A high-angle photograph of a large, multi-story textile factory. The floor is filled with rows of sewing machines and workers. Large pieces of red fabric are draped over the machines and tables. The workers are mostly women, some wearing colorful saris. The factory has a complex structure with many levels and walkways.

# CSR IN THE BANGLADESH TEXTILE INDUSTRY: Responsible Supply Chain Management

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fahad faisal

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# **Corporate Social Responsibility in the Bangladesh Textile Industry**

## **Responsible Supply Chain Management**

*By Celeste Montera Vena<sup>1</sup>*

### **Abstract**

*Rana Plaza, an eight-story commercial building located in Dhaka, the capital of Bangladesh, collapsed on 24 April 2013 killing 1,129 and injuring 2,500 people. This catastrophe marked a turning point for Bangladesh Ready Made Garment industry: the government can no longer ignore the degrading and alarming working conditions of workers of this industry, and international labour rights advocacy initiatives gain strength and impulse to make those corporations supplying from Bangladesh to increase their commitment to the protection of labour rights.*

*This briefing paper enquires into multinationals' supply chains established in developing countries, identifies controversial issues along it and establishes their causes and risks. These problematic issues need to be addressed through Corporate Social Responsibility management. Thus, it proposes a set of Responsible Supply Chain Management measures to solve some of them, avoid their negative consequences and achieve responsible production and, consequently, a sustainable and responsible global wealth.*

This paper expresses the views of the author and not the views of the European Institute for Asian Studies.

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## 1. Introduction

*"Creating a strong business and building a better world are not conflicting goals - they are both essential ingredients for long-term success"*

**William Clay Ford Jr.**  
**Executive Chairman,**  
**Ford Motor Company**

Rana Plaza, an eight-story commercial building located in Dhaka, the capital of Bangladesh, collapsed on 24 April 2013 killing 1,129 and injuring 2,500 people. This catastrophe determined a turning point for Bangladesh ready-made garment industry: The government can no longer ignore the degrading and alarming working conditions of workers of this industrial sector, and international labour rights advocacy initiatives gain strength and impulse to make those corporations supplying from Bangladesh to commit to increase labour rights guarantees.

This report starts assessing Bangladesh regulation on working conditions before and after the Rana Plaza disaster and the international response to the catastrophe. Subsequently, it enquires into multinationals' supply chains established in developing countries in order to identify controversial issues along it and establish their causes and risks. These problematic issues need to be addressed through Corporate Social Responsibility (CSR) management. Thus, it proposes a set of Responsible Supply Chain Management (RSCM) measures in order to contribute to the solution of some of them, avoid their negative consequences and achieve responsible production, which would lead to a more sustainable and responsible global wealth.

## 2. The Bangladeshi context

Bangladesh remains one of the world's poorest countries. Its high population density, a large informal sector and vulnerability to climate change impacts and natural disasters, are some contributing factors.<sup>2</sup>

The country, however, has made considerable social progress over the last two decades. Remarkable results have been noted in achieving the UN Millennium Development Goals (MDGs). The biggest improvements have been experienced in MDG 1 (poverty alleviation), MDG 2 (universal primary education), MDG 3 (gender equality) and MDG 5 (reducing maternal mortality). In 2010, the UN General Assembly honoured Prime Minister Sheikh Hasina with an award commemorating Bangladesh's remarkable achievements toward attaining MDG 4 (reduce child mortality). The country successfully reduced child mortality to 46 deaths per 1000 live births in 2011, compared to 146 per 1000 live births in 1990. In the area of women's empowerment, Bangladesh has made extraordinary improvements as well. Women now occupy key high-level positions in the government, high and supreme courts, police and the armed services.<sup>3</sup>

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<sup>2</sup> UN in Bangladesh (2012). *Country Profile: Bangladesh*. Retrieved from <http://www.un-bd.org/countryprofile.php>

<sup>3</sup> UN in Bangladesh, *Country Profile: Bangladesh*.

The Bangladesh economy has made significant progress over the past decade too. With a GDP of USD 120 billion, it is the third largest economy in South Asia. Despite numerous economic and social challenges, the Bangladeshi economy has been growing at around six percent annually. The country's economy is in transition from an agrarian to an industrial base. Although agriculture still employs 47 percent of the working population, it contributes less than 20 percent to the country's GDP. Indeed, the main causes behind this level of economic growth are the availability of microcredit and the strength of the Bangladeshi garment industry. Ready-made garments (RMGs)<sup>4</sup> and textiles industry are two of the country's principal industries. The total export of RMGs for the period 2011-2012 was above 19 billion USD, which is more than 78 percent of total Bangladeshi exports. These industries hire mostly women, liberating four million of them from the bottom of the development pyramid. Prospects for more economic growth are positive: Bangladesh has a vast population of 163 million people, and a young and trainable workforce. Some 62 percent of its population is of working age, and 18 percent are between 15 and 24 years of age.<sup>5</sup>

Development in the above mentioned fields has led Bangladesh to improve its position in the UN Development Programme (UNDP) Human Development Index rank from 2011 to 2012.<sup>6</sup> Nevertheless, it continues being in the category of Low Human Development countries, placed 146<sup>th</sup> out of 187 countries and territories. The economic model that has facilitated latest developments in Bangladesh is supported on a workforce condemned to conditions very close to slave labour: excessive working hours, unacceptable safety and health conditions and starvation wages. In addition, challenges remain and Bangladesh needs to address its low indices of nutrition and completion of primary education as well as tackle the numerous environmental challenges. Bangladeshi economy also presents a number of challenges. The World Economic Forum's Global Competitiveness Report identified inadequate infrastructure, inefficient government bureaucracy, poor labour conditions, corruption and political instability, as critical barriers to business and investment in Bangladesh.<sup>7</sup>

### **3. Corporate Social Responsibility and working conditions in the Bangladesh garment industry**

#### **3.1 Corporate Social Responsibility overview**

Traditionally, a corporation's function in the market was focused only on financial performance and profitability. As a consequence of rising globalisation and pressing ecological issues, stakeholders – shareholders, suppliers, employees, the community and government – have redefined corporations' role in the market and in society, attributing them a broader responsibility and evaluating their ethical and socially responsible

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<sup>4</sup> Ready-made garments are mass-produced finished textile products of the clothing industry. They can be divided into two types: outer clothing (e.g. sportswear, coats, sports jackets, skirts or shirts) and underclothing (e.g. underpants, undershirts or pantyhose).

