tier in the production chain: production of cotton, production of yarn, cost of dying and weaving. As Yunus (2013a) states:

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

This example of one piece of garment changing from $35 to $35.50 is further explained by Yunus. He asks every Multinational buying in Bangladesh to pay the Trust 10 percent of the price of every order paid to a factory owner. This money will then only be invested in the welfare of the workers of that particular factory. Therefore, there will be different sub-funds in the Trust for every factory. If every multinational company producing in Bangladesh joined Yunus' proposal, he calculates that the Trust would receive $1.8 billion each year, which would mean $500 for each one of the 3.6 million Bangladeshi who work in the garment industry. This amount would very much improve the situation of the workers.

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

In a recent interview, Yunus was asked whether asking multinational companies to pay for better working conditions in Bangladesh was absolving responsibility of the Bangladeshi companies themselves and the Government. He responded by saying that that he was addressing neither local companies nor the Government because it was too controversial; therefore, he was appealing to the consumers. (Yunus, 2013b) "When consumers will see that a well known and trusted institution has taken responsibility to ensure both the present and the future of the workers who produced their garment, they won't mind paying 50 cents extra. The retailers may use in their advertising that these products are made by well protected well supported workers. Consumers would be proud to support the product and the company, rather than feel guilty about wearing a product made by "slave labor" under harsh working conditions. A consumer will be able to know from the company's website and annual report, what benefits the dress she wears are currently bringing to the workers, and what benefits their children are receiving" (Yunus, 2013a).

This proposal is interesting in that, it works to appeal to the consumers, rather than work to fix some of the issues wrapped up in politics and business practices. It is clear that in this proposal, Muhammad Yunus is working to find a quick and practical solution to solve the issues related to Bangladesh factory conditions. The issues related to fire and safety in these factories must be dealt with soon, as come countries have already decided to leave Bangladesh due to the high risks involved with sourcing from the country. (For more information on these companies, see the highlighted case study "Disney's Decision to Exit Bangladesh" on page 90)

5.3. Strategy 2: Proposal in Order to Create Transformative Change in the Sector

This strategy seeks to create a more transformative change within the sector that will promote a collaborative, international environment in which systemic issues are discussed and possible solutions negotiated and agreed upon. To do this, we propose the creation of a coalition of NGOs that leads, what we are calling, "positive responsible lobbying" in order to promote the creation of a multi-stakeholder partnership involving all stakeholder groups in this industry. Within this partnership, the NGO coalition will facilitate the engagement of all the stakeholders with the goal of creating, what we are calling, "The Plan". This Plan will include the specific objectives and possible measures and solutions proposed by the partnership to achieve these goals. The Plan will then be submitted to the World Trade Organization (WTO) so that governments negotiate and finalize an agreement on the final actions that will be implemented in order to achieve the goals set forth in the Plan.

As explained throughout this paper, each group is working - more or less - in silos within different collaborative partnerships/models working on specific issues within the supply chain. Instead of incremental, fragmented change, this strategy would be a global initiative to work on many of these issues at once with a global and integrated perspective. It is an attempt to look at the current frameworks in which this industry is working, including trade agreements, national legislation, international treaties, etc., and see if, or how, these frameworks need to be adjusted in order to promote a more socially responsible management of the supply chain of the apparel and footwear industry.

WHY the WTO?

The WTO is the international organization which governs world trade. Since its inception, it has developed the infrastructure, human resources and network to manage international trade and settle international trade disputes. As a consequence, every stakeholder within the garment industry relies, either directly or indirectly, on legal provisions emerging from the WTO agreements. In this sense, the WTO is a good venue for implementing socially responsible criteria for businesses within the garment sector, given that trade accords are negotiated and decided upon within this institution.

Additionally, this type of initiative - discussed and agreed upon by governments - promotes the role of government within this industry. As previously mentioned in part 1 (see page 20), the rapid increase in internationalization of these supply chains has produced a "gap" in which governments have not been able to properly regulate and monitor the labor and social conditions within their countries. To fill this void, companies have developed their own privatized mechanisms to monitor these conditions. For example, some practices such as the Better Work Program have been seen as successes in promoting better working conditions, yet have also been questioned by some critics regarding whether or not they are promoting the continued privatization of, what has traditionally been, public work (see page 55 for further information on this program). The hope is that through a political agreement, these countries can work together in order to create solutions to this governance gap and strengthen the capacity of developing countries in areas of human and labor rights.

Lastly, although some may argue that the WTO may not be an effective organization to create change in areas related to social or environmental performance, we believe that, with the aid of the NGO coalition, this could, and should change. The WTO needs to begin to incorporate these issues into their analysis of development and economic benefits. In order for there to be a transformative change towards a more sustainable world, the issues related to environmental management and social protections needs to be included in the trade debate.

The NGO Coalition

The main role of the NGO coalition is to create the multi-stakeholder partnership and facilitate the engagement process. This new coalition of NGOs would first need to agree on the major social systemic issues that need to be addressed within the plan. They would need to come to an agreement on the mission of the coalition in terms of the goals that they are expecting to achieve. Then, the coalition would need to begin what we call "positive responsible lobbying" in which they promote this initiative to companies, developing countries, developed countries, factory owners, trade unions, additional representatives from the employees, and additionally, enhancing civil society awareness. At the same time, the coalition will start a "positive responsible lobbying" campaign in order to include this initiative as a proposition for approval in the WTO agenda.

The Multi-Stakeholder Partnership

The Multi-Stakeholder Partnership will involve the Coalition of NGOs, MNCs, developing countries, developed countries, factory owners, trade unions, and other representatives from the employees. Through this multi-stakeholder engagement, the partnership will create The Plan, which will be submitted to the WTO.

The Plan

The Plan will include a list of goals that the sector is aiming to meet. These goals need to be specific, measurable, achievable, realistic, and time bound. These goals should, at least, focus on the areas of:

- Living wage
- Minimum labor standards and conditions
- Health and safety
- Grievances procedures
- Freedom of association
- Collective bargaining
- Transparency
- Traceability

Additionally, the Plan will incorporate ideas for possible measures that each stakeholder group could implement in order to improve certain aspects of the sector. It will also include possible mechanisms, mentioned in the next section that could be used by governments to meet the goals set within the plan. These mechanisms will be discussed further in the next section.

WTO Negotiations

Based on our research, the WTO presently does not have any provision within any agreement that discusses social and environmental issues within the supply chain of the garment sector. Therefore, this coalition would either need to lobby to change the current agreement (*Agreement on Textile and Clothing*), or create a new agreement that obliges countries to meet some social goals.

Within the negotiations at the WTO, governments will discuss how these goals should be achieved. They will discuss who should be accountable for implementing each measure within the proposed Plan. These governments will also negotiate different mechanisms that will work to aid, both economically and by other means (for example, capacity building), developing governments in order to promote policies and programs that work to achieve these goals. One possible mechanism could be a financial system in which funds are generated to bolster the economic capacity of developing countries to strengthen their government agencies involved in policy enforcement and implement initiatives within their countries. There could also be a mechanism in which developing countries work with the International Labour Organization in order to promote the transfer of knowledge regarding labor inspection practices across countries.