<sup>5</sup> Bangladesh Garment Manufacturers and Exporters Associations (2013). *Trade Information*. Retrieved from <http://www.bgmea.com.bd/home/pages/TradeInformation#.UchZPjvOHME>. Trading Economics (2013). *Bangladesh GDP Growth Rate*. Retrieved from <http://www.tradingeconomics.com/bangladesh/gdp-growth>. UN in Bangladesh, *Country Profile: Bangladesh*.

<sup>6</sup> UNDP (2013). *Human Development Report 2013: The rise of the South*. Retrieved from <http://hdr.undp.org/en/reports/global/hdr2013/>

<sup>7</sup> UN in Bangladesh, *Country Profile: Bangladesh*. Trading Economics, *Bangladesh GDP Growth Rate*.

performance.<sup>8</sup> As a result of this shift in perception, the term corporate social responsibility (CSR) has begun to gain strength on the international economic stage. Although there is no universally accepted definition of CSR, there is a consensus on what it represents: a way of business management, which includes ethic values in order to produce an overall positive impact on the society and environment within which a company operates.<sup>9</sup> A straightforward approach to CSR is the so-called “Triple Bottom Line: People, Profit and Planet”. This term was first coined in 1994 by John Elkington. With the idea of “what you measure is what you get because what you measure is what you are likely to pay attention to” as its premise, the Triple Bottom Line (TBL) proposes companies to add people and planet bottom lines, next to the traditional corporation’s profit bottom line. Hence a company implementing the TBL is taking into account the full cost involved in doing business.<sup>10</sup>

A large number of guidelines, standards and policies have been developed worldwide to implement CSR in business. Almost all of them are based on international workplace norms outlined in various International Labour Organisation (ILO) conventions and the Universal Declaration of Human Rights. The most globally recognized guidelines are: the UN Global Compact (UNGC); Organisation for Economic Cooperation and Development (OECD) Guidelines; ISO 26000;<sup>11</sup> the ILO Tri-partite Declaration of Principles on Multinational Enterprises and Social Policy; and the Global Reporting Initiative (GRI). Next to them there are some relevant CSR international initiatives specifically conceived for the Textile Industry: World Wide Responsible Apparel Production (WRAP), Fair Labour Association, Clean Clothes Campaign, Fair Wear Foundation, Workers Right Consortium, Control Union/Skal certificate and Oeko-tex 100/1000 standard, are some of them.<sup>12</sup>

At the regional level, the European Union has implemented its own initiative on the issue: the EU Eco Label standard. Established in 1992, it is a certification scheme to help European consumers distinguish more environmentally friendly products and services. For garments the Eco-label counts for the whole supply chain, from fibre to end product. The scheme has also set environmental and performance criteria for judging products.<sup>13</sup> Furthermore, the EU has its own CSR policy and puts forward an agenda for action covering the period 2011-2014.<sup>14</sup>

### **3.2 Bangladesh working condition in the RMGs: before and after Rana Plaza**

Rana Plaza, an eight-story commercial building, collapsed on 24 April 2013, in Savar, a sub-district in the Greater Dhaka Area, the capital of Bangladesh. The official death toll of the accident is 1,129 and approximately 2,500 injured people were rescued from the building

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<sup>8</sup> KPMG & Assocham (2008). *CSR: Towards a Sustainable Future; A White Paper*. Retrieved from <http://www.kpmg.com/in/en/services/advisory/risk-compliance/documents/whitepaper%20on%20csr.pdf>

<sup>9</sup> van Yperen, M. (2006). *Corporate Social Responsibility in the Textile Industry, International Overview*. Amsterdam : IVAM, p. 2.

<sup>10</sup> The Economist. (2009). *Triple Bottom Line*. Retrieved from <http://www.economist.com/node/14301663> ; <http://eleconomista.com.mx/finanzas-personales/2012/10/04/triple-bottom-line-otra-forma-medir-exito-empresarial>

<sup>11</sup> A set of CSR guidelines developed by the International Organisation for Standardisation (ISO).

<sup>12</sup> van Yperen, M. *Corporate Social Responsibility in the Textile Industry, International Overview*, p. 19- 55.

<sup>13</sup> For further information : <http://ec.europa.eu/environment/ecolabel/>

<sup>14</sup> European Commission (2011). *Sustainable and responsible business. CSR*. Retrieved from [http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm)

alive.<sup>15</sup> This catastrophe determined a turning point for Bangladeshi RMGs: The government can no longer ignore the degrading and alarming working conditions of workers in this industry, and international labour rights advocacy initiatives have gained the strength and the impulse to make those corporations supplying from Bangladesh to commit to increased labour rights guarantees.

### **Before Rana Plaza**

In 2006, the Bangladeshi government adopted the revised Bangladesh Labour Law (BLL).<sup>16</sup> This law is a consolidation and update of the 25 separate acts which existed before its promulgation. It covers a wide variety of aspects, from conditions of services and employment to settlement of disputes and labour courts, as well as maternity benefits and trade union regulation. Despite specific terms of this regulation are not as detailed as in western systems, the main problem in Bangladesh is not the absence of laws regulating labour conditions, but the lack of their enforcement.<sup>17</sup>

Within the ready-made garment industry, this problem had been noticed long before the Rana Plaza incident happened. Despite the fact that CSR reports released by brands operating in Bangladesh have always been positive, reality behind the scene was different. A study analysing the RMG sector in Bangladesh pointed out that "safety regulation and intervention [...] are [...] relegated more to a routine than to any prevention or inspection function, based only on the whims and desires of the factory owner. Over decades no worthwhile safety audit has been seen, not even any kind of investigation or positive measures from the RMG factory owners or inspection authorities [...]".<sup>18</sup> As a consequence of substandard buildings, poor emergency procedures, inadequate and blocked fire exits and overcrowded workplaces, the work-related death toll in Bangladesh is high. Between the years 2006 and 2009, 414 garment workers were killed in at least 213 factory fires. A further 79 workers lost their lives in 2010 in 21 separate recorded incidents. Many of the workers killed in these accidents were manufacturing clothes for European and North American brands and retailers. The ILO Committee of Experts has regularly criticised Bangladesh's failure to implement a robust and credible labour inspectorate. For example, the Committee highlighted the fact that there were only 80 personnel involved in inspection activities in the entire country at the time of their report. These 80 inspectors had jurisdiction over 24,299 registered factories and roughly three million shops and establishments.<sup>19</sup>

### **After Rana Plaza**

After the Rana Plaza disaster criticism has considerably increased and new steps have been taken by the government. While some of the changes had already been under preparation

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<sup>15</sup> Time World (2013). *Bangladesh Factory Collapse: Uncertain Future for Rana Plaza Survivors*. Retrieved from <http://world.time.com/2013/06/10/bangladesh-factory-collapse-uncertain-future-for-rana-plaza-survivors/>

<sup>16</sup> Board of Investment Bangladesh (2006). *Law details*. Retrieved from [http://www.boi.gov.bd/index.php/component/businesslaws/?view=lawdetails&law\\_id=24](http://www.boi.gov.bd/index.php/component/businesslaws/?view=lawdetails&law_id=24)

<sup>17</sup> Ahmed, J. U. & Hossain, T. (2007). *Industrial Safety in the Readymade Garment Sector: A Developing Country Perspective*, Sri Lankan Journal of Management, vol. 14 (1), pp. 1-13

<sup>18</sup> Ibid.

<sup>19</sup> Clean Clothes Campaign (2012). *Hazardous workplaces: Making the Bangladesh Garment industry safe*. Retrieved from <http://www.cleanclothes.org/resources/publications/2012-11-hazardousworkplaces.pdf/view>

even before the tragedy, like a new labour law,<sup>20</sup> all of them have probably been accelerated. Bangladesh is eager to avoid multinational companies leaving the country and to avoid their exports from suffering more penalties. For instance, Disney had already decided to gradually stop their operations in the 'highest-risk countries' like Bangladesh in March 2013, and the US has decided to suspend continuation of the Generalised System of Preference (GSP) facility for Bangladesh.<sup>21</sup> This decision might influence EU policy as well, which would have far more impact in Bangladesh since its clothing and textiles exports receive duty-free treatment and export figures to the EU are much more relevant.<sup>22</sup> The EU is Bangladesh's main trading partner, accounting for around 12 percent of the country's total trade. Clothes are 90 percent of total EU imports from Bangladesh.<sup>23</sup>

The first specific measure was the announcement that the minimum wage for garment industry workers would be increased. Despite the fact that Bangladesh is one of the world's largest exporters of clothing, the minimum wage for garment workers in the country is the world's lowest, at about USD 38 per month. It is expected that the government will set a new minimum wage with the collaboration of a board composed of labour groups and factories. This board was supposed to issue its recommendations for the pay increase by September 2013.<sup>24</sup> To date, no conclusion has been released. Recently, workers have held the largest protest so far in Bangladesh to demand a raise to USD 103 per month.<sup>25</sup> Indeed, they still have the opportunity to make their voice heard and taken into account in the process of establishment of a new minimum wage.

The other main governmental measure announced has come in the form of amendments to the BLL. Bangladesh adopted the amendments to its Labour Act on 15 July this year. The first review of the amendments by the ILO concluded that they address some specific concerns but it "falls short of several important steps called" by the organisation.<sup>26</sup> Some of the improvements noticed are: provisions to enhance workplace safety, elimination of previous obligation to send to employers the names of union leaders when a trade union is registered, and permission for workers to call on outside experts for advice during collective bargaining. Nonetheless, these reforms have disappointed initial expectations since numerous crucial aspects – above all on restrictions to workers' freedom of association right – have not been tackled. This is despite the fact that in May the government spokesman, Mosharraf Hossain Bhuiyan, expressed that "ministers had agreed to amend the law to lift legal restrictions on forming trade unions in most industries".<sup>27</sup> Among these restrictions are a 30 percent minimum membership requirement to form a union and the exclusion of workers in export processing zones from freedom of association and collective bargaining

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<sup>20</sup> CNN (2013). *Prime minister says Bangladesh is reforming its garment industry*. Retrieved from <http://edition.cnn.com/2013/05/02/world/asia/bangladesh-building-collapse/index.html>

<sup>21</sup> Bdnews24.com (2013). *Bangladesh loses GSP facility in US*. Retrieved from <http://bdnews24.com/business/2013/06/27/bangladesh-loses-gsp-facility-in-us>

<sup>22</sup> Bdnews24.com (2013). *Bangladesh to lose GSP facility*. Retrieved from <http://bdnews24.com/business/2013/06/27/bangladesh-to-lose-gsp-facility>

<sup>23</sup> European Commission (2013). *Countries and regions: Bangladesh*. Retrieved from <http://ec.europa.eu/trade/policy/countries-and-regions/countries/bangladesh/>

<sup>24</sup> Business Insider (2013). *Bangladesh Will Raise The Minimum Wage For Garment Workers*. Retrieved from <http://www.businessinsider.com/bangladesh-raising-minimum-wage-2013-5>

<sup>25</sup> Reuters (2013). *Bangladesh garment workers stage biggest wage hike protest*. Retrieved from <http://www.reuters.com/article/2013/09/21/us-bangladesh-garment-protest-idUSBRE98K06J20130921>