This agreement would also create a system of incentives or sanctions that are attached to these goals. Some examples of incentives and sanctions that could be considered entail tariff benefits or preferential access to markets for countries which are meeting the goals set within the agreement. Possible sanctions could include economic penalties for developed countries which do not meet the actions required from them as outlined within the agreement. Also, developing countries who fail to meet the requirements to which they agreed upon will be set timeframes within which they will need to meet these unfulfilled goals.

Monitoring

Monitoring of the progress on these goals and mechanisms set out within the agreement will have to be done by an impartial third party. The multi-stakeholder agreement should suggest within The Plan who this organization should be and the terms of monitoring that occur. One organization that could serve to fulfill this position could possibly be the ILO. Given that these goals have been set in order to be specific, measurable, achievable, realistic, and time bound, these evaluations should be as objective as possible.

Grievance procedure

If one country feels that another is not fulfilling their agreed upon actions, the complaint is sent as a "request for consultations" through the established dispute settlement mechanism of the WTO.

Transformative Change:

Through this initiative we hope to create a transformative change within the sector that, through effective multi-stakeholder dialogue:

- Promotes a more global view of the sector and moves away from initiatives that work to improve each issue individually
- Emphasizes the importance of governments within this system, and works to strengthen their capacities to assume their roles
- Creates an agreement with major goals that are specific, measurable, achievable, realistic, and time bound - which will be achieved through the implementation of agreed upon international mechanisms

The hope is that this international forum for collaboration and dialogue will work to create a shift within the industry's model and change some of the drivers and disincentives mentioned within this analysis. This transformative change should work to improve the model so that it not only focuses on economic growth, but also considers the social development as well.

Slow Fashion

It is no secret that multinationals base their business model in the ability for continued growth and steady sales each season. The introduction of *Fast Fashion* has speed up this model, and has increased the pressures put on factories to get product on the shelves within weeks of design.

From this industry has come another innovative model that is being introduced in the industry. The model is called *Slow Fashion*, and as its name indicates, it seeks to counter *Fast*

Fashion and generate greater social and environmental contributions to the industry. This initiative is gaining strength and popularity and is likely here to stay as a movement to transform the industry. *Slow Fashion* is attempting to counter the main trend of world fashion brands that is based on global production and consumption. It works to avoid over-consumption that has an impact on the sector that affects the environment and the working conditions within the supply chain. According to Hayley Phelan and Dhani Mau (2012) in an article written for Fashionista.com, *Slow Fashion* "is about the consumer becoming aware of the whole process–from design through production through use and through the potential to reuse."

To visualize what we face in a practical way, it is important to indicate that the challenge of the sustainability within the garment industry is to demonstrate that if the consumer behavior of the industry, including consumers, is the rhythm that at present time is having impacts on the social and environment, will also increase the significant consequences for the future. *Slow Fashion* promotes the values that are associated with all things having to do with "eco", "ethics" and "green". This concept of *Slow Fashion* has been adopted by different brands and existing initiatives. The idea is to generate actions that ensure the quality production of the garments, increased product value, and considers the environmental and social impacts.

According to an editorial written by Maureen Dickson, Carlotta Cataldi and Crystal Grover (201?) for *Not Just A Label*, in order to promote the concept of *Slow Fashion,* the development process of the garment sector should incorporate the following areas:

1. Understand the big picture
2. Reduce the rate of consumption
3. Diversity and Inclusion
4. Respect for people
5. Recognize human needs
6. Build relationships
7. Ingenious
8. Maintain the quality and beauty
9. Higher prices and sustainable resources including fair wages
10. The practice of Consciousness

This idea has to be developed even more; multinationals that are generating the biggest move in the market can contribute much more to this effort. Short-term benefits related to economics would likely be affected by this shift, however if this companies think long term, the intangibles such as brand image and reputation will likely be positively impacted. In addition, these companies will be furthering sustainable performances toward reducing impacts on the environment and work with social causes.

> *Slow fashion is a glimpse of a different – and more sustainable - future for the textile and clothing sector and an opportunity for business to be done in a way that respects workers.*
>
> (Fletcher, 2007)

5.4. Strategy 3: Proposals to Shift the "Business as Usual" Mindset

The last set of proposals focuses on the systemic issues in the industry and proposes ways to correct the current "drivers" within the sector. As explained in part 1 of this paper, the systemic issues are related to pressures and incentives that affect the way companies, suppliers, government, and employees act in terms of social responsibility. We will show some fundamental changes that are necessary in order to make a shift away from the "Business as Usual" mindset. These proposals are necessary changes for the industry in order for the stakeholders to rethink its fundamental principles. This will bring new awareness and a new way of purchasing and supplying that will truly meet or create new, higher needs for the stakeholders involved.

All Countries:

- Foster the increased involvement of civil society in the protection of people and planet:

  Civil society is a collective voice that represents the interests of its individuals. It can take many forms, such as civil society organizations, religious groups, advocacy groups, etc. These institutions work to protect citizens, public goods, cultural practices, natural resources, and environmental assets. A healthy and vibrant society is necessary in order for these types of organizations to complete their function. Governments and institutions should ensure that people are able to freely form part of organizations that represent their needs and interests. They can start to do this by making sure that rights for freedom of association are protected. They can foster, through legislation, the ability for these groups to create organizations. Also, governments can promote the involvement of citizens within civil society through education programs that focus on informing and teaching the people on the virtues of being an active citizen and the different forms of participation available to them.

- Listening to and acting upon the requests of civil society: Better representation of civil society in political decisions. Enhanced Democracy:

Democratic institutions must be accountable to civil society, whom they are serving. Government institutions need to ensure that there be proper mechanisms in place that allow for a two-way dialogue to occur in a more effective manner. This implies that governments receive communication from civil society regarding their needs and demands, and are able to act upon them and communicate back to the public in a timely manner. Politicians should work to open new direct channels to communicate with their constituents. For example, this could be done through emails, internet platforms, and reforms to the electoral legislation that improve the representation of the people.

Developing Countries:

- Elimination of corruption in politics:

As mentioned in the Short-Term Proposal (see page 73), corruption in politics is a key element that has potential negative impacts within the garment sector. All possible actions toward reducing corruption should be reinforced in order to eventually eliminate these practices. Governments in Developing Countries should look to first police and enforce anti-bribery measures within the industrial and manufacturing sectors of their economy. Also, any legislation that removes conflicts of interests from politics will help increase democracy and good governance practices within the country.