<sup>26</sup> UN news Centre (2013). *Revised Bangladesh labour law 'falls short' of international standards – UN agency*. Retrieved from <http://www.un.org/apps/news/story.asp?NewsID=45470>

<sup>27</sup> Guardian (2013). *Bangladesh eases trade union laws after factory building collapse*. Retrieved from <http://www.guardian.co.uk/world/2013/may/13/bangladesh-trade-union-laws>

rights. Although an official review of the amended legislation needs to be done later in the year, ILO considers that additional labour law reforms will be required to fulfil the government's commitments and obligations under ratified conventions. Furthermore, new rules for implementation will be needed to bring the provisions of the new amendments into practical effect.<sup>28</sup>

### **3.3 International reaction: Accord on Fire and Building Safety and the EU**

#### **Accord on Fire and Building Safety**

The most resounded initiative since the Rana Plaza incident has been the Accord on Fire and Building Safety in Bangladesh, signed on 13 May 2013. It brings together international federations of trade unions – IndustriALL and UNI Global – Bangladesh worker unions, along with international brands and retailers. The ILO acts as an independent chair to enhance implementation of the accord. Under this agreement, signatory companies commit to ensure the implementation of a programme for reasonable health and safety measures along their supply chain in order to guarantee a safe and sustainable Bangladeshi RMG industry, for a period of five years. The programme asks companies to designate all factories in Bangladesh producing ready-made garments for them and to classify them in one out of three tiers (primary suppliers, major suppliers and minor suppliers), depending on the actual volume of production they carry out for the company. For each tier there is a different level of engagement in terms of type of inspection and remediation measures. The aspects of the Accord that make it different from others on the same issue are:<sup>29</sup>

- It establishes a dispute resolution process that includes an arbitration process to be enforceable in a court of law of the domicile of the signatory company.
- It provides a number of guarantees in the interest of workers. Some of them are:
  - The requirement for supplier factories to maintain workers' employment relationship and regular income for up to six months in case the factory has to close for renovations. Failure to do so may result in the termination of contracts between retailer and factory.
  - The requirement for supplier factories to ensure a worker can refuse work if he or she has reasonable justification to believe it is unsafe, without suffering discrimination or loss of pay.
  - The commitment of companies to make reasonable effort to ensure that workers who lose employment due to loss of orders are offered employment at a safe factory.
  - It commits signatory companies to staying in Bangladesh for at least the first two years of the Accord.
  - The worker complaint process established by the Safety Inspector should be also guaranteed and connected to the Bangladesh National Action Plan of Fire Safety.

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<sup>28</sup> UN News Centre, *Revised Bangladesh labour law 'falls short' of international standards*. ILO. (2013). *ILO statement on reform on Bangladesh labour law*. Retrieved from [http://www.ilo.org/global/about-the-ilo/media-centre/statements-and-speeches/WCMS\\_218067/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/media-centre/statements-and-speeches/WCMS_218067/lang--en/index.htm)

<sup>29</sup> Accord on Fire and Building Safety in Bangladesh, signed on 13 May 2013.

The Accord implementation plan was released 7 July 2013. For the time being, 80 market leading clothing brands and retailers – mostly European<sup>30</sup> – have signed the accord.<sup>31</sup> On 15 July, these brands sent in detailed data on their supplier factories in Bangladesh. Currently, initial inspections at every factory are being carried out and will be completed, at the latest, within nine months. After inspection, plans for renovations and repairs will be put in place where necessary.<sup>32</sup>

## The European Union

As the largest trading partner of Bangladesh, the EU has expressed its concern with labour conditions and has been holding meetings with Bangladeshi authorities since the disaster happened. The EU has called upon the government to act immediately to ensure that factories across the country comply with international labour standards.<sup>33</sup> In order to prove intention and commitment towards an improvement of working conditions in the RMG industry, several statements have been issued by EU Trade Commissioner Karel De Gucht and High Representative and Vice President of the European Commission Catherine Ashton together with the Foreign Minister of Bangladesh, Dr Dipu Moni.<sup>34</sup> In addition, a Global Sustainability Compact in response to Bangladesh tragedies was launched in July 2013. It commits the Government of Bangladesh, the European Union, and ILO to a number of time-bound actions: to reform the Bangladesh Labour Law to strengthen workers' rights, to improve building and fire safety by June 2014 and to recruit 200 additional inspectors by the end of 2013. In the same act, Commissioner Karel De Gucht made it clear that "[t]he EU is ready to help".<sup>35</sup> The EU also urges European companies to remain engaged and promote socially responsible supply chains by signing the Safety Accord.<sup>36</sup>

## 4. Multinationals' supply chain

A key ingredient of capitalism is making profit the goal of business performance. Managers of corporations make investment decisions with this narrowed vision of entrepreneurial activity in mind. They know that developing countries' characteristics increase the prospect of profits. Three main reasons are: fiscal incentives offered to foreign investors in order to attract investment to the country; a cheap workforce as a result of lower skilled workers and usage of low technology machinery; and lax legislation in terms of minimum wage,

<sup>30</sup> Only three US retailers have signed up to the plan, PVH Corp, Abercrombie & Fitch and Sean John. A group of 17 major North American retailers, including Wal-Mart, Gap, Target and Macy's, announced the Alliance for Bangladesh Worker Safety. The Walmart/Gap initiative is unclear on enforceability and there is no commitment from the brands to stay in Bangladesh, nor is there full transparency. For further information see: <http://www.bangladeshworkersafety.org/> ; <http://www.industriall-union.org/walmart-gap-bangladesh-safety-plan-pale-imitation-of-accord>; [http://www.nytimes.com/2013/07/11/business/global/us-retailers-offer-safety-plan-for-bangladeshi-factories.html?\\_r=1&](http://www.nytimes.com/2013/07/11/business/global/us-retailers-offer-safety-plan-for-bangladeshi-factories.html?_r=1&)

<sup>31</sup> IndustriALL (2013). *Bangladesh safety accord implementation - moving forward*. Retrieved from <http://www.industriall-union.org/bangladesh-safety-accord-implementation-moving-forward>

<sup>32</sup> Brandchannel (2013). *Retail and Apparel Brands Move Forward With Separate Bangladesh Safety Pacts*. Retrieved from <http://www.brandchannel.com/home/post/2013/07/08/Bangladesh-Accord-Finalized-070813.aspx>

<sup>33</sup> European Commission (2013). *Joint Statement by HR/VP Catherine Ashton and EU Trade Commissioner Karel De Gucht following the recent building collapse in Bangladesh*. Retrieved from [http://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/EN/foraff/136968.pdf](http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/136968.pdf)

<sup>34</sup> Statements from 30 April, 28 May and 1 June 2013 can be found here: [http://www.eeas.europa.eu/bangladesh/news/index\\_en.htm](http://www.eeas.europa.eu/bangladesh/news/index_en.htm)

<sup>35</sup> See Remarks by EU Trade Commissioner Karel De Gucht on the Launch of a Global Sustainability Compact in response to Bangladesh tragedies at: [http://europa.eu/rapid/press-release\\_MEMO-13-670\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-670_en.htm)

<sup>36</sup> IndustriALL (2013). *New EU Compact urges companies to immediately sign Bangladesh Accord*. Retrieved from <http://www.industriall-union.org/new-eu-compact-urges-companies-to-immediately-sign-bangladesh-accord>

environmental and workers' protection.<sup>37</sup> Hence, Asia has become the main 'factory' for big clothing multinationals.

In Bangladesh, foreign investors would find the following open list of lucrative factors:<sup>38</sup>

- Remarkably liberal foreign direct investment (FDI) regime in terms of fiscal and non-fiscal incentives. This regime allows 100 percent foreign equity with unrestricted exit policy remittance of royalty and repatriation of profits and income.
- Well-educated, highly adaptive and industrious low-cost workforce.
- One of the lowest minimum wages in the world.
- Incomplete and poorly enforced Bangladeshi law. Regarding Bangladeshi labour law, there are also restrictions – in law and practice – on workers' rights, for example, on trade union rights and, consequently, on the right of free collective bargaining for better working conditions.
- Proximity to China and India, which provide a vast market of nearly three billion people.
- Competitive energy prices.
- Proven export competitiveness since Bangladesh enjoys quota- and tariff-free access to the European Union, Canada, Australia and Japan.

#### 4.1 Other issues

But what is behind these appealing conditions for investment and profits? Several studies have identified some controversial social and environmental issues along the supply chain of multinationals established in developing countries. These problematic issues need to be addressed through CSR management. The four more prevalent ones are:

**Extremely low wages:** The ILO defines a minimum wage as "the minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions".<sup>39</sup> In contrast, there is not an internationally agreed definition of a "living wage". Nearly all countries have policies or legislation on minimum wages but living wages are clearly excluded from government policy. Particularly in Bangladesh, due to the competition to attract foreign investors, the government tended to set minimum wage below that of living wage. The former is currently about USD 38 per month, and Bangladeshi employer organisations have discouraged foreign buying companies from paying a higher salary, saying that this would undermine and imbalance the smooth running of the sector.<sup>40</sup> In a best case scenario, governments will implement regulation on other issues that influence appropriate standards of living. For example, this is accomplished through the

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<sup>37</sup> Gerencie.com. (2008). *Tres razones por las que las multinacionales invierten en el tercer mundo*. Retrieved from <http://www.gerencia.com/tres-razones-por-las-que-las-multinacionales-invierten-en-el-tercer-mundo.html>

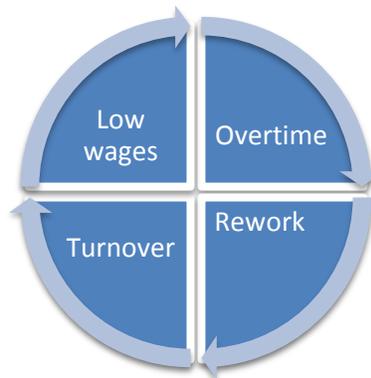
<sup>38</sup> Korea Times (2011). *Bangladesh your assure destination for investment*. Retrieved from [http://www.koreatimes.co.kr/www/news/issues/2013/07/211\\_83827.html](http://www.koreatimes.co.kr/www/news/issues/2013/07/211_83827.html)

<sup>39</sup> ILO (n.d.). *Resource guide for minimum wages*. Retrieved from <http://www.ilo.org/public/english/support/lib/resource/subject/salary.htm>

<sup>40</sup> van Opijnen, M. and Oldenziel, J. (2011). *Responsible Supply Chain Management: Potential success factors and challenges for addressing prevailing human rights and other CSR issues in supply chains of EU-based companies*. Centre for Research on Multinational Corporations, p. 151.

provision of collective or public goods and services, but this is not usual in developing countries.<sup>41</sup> As a result of low wages a vicious circle takes place:

*Image 1: Low wages vicious circle*<sup>42</sup>



In order to gain enough to live, workers tend to do overtime work. Because of tiredness and illness, the rate of faulty products increases and more rework is needed. This decreases productivity and increases worker turnover, hence low skilled workers remain the majority within the community. This usually constitutes the basis for the payment of low wages. The identified causes of this issue are: absence of definition of living wage and unwillingness of companies to pay higher prices to factories.<sup>43</sup>

**Overtime:** Overtime is also a common problem in the garment industry. It is the result of a variety of problems typical of this industry that can be classified as external and internal causes. Frequent external causes are: the buying behaviour of companies, which usually give tight lead times; late sample approval and last minute alterations to product specification; and late delivery of raw material inputs of suppliers to factories. The main internal cause is mismanagement; some examples include inadequate production planning and communication, or insufficient training and monitoring of workers that leads to the need to rework. Overtime is often the result of the need to rework a product that was manufactured by low skilled workers. This means that a significant proportion of work is unproductive and unpaid.<sup>44</sup> In Bangladesh, workdays average 10-11 hours – sometimes more – and workers report forced overtime.<sup>45</sup>

**Freedom of association:** The right to organise and form employers' and workers' organisations is the prerequisite for sound collective bargaining and social dialogue.<sup>46</sup> This right ensures that employers and workers have an equal voice in negotiations and that their outcomes are fair and equitable. In most countries, the freedom of association and collective bargaining are legally recognized, but there are very few countries where trade

<sup>41</sup> Ibid, pp. 46-50

<sup>42</sup> Created by the author, based on: Michiel van Yperen, *Corporate Social Responsibility in the Textile Industry, International overview*, p. 8.