- Full Transparency in Governance:

In order to promote the elimination of corruption and avoid the possibilities for conflicts of interest, full transparency in terms of government actions, procedures, decisions, and full financial disclosure is necessary. Governments should work to make their activities as transparent as possible to their citizens. This could be done by creating database platforms which are easily searchable, email updates for certain issues of specific interest to the public, etc. Legislation should support these efforts by making it legally binding that government officials and departments reveal certain information to the public in a timely and transparent manner. Legislation should also include clauses that force politicians to be accountable for their actions.

- Improvement of immigration law and protection of migrant workers' rights:

As mentioned previously in the first proposal (see page 72), countries must work to monitor the level of migrant workers within the country and the conditions in which they are working in order to work to protect their human rights. It is important to work to enact legislation that protects migrant workers. Given that immigration issues are not isolated to the actions taken by one country, this will likely take cooperation of the all governments to work together to create a global effort towards immigrant workers.

Companies

- Increase and promote societal awareness of sustainable purchasing practices:

Through media, marketing campaigns, and promotions, companies greatly influence the way in which people consume. In the garment sector, over the last few decades, consumers have become accustomed to rapid changes in clothing cuts and styles, due to the invention of economic models such as *Fast Fashion*. These changes in consumer patterns have a direct impact on the supply chain as both companies and suppliers race to keep ahead of consumers.

If consumers were more aware about sustainability issues, this would allow retailers to introduce new styles fewer times per year. In order to make this change in awareness, companies will need to change their marketing and business models to promote more sustainable consumption patterns. Patagonia's (2011) "Don't buy this Jacket" campaign in 2011, or and Levi Strauss and Company's campaign encouraging people to wash their jeans less often (Berfield, 2012) are good examples of companies who are already working to raise consumer awareness regarding the environmental issues related to their products.

- Promoting of living wages for garment workers. Change in the economic model:

The international community should agree upon one globally recognized methodology to calculate the living wage for different countries and regions. Companies and suppliers should then apply this methodology to the wages being paid in the factories that produce their clothing. However, in order to transform the current situation, MNCs must look at how they can change their own economic models in order to increase the prices paid to factories, so that factories are able to increase compensation to employees.

- Inclusion of externality costs within the pricing of products:

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

> *The measure that we should be using for growth... When we are currently living off two and a half planets, does that measure truly take into account externalities? and it doesn't. So, I think that the biggest pressure is the current model that people are living in and companies are working under today. I am not making excuses that that's OK because they are stuck in that model, but that is the biggest pressure, I feel, today, is this constant drive for growth and that you are not accounting for the externalities, like how people are treated, or how the planet is treated in that process. You get rewarded only for growing.*

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

Consumers:

- Increased interest from consumers to purchase sustainable and ethically sourced clothing:

As explained in part 1 of this paper (see page 8), Companies react to what the market tells them regarding consumer tastes and preferences. Yet, research shows that although consumers say that they support ethical sourcing practices, they do not use these preferences as a decision factor when they purchase items. Therefore, in order for companies to have the proper incentives to invest more of their effort toward socially responsible practices, they need to receive a signal from their customers.

Firstly, consumers need to be made more aware of the issues related to supply chains in developing countries and understand the impacts that this economic model has on people in other parts of the world. They need to be made more aware of the negative impacts of *Fast Fashion* and over-consumption. This awareness should be done through several channels including education, media, and, not least, the Big Brands themselves.

Second, in order to understand their individual impacts on this system, consumers need to understand their power as a customer comes through the purchasing choices that they make. If consumers continue to purchase from companies that have poor social and environmental standards, they are supporting these decisions and reinforcing these poor practices within the industry. If consumers purchase from companies that use the fast fashion model, for example, they are supporting this type of economic model for the future. Companies can help with this effort by showing customers the impacts that are made by their choices through media efforts, marketing campaigns and through their CSR Reports.

- Reflection and change in consumer behavior through education:

The economic model of fast fashion has numerous negative implications on the social well-being of workers and factory owners in countries that support the apparel and footwear industry. As explained in Part 1 (see page 16), these increasingly short lead times, with constantly changing styles and patterns, are putting more and more pressure on factory owners, and therefore factory workers to push their production lines, and costs, to the limit. Consumers need to move away from over consumption patterns promoted by the fast fashion industry and need to reflect on whether their consumption habits are more related to need, or more related to want. For example, do consumers need a new bathing suit every summer? Or, do they simply want one? They must shift from a culture of want to one of need. This reflection will need to be made by every type of consumer and these new ideals will need to be incorporated within education and awareness campaigns - specifically addressing children and youth.

Investors

- Increased interest in responsible practices and ethical sourcing of products:

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

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

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

Disney’s Decision to Exit Bangladesh

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

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

Although this was considered a rather big announcement due to the size and reputation of Disney, many buyers for several Big Brands are now looking at other countries for sourcing options due to the persistent fire and safety accidents in Bangladesh (Bradsher, 2013). These decisions have brought up a rather important debate about what is a company’s role in promoting social responsibility in the countries where their products are made. In our interview with Leda Stott (2013), she argued that:

> *In view of the fact that they went in there in the first place, and I am assuming that they went with some kind of knowledge of the circumstances, I think it's appalling that they pull out... I understand that they are doing it because they think that they are protecting themselves and they are reducing their risk, but I would actually say they would do much more by staying because what they are showing to me, as somebody looking on, is that they are not actually that bothered about their local stakeholders. That they are not bothered about their brand. And, it's a very short term way of looking at it. But if these companies are genuinely bothered by sustainable development, if they are genuinely bothered about their stakeholders and want to do it right, they should hang in that and try to sort it out. And that pulling out is actually damaging to a whole range of stakeholders, not least the workers who rely on that for their... daily survival needs*

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

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

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

6. Conclusion

Upon completion of this project, we conclude that the best way to improve the social performance of this sector will require that all stakeholder groups open a constructive dialogue, find common purposes and work together to provide industry-wide solutions to these issues; yet, governments and companies will have to play a large role, and take the initiative, to make this change. However, as we have discussed, these two groups have limited incentives to promote this shift; they face many pressures for results or actions which are often in conflict with social improvements. Therefore, other groups such as consumers, investors and NGOs will also have to change their habits, interests, and practices in order to align their demands with building a more responsible and prosperous society. The current situation leads us to ask: Does the current economic model really promote social development and shared value for all groups in the supply chain?