<sup>43</sup> Michiel van Yperen, *Corporate Social Responsibility in the Textile Industry, International overview*, pp. 7- 14

<sup>44</sup> Ibid

<sup>45</sup> ICF International. Bureau of International Labor Affairs (2012). *Child Labor in the Informal Garment Production in Bangladesh*. Retrieved from <http://www.dol.gov/ilab/programs/ocft/PDF/2013GarmentBangladesh.pdf>

<sup>46</sup> ILO (n.d.). *Freedom of association*. Retrieved from <http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/freedom-of-association/lang--en/index.htm>

unions are active in garment companies. That is the case in Bangladesh. There, freedom of association is neither implemented nor guaranteed, and union leaders who try to assert it often end up dismissed, arrested or even find their lives at risk.<sup>47</sup> This is because labour advocacy collides with powerful interests in Bangladesh. In words of Alonzo Suson, who runs an A.F.L.-C.I.O.<sup>48</sup> training center in Dhaka, “[t]he federations that supported the A.F.L.-C.I.O. are viewed as not being loyal, as being traitors”. He explains that they are viewed as if they were trying to destroy the national economy.<sup>49</sup> Hence, working conditions cannot be negotiated, workers feel unfair treatment, dissatisfaction, and, in most severe cases, have to work in unsafe conditions. This not only constitutes a violation of fundamental rights, but also has negative consequences for business itself. It increases turnover, decreases worker productivity and profitability and increases costs because of labour disputes.<sup>50</sup>

**Health and safety:** According to the ILO Constitution, workers should be protected from sickness, disease and injury arising from their employment. Nevertheless, for millions of workers the reality is very different.<sup>51</sup> Within the textile industry health risks arise from the usage of pesticides and chemicals, high temperatures, noise and dust in the factory. Workplace safety is not always guaranteed, above all in subcontracted factories which often lack fire safety and evacuation routes, or have an inadequate system for the storage of chemicals.<sup>52</sup> The Rana Plaza incident is a good example that shows that multinationals’ orders are frequently transferred to subcontracted factories that do not fulfil health and safety requirements. Consequences of this can be devastating for not only workers, because of the impact of an accident on their lives, but also for the companies involved, whose image can wind up severely damaged.

Along the supply chain of multinationals in developing countries more CSR issues must be addressed: child labour within the informal economy; the lack of, or inadequate labour contracts; the discrimination against women regarding opportunities for promotion; bonded labour; and environmental concerns derived, for example, from the usage of glue and notions.<sup>53</sup>

## 4.2 Causes

Beyond the already mentioned specific causes that each of these issues have, there are three main reasons that contribute to the persistence of CSR concerns along multinationals’ supply chains in developing countries:<sup>54</sup>

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<sup>47</sup> AFL-CIO (2013). *Bangladesh: 1 Year Later, Murderer of Aminul Islam Still Free*. Retrieved from <http://www.aflcio.org/Blog/Global-Action/Bangladesh-1-Year-Later-Murderer-of-Aminul-Islam-Still-Free>

<sup>48</sup> American Federation of Labor and Congress of Industrial Organizations.

<sup>49</sup> The New York Times. (2012). *Fighting for Bangladesh Labor, and Ending Up in Pauper’s Grave*. Retrieved from [http://www.nytimes.com/2012/09/10/world/asia/killing-of-bangladesh-labor-leader-spotlights-grievances-of-workers.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2012/09/10/world/asia/killing-of-bangladesh-labor-leader-spotlights-grievances-of-workers.html?pagewanted=all&_r=0)

<sup>50</sup> Marjon van Opijnen and Joris Oldenziel, *Responsible Supply Chain Management*, p. 42-46 . Michiel van Yperen, *Corporate Social Responsibility in the Textile Industry, International overview*, p. 7- 14.

<sup>51</sup> ILO (n.d.). *Occupational safety and health*. Retrieved from <http://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/occupational-safety-and-health/lang--en/index.htm>

<sup>52</sup> Michiel van Yperen, *Corporate Social Responsibility in the Textile Industry, International overview*, p. 7- 14.

<sup>53</sup> Ibid.

<sup>54</sup> Huffington Post (2013). *Bangladesh Tragedy Proves Global Garment Trade Too Big To Supervise*. Retrieved from [http://www.huffingtonpost.com/peter-s-goodman/bangladesh-tragedy-garment-trade\\_b\\_3246277.html](http://www.huffingtonpost.com/peter-s-goodman/bangladesh-tragedy-garment-trade_b_3246277.html) .

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- a) **Complexity and lack of transparency:** The nature of large-scale manufacturing entails thousands of suppliers across the globe at different tiers. This complicates the identification and control of operational practices of all of them. Normally, most RMG brands and retailers have signed commitments to respect minimum CSR standards in conducting their business. Those factories in Bangladesh that have a direct contract with them fulfil codes of conduct requirements, but these factories routinely engage subcontractors in the underground economy that do not. Brands and retailers then claim ignorance when this practice takes place and incapability to prevent this from happening. Nevertheless, this practice takes place because this is the only way Bangladeshi factories can produce at the price the companies demand. These factories struggle to comply with orders that are evidently far from their ability of production.<sup>55</sup> In addition, multinationals are often reluctant to openly reveal those tracked suppliers. This complicates the monitoring work of labour rights defenders.
- b) **Not enough monitoring:** The monitoring of factory compliance with company supplier codes of conduct, or the verification of industrial certifications and sustainability reports, remains a challenge. Inspection activity is often scarce and does not subject companies to enough scrutiny. Investigations show that it relies too much on paperwork which is mostly being carried out by suppliers themselves, and is accepted by companies without further examinations. In addition, workers are routinely coached on how to answer inspectors' questions and workplace conditions are specifically improved only for their visits. Effective monitoring costs money. If done, its costs would be passed to the consumer in the final price. Both brands and consumers need to be willing to pay higher prices if they want socially responsible products.
- c) **The price companies and consumers want to pay is too low:** Production taking place in the underground market beyond local regulators or codes of conduct is the result of the pressure to produce at the lowest price possible. Multinationals have the power to extract cut-rate prices from suppliers in developing countries, and these prices can only be met by someone cutting corner on safety, wages and environmental stewardship. Again, responsible production costs money, and brands and consumers should be willing to pay higher prices if they want it.

Beside these three main causes it is interesting to highlight the voluntarism philosophy of CSR. Implementation of CSR measures is a voluntary decision of enterprises, and is in fact a typical characteristic of CSR. However, CSR produces costs that reduce profits in the short term and has less evident advantages for the company in the long term. Unsurprisingly, companies tend not to spend much on CSR management. The concept is not only recommendable, but also necessary and morally mandatory. For this reason, the State – which is meant to protect the common interests of the community – must guide social actors' behaviour (including companies), through mandatory CSR rules. Leading this new conception of CSR, India has recently approved a new Companies Bill<sup>56</sup> which mandates certain companies to spend two percent of their profit margin, averaged over the past three

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Marjon van Opijnen and Joris Oldenziel, *Responsible Supply Chain Management*, pp. 23-24

<sup>55</sup> Ibid.

<sup>56</sup> The text of the Indian Companies Bill 2013 can be found at <http://www.corporatelawreporter.com/wp-content/uploads/2013/09/Official-Gazette-of-India-Companies-Act-2013-Notified.pdf>

years, on socially responsible expenditures.<sup>57</sup> National mandatory CSR regulations could also solve the problem of the vast number of guidelines, standards and initiatives on CSR which appear to be a repetitive and uncoordinated swarm of recommendations.

### **4.3 Risks:**

The consequences of these problems along the supply chain concern all stakeholders. Under these conditions workers are injured, tired, ill and badly paid. In a word: exploited. Local communities mainly consist of unmotivated and low skill workers. A company with untrained and unhappy workers has a high worker turnover and unnecessary expenses. The presence of these supply chain issues considerably increases the risk of damage to a company's reputation and value that could lead to a decrease in sales. If so, investors lose interest in the company. At the end of the vicious circle there is always low productivity and profitability for the company and unhealthy economies, markets and communities. Under these circumstances no business can succeed. This proves that social and environmental concerns are companies' concerns.

## **5. Responsible Supply Chain Management**

In order to solve the aforementioned issues and avoid their negative consequences, companies are beginning to integrate responsible business practices into their supply chains operations and strategies. Implementation of CSR measures in a company's supply chain is known as Responsible Supply Chain Management (RSCM). In the literature there is no univocal definition of RSCM. Nonetheless, the International Chamber of Commerce states that:<sup>58</sup>

Supply chain responsibility, also referred to as responsible sourcing, can be broadly defined as a voluntary commitment by companies to manage their relationships with suppliers in a responsible way. As a result of their purchasing activities, companies may have some opportunities to influence constructively their suppliers' social and environmental performance.

And the United Nation Global Compact defines it as:<sup>59</sup>

The management of environmental, social and economic impacts and the encouragement of good governance practices, throughout the lifecycles of goods and services. The objective of supply chain sustainability is to create, protect and grow long-term environmental, social and economic value for all stakeholders involved in bringing products and serves to markets.

There are many international RSCM initiatives. Some of them are: the Business Social Compliance Initiative (BSCI); the OECD Guidelines for Multinational Enterprises; the guidelines for responsible supply chain management issued by The Danish Council on

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<sup>57</sup> Livemint and the Wall Street Journal. (2013). *New company law finally approved*. Retrieved 20 August 2013 from <http://www.livemint.com/Politics/9AbwwdbxYBhvyOoI8WEy5H/Companies-Bill-passed-by-Rajya-Sabha.html>

<sup>58</sup> International Chamber of Commerce (2008). *Guide to Responsible Sourcing*. Retrieved from <http://www.iccwbo.org/advocacy-codes-and-rules/areas-of-work/corporate-responsibility-and-anti-corruption/Guide-to-Responsible-Sourcing/>

<sup>59</sup> UNGC-BSR (2010). *Supply chain sustainability: A practical guide for continuous improvement*, p.5. Retrieved from [http://www.bsr.org/reports/BSR\\_UNGC\\_SupplyChainReport.pdf](http://www.bsr.org/reports/BSR_UNGC_SupplyChainReport.pdf)

Corporate Social Responsibility or Danida’s programme for Innovative Partnerships for Development”.<sup>60</sup>

### 5.1 Responsible Supply Chain Management measures:

From the study of the above mentioned issues, it is in the interest of all stakeholders to implement the following RSCM practices:<sup>61</sup>