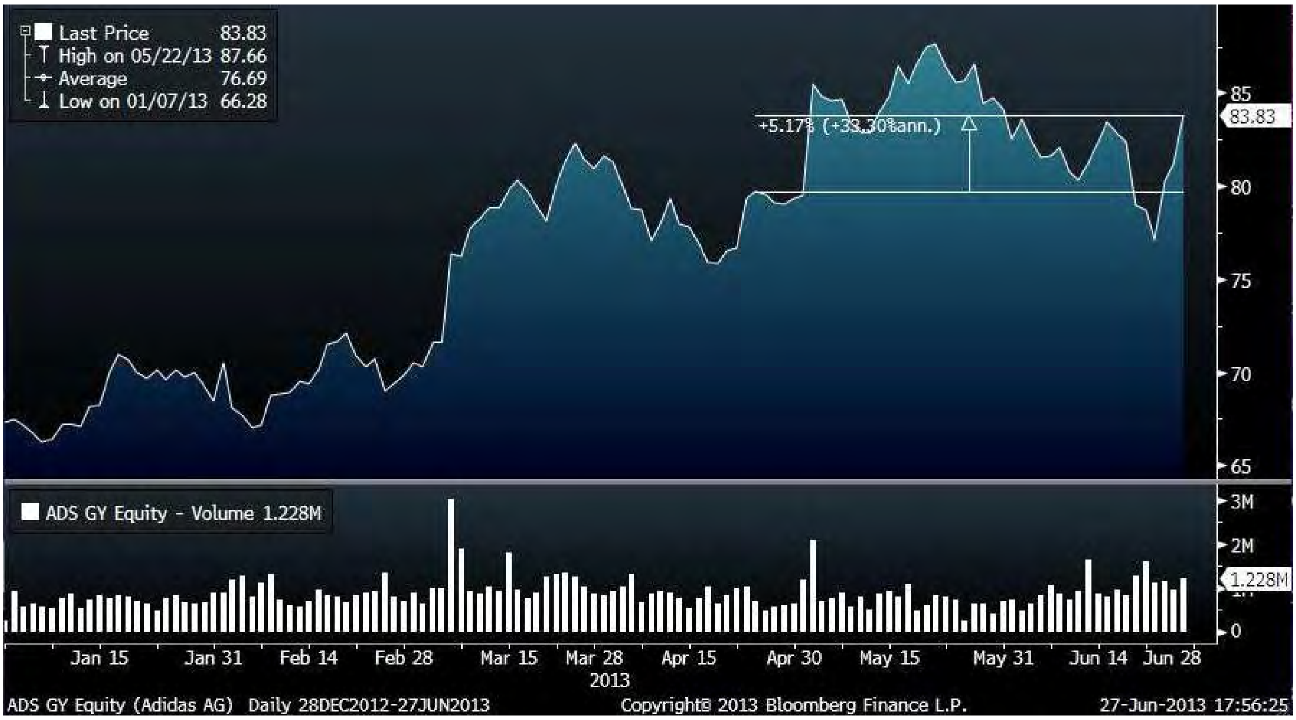
As Michael Porter and Mark Kramer say in *Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility,* most Corporate Social Responsibility practices by companies have "been neither strategic nor operational but cosmetic: public relations and media campaigns, the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

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

Our strategies proposed in this paper work to bring this sector closer to a shared value and inclusive model. We have proposed a mind shift of all relevant stakeholders that will change the incentives in the system, allowing new key drivers to move the model towards a more flourishing society. This shift will require the adoption of new habits and cultural views regarding consumption and economic success; however, this change can start with short-term "common sense" steps within the existing structure. Additionally, there is the opportunity for a positive transformative change within the current system through a global multi-stakeholder initiative, led by a coalition of NGOs, to work on a comprehensive solution to the social issues within the industry.

Annex 1:

Adidas



GAP

H&M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235
230
225
224.00
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215
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Average 230.123
Low on 06/24/13 215.60
HMB SS Equity - Volume 2.125M
10M
5M
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Jan 15 Jan 31 Feb 14 Feb 28 Mar 15 Mar 28 Apr 15 Apr 30 May 15 May 31 Jun 14 Jun 28
2013
HMB SS Equity (Hennes & Mauritz AB)
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Inditex


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110
105
100
96.26
95
-4.27% (-22.02%ann.)
ITX SM Equity - Volume 1.083M
15M
10M
5M
1.083M
Jan 15 Jan 31 Feb 14 Feb 28 Mar 15 Mar 28 Apr 15 Apr 30 May 15 May 31 Jun 14 Jun 28
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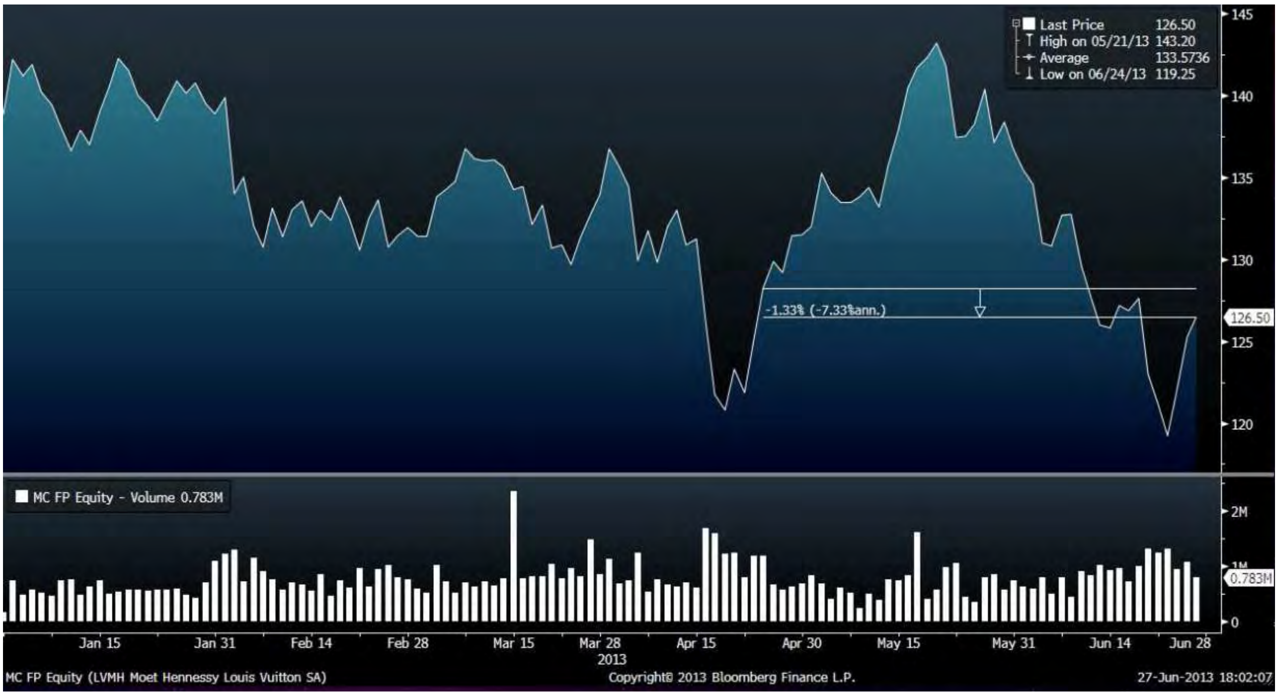
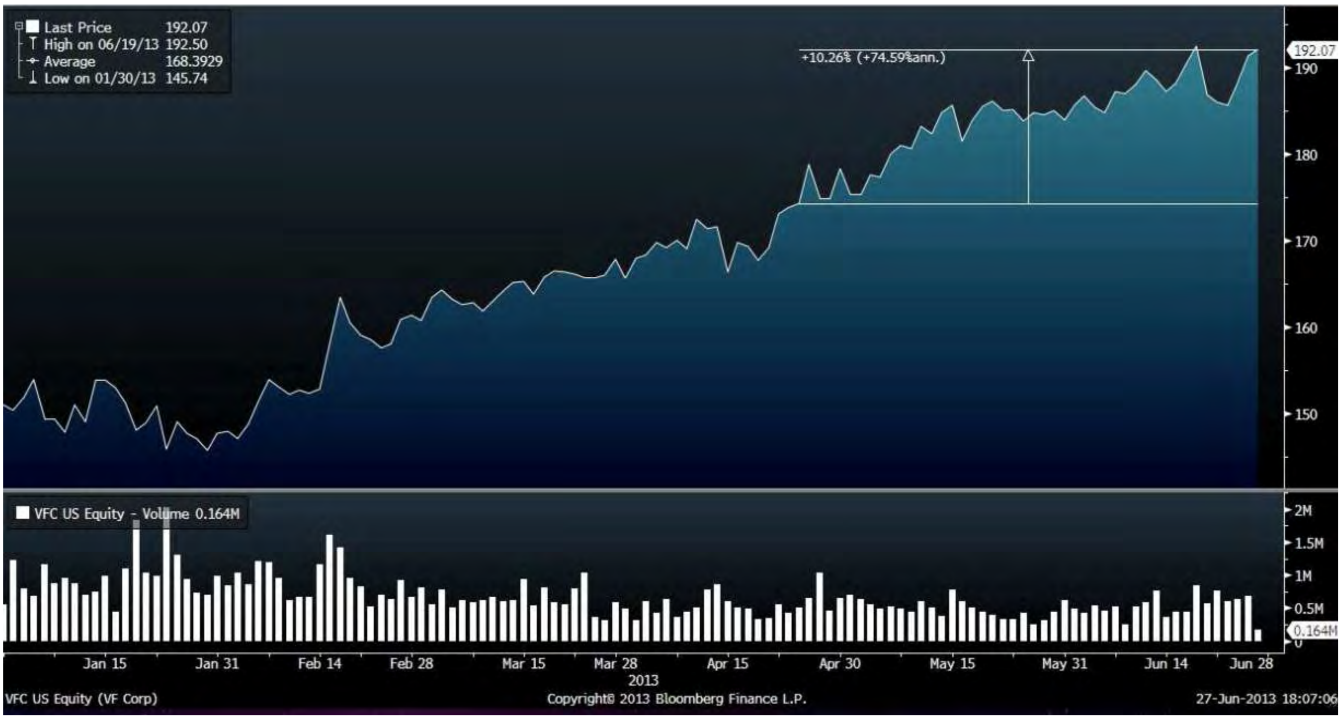
Louis Vuitton (LVMH)



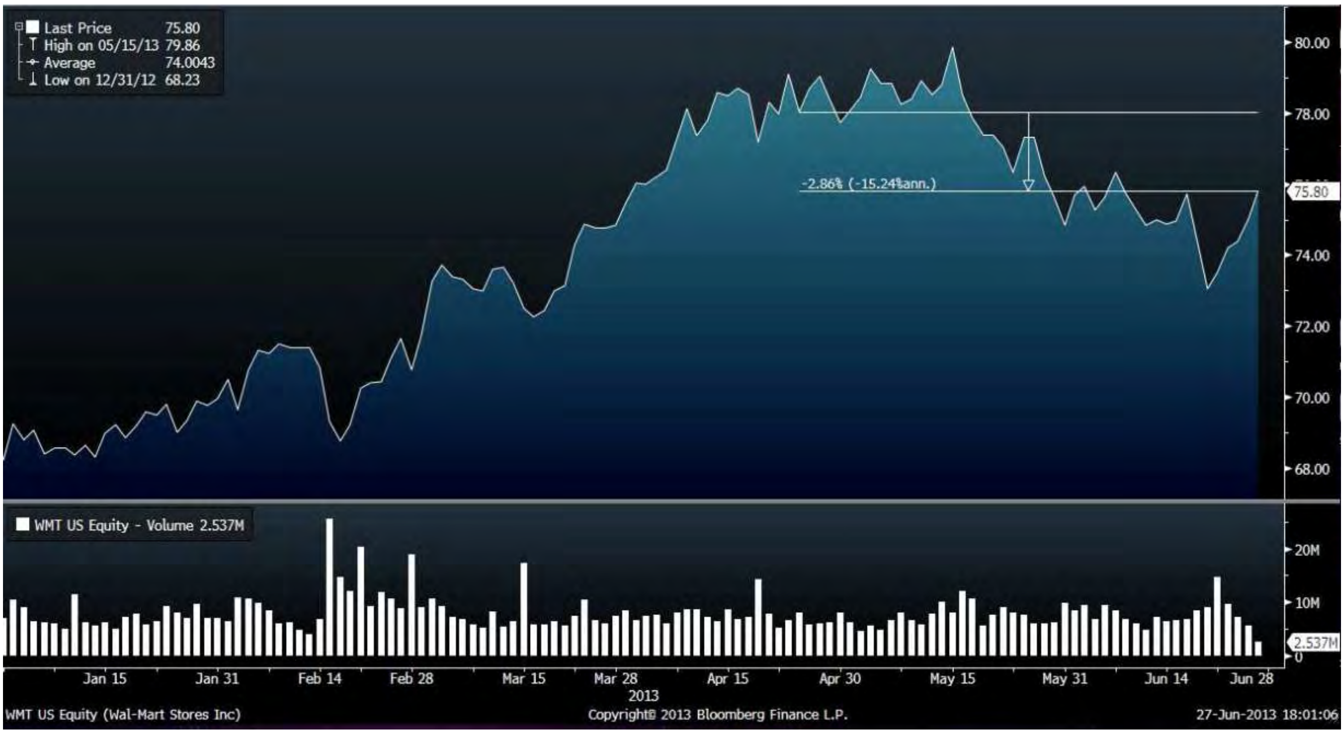
Nike

Puma

Timberland (VF Corp.)



Walmart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High on 05/15/13 79.86
Average 74.0043
Low on 12/31/12 68.23
-2.86% (-15.24%ann.)
80.00
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Jan 15
Jan 31
Feb 14
Feb 28
Mar 15
Mar 28
2013
Apr 15
Apr 30
May 15
May 31
Jun 14
Jun 28
WMT US Equity (Wal-Mart Stores Inc)
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Social Responsibility in the Supply Chain of the Garment Industry: A Practical, Innovative and "Systems Changing" Approach

International Master in Sustainable Development and CR

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1. Introduction

In this paper, we offer an in-depth analysis of the current status of the social issues related to the supply chain in the apparel industry and offer solutions to how the key stakeholders in this sector can work to improve their social responsibility. We were motivated to take on this analysis because we hoped to contribute to a concrete and effective evolution towards a more responsible supply chain in this industry. To do this, we first looked at the "drivers", or pressures and incentives, that motivate the main stakeholder groups. Second, we examined the current practices that these actors are implementing today. Third, we extrapolated some of the so called "best practices", as recognized by practitioners and academics, that are currently being implemented. This research was carried out through an extensive literature review of the topic in addition to six personal interviews with practitioners who have experience in this industry. This information allowed us to then propose three different strategies that we consider to be the most effective solutions for the sector - each taking into consideration a different level of innovation and disruptiveness.

This experience has been extremely interesting, specifically due to the fact that, a few weeks after we began our research, this topic became international news. On April 24, 2013, a factory building, known as Rana Plaza, collapsed in Dhaka, Bangladesh. This accident resulted in the deaths of approximately 1127 people and has been called the biggest industrial accident since Bhopal, India in 1984 (Burke, 2013). While this accident has been tragic and has brought to light the issues related to health, safety, and workers rights within the garment sector, these questions are not new. The apparel industry, non-governmental organizations (NGOs) and international organizations have been working on these issues for over four decades. In a paper written by academics Ans Kolk and Rob Van Tulder (2005), they ask several representative questions about social responsibility:

> *Are companies indeed increasingly becoming socially responsible and responsive to societal concerns? Is civil society becoming more effective in pressing for responsible business practices? And are governments correct in putting their hopes on corporate self regulation?*

Although this set of questions was asked over 7 years ago, they are still relevant questions currently being asked by both academics and practitioners today.

We believe that the strongest form of corporate responsibility (CR) that a company can do is related to improving their core business. If every company focused on making their own business models more socially inclusive, environmentally friendly, and long-term looking, many of the societal and environmental problems we are seeing today would likely diminish. For this project, we were interested in looking more closely at ways to improve a company's own business activities - from the inside, out.

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

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

2.1 Multinational Companies, also called "Big Brands"

The most powerful and influential stakeholder within the supply chain of the apparel industry is the Multinational Companies (MNCs). Their decisions and demands are generally respected by other stakeholders (suppliers, factory employees, and developing countries' governments where the factories are located). Similarly, MNCs are better able to manage and adapt to pressures.

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

MNCs are also pressured to improve their social performance. NGOs have historically been very active in pushing MNCs to work on social issues. Although these activist groups have achieved small victories, like the fight against child labor in factories, NGOs have struggled to significantly push MNCs to change their behavior. This is partly due to the fact that both consumers and investors have not shown much interest in this area. Consumers are generally interested in new products at a low price. Investors are primarily concerned about the economic performance of the company and their return on investment. These interests affect how companies look at reputation management. When asked how much supply chain management affects reputation within the garment sector, Beverly Nanini (2013), Director at Reputation Institute Spain, explains that, nowadays, she does not believe that it is "a major factor in building reputation among society, but it definitely is one that can destroy it."

2.2 Suppliers

Suppliers face several pressures for performance from large apparel brands - both in terms of inventory output and responsibility issues. However, different departments within a multinational company are often pushing suppliers to achieve opposite objectives. Pressure for "responsibility" results often comes from the Corporate Responsibility (CR) Department, which is looking to monitor the factory's performance in terms of health and safety standards, good working conditions, decent pay, etc. The procurement department, which submits orders to the factory, has its own set of objectives for the supplier. It is looking to try to lower costs, shorten lead times, and increase quality of the products produced within the factory. In addition, they work on short term contracts with the suppliers, which does not provide incentives for suppliers to embrace the Company's social responsibility agenda. Given the evolvement of *Fast Fashion*, in which stores like H&M or Inditex change their inventory every few weeks, procurement departments are constantly looking to make their supply chains faster and more flexible. Therefore, the Procurement and CR Departments are sending contradictory and confusing signals to the factory managers - one asking for better and faster shipments at a lower price, while the other requiring fair wages, shorter work weeks, and better factory conditions. On the other hand, the lack of capacity, incentives, and interest of factory owners to properly manage production and implement proper health and safety standards can be part of the reason that basic working standards are not met.

2.3 Governments of Developing Countries

One of the main pressures placed on developing countries comes from the rapid increase in internationalization of supply chains within the last several decades. As MNCs quickly have moved capital and supply chains from one country to another, governments have had a difficult time keeping up, and have often left a gap in policy development that leaves workers and the environment unprotected from factory owners and multinational companies. In some cases, governments have created policies to fill this void, yet they are often weak, or lack implementation and monitoring. This is often due to “the inability (i.e., budgetary and capacity limitations) and/or unwillingness (i.e., fear of driving out foreign investors) of host governments to enforce their own laws” (Locke and Romis, 2010). Companies themselves have turned to the creation of their own codes of conduct and audit systems to help fill part of this void. In many countries, the Corporate Responsibility department’s audit system has replaced the regulation enforcement historically done by government officials; they have replaced state regulatory actions with private initiatives. Yet, our research has shown that these codes of conduct and audit schemes are not working properly.

Additionally, pressure from lobby groups and factory owners can influence the effectiveness of policy making and implementation. Governments from developing countries feel internal pressures to either keep regulation weak, or to maintain weak enforcement of their policies in order to attract foreign investment and appease local companies. However, they often feel immense pressure from the international arena, which asks for the very opposite. International organizations, like the International Labour Organization, NGOs, like the Clean Clothes Campaign, and OECD Governments have continually put pressure on developing countries to improve their protections of human and labor rights. Big Brands themselves are also starting to pressure governments to enact stronger policies and policing within their countries, as they have begun to realize that price is not the only deciding factor when it comes to deciding where to purchase. They also are looking for “supply chain stability, good infrastructure, quality, skills and innovation” (Ansett, 2013a).

In addition to these pressures, many of these governments are dealing with huge problems of corruption within their countries. Corruption is defined as “…the abuse of entrusted power for private gain” (Transparency International, 200?). There are several types of corruption that affect the apparel and footwear industry in developing countries including bribery, collusion, a lack of government protection for whistleblowers, and a lack of transparency from government. In addition, in many of these countries, business owners are often heavily involved in politics. In Bangladesh, for example, over 10% of Parliament members have a stake in the garment industry. This can cause an “undue influence on policy” in which this industry can influence legislation in favor of their individual interests, rather than the interest of society as a whole (Zaman, 2012).

2.4 Employees

Factory employees within this sector are at the bottom of the supply chain. Most of the workers in these factories are women. While Employees are a main source of value for the supply chain, they do not play a significant role in driving other actors within the system. In fact, in most cases, much of the pressures received by other groups are pushed down upon these workers in the form of long hours, low wages, poor conditions, etc. Often, the wages paid to these workers do not meet what practitioners call the "living wage", which is the wage considered to access to basic needs. In most of these factories, there is also no channel for these workers to communicate grievances to factory managers when there are issues within the factory. Additionally, in many of these countries, a significant portion of factory workers are migrants. These workers are often exploited and treated much worse than local workers. Even with these poor conditions, employees are driven to work within garment factories because, in most cases, these jobs are the best option for obtaining a secure, minimum income.

3. Current Practices Being Implemented:

We examined in detail the current practices being undertaken by MNCs to work towards improving the social conditions of the supply chain. We specifically looked at:

- Codes of Conduct: MNCs have created their own Codes of Conduct that set minimum labor standards in these factories. However, these codes of conduct have proven to not be very effective.
- Audits: The audit process was developed in order to monitor the compliance of the Codes of Conduct. However, audits do not include all of the issues required in order to provide an accurate account of the conditions in these factories.
- Transparency: Transparency is a critical element that allows the MNC to be accountable to their stakeholders. This helps bolster the credibility of the company for its stakeholders.
- Traceability: By being able to trace resources through the production process, MNCs increase the likelihood for control over the operations of the sector and reduce risks.
- Capacity Building: Where MNCs have implemented capacity building initiatives for their suppliers in the past, these practices have helped solve social related problems while improving performance.
- Collective Bargaining: Our research shows that this practice is not common in the industry. Often, trade unions have a bad reputation and/or cultural factors go against this type of practice.
- Freedom of Association: Although this practice is not common, along with Collective Bargaining, Freedom of Association is critical in order to give some sort of leverage to the employees.

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

We found several "Best Practices" that we considered to stand out. These practices include:

- Better Work: The Better Work program, organized by the International Labour Organization and the International Finance Corporation, has had a significantly positive impact in improving the labor conditions in garment factories in seven countries through a process of offering practical tools, services and stakeholder engagement.
- Coordinating the Procurement and CR Departments: Some MNCs have worked to re-think their procurement processes by considering the impacts that these decisions will have on labor conditions down the supply chain.
- Collaboration: MNCs have realized that many of these issues cannot be solved by one individual company, yet require sector-wide change. Several collaborative initiatives have proven to be successful in promoting this industry-wide improvement.
- Whistleblower Hotlines: Some MNCs offer factory employees systems in order for them to report their complaints directly to the company. This way, employees feel more free and secure to report abuses; factories know any abuse can be quickly notified to their buyers at any time; and MNCs receive more information about their supply chain issues at a lower cost.

5. Proposals:

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

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

Suppliers:

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

Employees:

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

Companies:

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

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

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

- Promoting Capacity Building with Suppliers: One of the biggest issues facing factories is the lack of capacity and knowledge to efficiently manage their business. For example, factory owners may improperly calculate the hours needed in order to finish a piece of clothing. Therefore, they take on too many orders and are then pressured to subcontract or require overtime from employees. Companies should offer more capacity building programs in order to improve the management quality and reliability of these factories.

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

A study by Richard Locke and Monica Romis (2010) shows that better communication and capacity building between companies and managers of factories not only improves working conditions for employees, but it also boosts productivity. This way, these factories provide more value to the supply chain.

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

- Inclusion of social and environmental performance indicators in the performance assessments of management: Management's performance should not only be assessed by economic performance indicators, but also by social and environmental factors, to incentivize managers to make decisions incorporating all three aspects. Levi Strauss & Company has begun to include these performance indicators through their Global Sourcing organization. Levi Strauss and Company is thus creating a more coherent communication to its suppliers and customers. This promotes a significant shift towards incorporating social responsibility into the company's core business therefore increasing the likelihood of gaining competitive advantage.

- Increasing Transparency: Increasing transparency helps companies show their stakeholders what they are doing to improve the conditions within their supply chains. It helps bolster stakeholder's credibility in the company and maintain positive relationships with these groups. This credibility is specially beneficial to companies, as they are competing in a fast changing increasingly open world with social media making them more accountable to its stakeholders. This is a fundamental element to maintain the company's "licence to operate" in the future.

Governments in Developing Countries where the Suppliers are Located:

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

MNCs are becoming more interested in the "social conditions" of the countries where their products are manufactured, governments who have these types of protections in place are more attractive to socially responsible and risk-averse companies.

- Create minimum standards for labor conditions: Minimum wages, benefits, and contract law allow employees to feel protected and ensure that their basic needs are met. By promoting these minimum labor conditions, governments would reduce pressures placed upon them because they are responding to the demands of their citizens. Also, these efforts could increase social peace and be in the interest of responsible companies.
- Improve protections for migrant workers: Developing countries should work to monitor the level of migrant workers within the country and ensure that migrant workers are not working in forced labor conditions or being held against their will. They can do this through the inspection process of these factories. By protecting and respecting the rights of migrant workers, Governments will benefit from the better integration of migrants, more social cohesion and increased stability.
- Promote investments in the physical and legal environment surrounding the industrial sector of the economy: Companies are now looking for more than a cheap place in which to produce. Therefore, if a government is able to provide or promote some of these conditions, companies will be more interested in these countries, and less concerned about increased labor costs.
- Better Policing and Enforcement of Labor and Human Rights Legislation: In most of these countries, legislation protecting the rights of workers already exists, however the enforcement of these laws is very weak. Many of these governments have a very small labor inspections department to cover thousands of factories. Sean Ansett (2013a) states that some companies "have taken the step of making clear that they welcome the effective enforcement of labor and environmental standards, as this provides greater predictability and less risk for their business."
- Create minimum standards for health and safety conditions in factories: Governments should offer more specific health and safety requirements to the factories operating in their country and provide a detailed description of these standards. They should promote the use of permits and enforcement policies in order to ensure that buildings are up to safety standards. These minimum standards will help increase political support and reduce the risks of civil upheaval. This will also make these countries more attractive to responsible and risk-averse companies.
- Steps towards the reduction of corruption within the political sphere: Governments should work on ways to reduce the level of corruption in enforcement mechanisms within their country. Policing and sanctioning these practices is critical. They should also take steps to improve the level of transparency regarding government actions and processes. By reducing corruption, governments will decrease the risk of industrial accidents, making their country more desirable to large

multinationals. Also, transactions will become cheaper within the country, as it cuts out "extra-payments" to obtain administrative permits, licenses, etc.

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

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

Governments in Developed Countries

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

Governments in Developed Countries, International Organizations, and NGOs:

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

5.2 Strategy 2: Proposal in Order to Create Transformative Change in the Sector

This strategy seeks to create a more transformative change within the sector that will promote a collaborative, international environment in which systemic issues are discussed and possible solutions negotiated and agreed upon. To do this, we propose the creation of a coalition of NGOs that leads, what we are calling, "positive responsible lobbying" in order to promote the creation of a multi-stakeholder partnership involving all stakeholder groups in this industry. Within this partnership, the NGO coalition will facilitate the engagement of all the stakeholders with the goal of creating, what we are calling, "The Plan". This Plan will include the specific objectives and possible measures and solutions proposed by the partnership to achieve these goals. The Plan will then be submitted to the World Trade Organization (WTO) so that governments negotiate and finalize an agreement on the final actions that will be implemented in order to achieve the goals set forth in the Plan.

Why the WTO?:

The WTO is the international organization which governs world trade. Since its inception, it has developed the infrastructure, human resources and network to manage international trade and settle international trade disputes. In this sense, the WTO is a good venue for implementing socially responsible criteria for businesses within the garment sector, given that trade accords are negotiated and decided upon within this institution.

Additionally, this type of initiative - discussed and agreed upon by governments - promotes the role of government within this industry. As previously mentioned, the rapid increase in internationalization of these supply chains has produced a "gap" in which governments have not been able to properly regulate and monitor the labor and social conditions within their countries. To fill this void, companies have developed their own privatized mechanisms to monitor these conditions. The hope is that through a political agreement, these countries can work together in order to create solutions to this governance gap and strengthen the capacity of developing countries in areas of human and labor rights.

The NGO Coalition:

The NGO coalition will have five functions: agree on the major social issues; act as a facilitator for the multi-stakeholder engagement; lead "positive responsible lobbying" in order to invite the stakeholder groups to be part of the partnership; promote awareness among civil society; and work to include this initiative within the agenda of the World Trade Organization.

The Multi-Stakeholder Partnership

The Multi-Stakeholder Partnership will involve the Coalition of NGOs, MNCs, developing countries, developed countries, factory owners, trade unions, and other representatives from the employees. Through this multi-stakeholder engagement, the partnership will create The Plan, which will be submitted to the WTO.

The Plan:

The Plan will include a list of goals that the sector is aiming to meet. These goals need to be specific, measurable, achievable, realistic, and time bound. These goals should, at least, focus on the areas of *living wage, minimum labor standards and conditions, health and safety, grievance procedures, freedom of association, collective bargaining, transparency, and traceability*. Additionally, the Plan will incorporate ideas for possible measures that each stakeholder group could implement in order to improve certain aspects of the sector. It will also include possible mechanisms, mentioned in the next section, that could be used by governments to meet the goals set within the plan.

WTO Negotiations:

Based upon our research, the WTO presently does not have any provision within any agreement that discusses social and environmental issues within the supply chain of the garment sector. Therefore, this coalition would either need to lobby to change the current agreement (*Agreement on Textile and Clothing*), or create a new agreement that obliges countries to meet some social goals.

Within the negotiations at the WTO, governments will discuss how these goals should be achieved. They will discuss who should be accountable for implementing each measure within the proposed Plan. These governments will also negotiate different mechanisms that will work to aid, both economically and by other means (for example, capacity building), developing governments in order to promote policies and programs that work to achieve these goals. One possible mechanism could be a financial system in which funds are generated to bolster the economic capacity of developing countries to strengthen their government agencies involved in policy enforcement and implement initiatives within their countries. There could also be a mechanism in which developing countries work with the International Labour Organization in order to promote the transfer of knowledge regarding labor inspection practices across countries.

This agreement would also create a system of incentives or sanctions that are attached to these goals. Some examples of incentives and sanctions that could be considered entail tariff benefits or preferential access to markets for countries which are meeting the goals set within the agreement. Possible sanctions could include economic penalties for developed countries which do not meet the actions required from them as outlined within the agreement. Also, developing countries who fail to meet the requirements to which they agreed upon will be set timeframes within which they will need to meet these unfulfilled goals.

Transformative Change:

Through this initiative we hope to create a transformative change within the sector that, through effective multi-stakeholder dialogue: promotes a more global view of the sector and moves away from initiatives that work to improve each issue individually; emphasizes the importance of governments within this system, and works to strengthen their capacities to assume their roles; and creates an agreement with major goals that are specific, measurable, achievable, realistic, and time bound - which will be achieved through the implementation of agreed upon international mechanisms. The hope is that this transformative change would improve the current model so that it not only focuses on economic growth, but also considers social development as well.

5.3 Strategy 3: Proposals to Shift the “Business as Usual” Mindset

The last set of proposals focuses on the systemic issues in the industry and proposes ways to correct the current “drivers” within the sector. Here, we will show some fundamental changes that are necessary in order to make a shift away from the “Business as Usual” mindset.

All Countries:

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

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

Developing Countries:

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

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

- Improvement of immigration law and protection of migrant workers’ rights: Countries must work to monitor the level of migrant workers within the country and the conditions in which they are working in order to work to protect their human rights. It is important to work to enact legislation that protects migrant workers. Given that immigration issues are not isolated to the actions taken by one country, this will likely take cooperation of the all governments to work together to create a global effort towards immigrant workers.

Companies

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

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

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

> *The measure that we should be using for growth... When we are currently living off two and a half planets, does that measure truly take into account externalities? and it doesn't. So, I think that the biggest pressure is the current model that people are living in and companies are working under today. I am not making excuses that that's OK because they are stuck in that model, but that is the biggest pressure, I feel, today, is this constant drive for growth and that you are not accounting for the externalities, like how people are treated, or how the planet is treated in that process. You get rewarded only for growing.*

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

Consumers:

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

  Firstly, consumers need to be made more aware of the issues related to supply chains in developing countries and understand the impacts that this economic model has on people in other parts of the world. They need to be made more aware of the negative impacts of *Fast Fashion* and over-consumption. This awareness should be done through several channels including education, media, and, not least, the Big Brands themselves.

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

- Reflection and change in consumer behaviour through education: The economic model of fast fashion has numerous negative implications on the social well-being of workers and factory owners in countries that support the apparel and footwear industry. Consumers need to move away from over consumption patterns promoted by the fast fashion industry and need to reflect on whether their consumption habits are more related to need, or more related to want. For example, do consumers need a new bathing suit every summer? or do they simply want one? They must shift from a culture of want to one of need. This reflection will need to be made by every type of consumer and these new ideals will need to be incorporated within education and awareness campaigns - specifically addressing children and youth.

Investors

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

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

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

5. Conclusion

Upon completion of this project, we conclude that the best way to improve the social performance of this sector will require that all stakeholder groups open a constructive dialogue, find common purposes and work together to provide industry-wide solutions to these issues; yet, governments and companies will have to play a large role, and take the initiative, to make this change. However, as we have discussed, these two groups have limited incentives to promote this shift; they face many pressures for results or actions which are often in conflict with social improvements. Therefore, other groups such as consumers, investors and NGOs will also have to change their habits, interests, and practices in order to align their demands with building a more responsible and prosperous society. The current situation leads us to ask: Does the current economic model really promote social development and shared value for all groups in the supply chain?

We propose a mind shift of all relevant stakeholders that will change the incentives in the system, allowing new key drivers to move the model towards a more flourishing society. This shift will require the adoption of new habits and cultural views regarding consumption and economic success; however, this change can start with short-term "common sense" steps within the existing structure. Additionally, there is the opportunity for a positive transformative change within the current system through a global multi-stakeholder initiative, led by a coalition of NGOs, to work on a comprehensive solution to the social issues within the industry.

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