<b>Corporations/ Shareholders</b>	<b>Codes of Conduct:</b> Include the notion of “living wages” in corporations’ codes of conduct. It might be a good idea to adapt the code of conduct to the specific supplier’s context. Regardless, the supplier shall always provide a “living wage”, which enables workers to meet the basic needs. The company should also require the supplier to establish reasonable limits on working hours in order to give workers sufficient rest time and time off. In accordance with ILO standards, the working week should not exceed 48 hours, the number of hours per day is restricted to eight in industrial companies and overtime should be voluntary and must not exceed 12 hours per week.
	<b>Purchasing practices and prices:</b> Incorporate social costs in purchasing practices and prices paid to suppliers. In doing so, it should enable suppliers to provide decent working conditions and wages, avoiding them to resort to informal economy.
	<b>Monitor:</b> Find out if suppliers pay their employees the minimum wage as stipulated by the State and whether these wages match the living wages, as well as whether they comply with other labour conditions requirements. Aim to maintain relations based on cooperation with the supplier.
	<b>Transparency:</b> Reveal the names of all tier suppliers who have direct and indirect contract relations with the corporation, by listing them on the company’s websites. Also publish audits. This will facilitate monitoring activities by all stakeholders.
	<b>Company level grievance mechanisms:</b> Implement own complaints procedure. This procedure must prioritise non-judiciary remedies, but should provide the possibility of resorting to them. <sup>62</sup> Communicate complaints procedures by posters in factories and during factory audits. Provide grievance/complaint forms or suggestion boxes. Appoint ombudsman/handlers that speak the local language and build relationship with workers.
	<b>Sanctions:</b> Impose commercial sanctions on non-compliant suppliers. Specify zero-tolerance issues such as violation of child labour laws and anti-corruption laws.
	<b>Remedies:</b> Seek remedies through the multi-stakeholder initiatives that the company has signed up and implement

<sup>60</sup> CSR Compass (2013). *Initiatives*. Retrieved from <http://csrcompass.com/initiatives>

<sup>61</sup> Compiled by the author, based on data obtained from: Marjon van Opijnen and Joris Oldenziel, *Responsible Supply Chain Management*, pp. 35-59, 150- 154, 165-168, 191-194. UN Global Compact (n.d.). *Occupational safety and health in the supply chain*. Retrieved from [http://www.unglobalcompact.org/docs/issues\\_doc/labour/tools\\_guidance\\_materials/Occupational\\_Safety\\_Health\\_in\\_the\\_Supply\\_Chain.pdf](http://www.unglobalcompact.org/docs/issues_doc/labour/tools_guidance_materials/Occupational_Safety_Health_in_the_Supply_Chain.pdf). CSR Compass (2013). *Six Phases Process*. Retrieved from <http://www.csrcompass.com/six-phases-process>.

<sup>62</sup> WF mechanisms : informs the member sourcing from the factory and investigates the complaint, the member is asked to formulate a response and a preliminary report and at the end of procedure a final report.

	<p>advice provided by them. For example: GRI, UNGC, OECD Guidelines, WBCSD, ISO 2600, FWF, EU Eco label, Oeko-tex 100/1000, Control Union/Skal, Workers Rights Consortium, IndustriALL, Clean Clothes Campaign, Fair Labour Association and WRAP. All of them provide essential tools for governments, employers and workers to establish such practices and to provide for maximum safety at work. Merely encouraging or even requiring compliance with the code of conduct and regulations is not enough in many cases. For that reason companies must do their best in enabling suppliers to ensure compliance.</p> <p><b>Training:</b> Provide factory-specific and ILO guidance training to employers and managers, organise shared learning seminars, hand out good practice sheets and a fire safety checklist.</p> <p><b>Team up:</b> Find out whether your company can cooperate with trade organisations or other companies active in the same local areas. It can help to share costs of common CSR measures and make them more efficient. For example, it is a good idea to cooperate in order to provide training to workers or to assess and monitor suppliers.</p> <p><b>Respect:</b> Do not infringe on communities' standards of living rights, and compensate for losses induced by business activity.</p> <p><b>Collective bargaining:</b> Facilitate collective bargaining by setting up new communication channels between workers and management, and procedures for consultation and dealing with complaints. In those countries where this is restricted, companies must provide alternative means for workers to express their collective concerns, such as worker committees.</p>
<b>Suppliers/Factories</b>	<p>Factories create a social structure within themselves. Conditions created in the working place must reflect desired social conditions. They can enhance living standards by providing lunch, clean water, housing and worker training. They should commit with CSR measures and codes of conduct for them to be effective. Suppliers must subject their production facilities to unannounced monitoring visits.</p>
<b>Trade Unions</b>	<p>Trade unions are an important mechanism through which victims can address violations. Corporations must cooperate with them during audits and trainings.</p>
<b>The State</b>	<p>Their role is primarily to ensure that their workforce earns a living wage and work in adequate conditions. They must build the capacity of labour ministries to enforce regulation, the capacity of citizens to be responsible consumers, should monitor compliance through inspections and must sanction violations. Establishing a legal requirement of spending in CSR and/or publicity of violations might be efficient tools to obtain responsible production. The state must ensure that its national wealth is generated in a responsible manner.</p>
<b>Consumers</b>	<p>Must be conscious that responsible production costs money and must be willing to assume the increase of the final price. Extremely low prices could indicate that costs have been reduced in a way that can be harmful for workers, environment or even the consumers themselves. Enquire on the origin of products, production process, and require social and environmental responsible products at stores.</p>

The benefits of the implementation of RSCM measures would reach all stakeholders. The employees of supplying factories have an inherent interest in RSCM since an improvement in salary received, establishment of reasonable working hours, and a safe and healthy working place would increase their living standards. The local community would consist of productive high skilled workers. Suppliers, shareholders and companies would also benefit since the increase of efficiency and productivity of their workers would lead to more profitability in their business. Costs would be reduced as a consequence of the reduction of expenses in labour disputes or input materials used in reworking needs. A company's reputation and value would be enhanced with better quality and responsible products, which would increase sales and customer loyalty as well as would attract quality investors and business partners.

## **6. Conclusion**

The economic and social progress achieved in Bangladesh in the last two decades is tightly linked to foreign investment. One can notice that those countries which allowed multinationals to invest have experienced remarkable improvements of their living standards – for example, Hong Kong, South Korea or Taiwan. On the other hand, countries hostile to foreign investment remain stuck in poverty. Indeed, FDI brings along many advantages for host countries: it creates employment, buys or rents buildings and lands, and transfers technology. In Bangladesh, FDI boosted the industrial sector, which is currently the country's main source of income.

Nevertheless, the impact of multinationals' business performance goes beyond the purely economic sphere. The scope of the impact also reaches the social and environmental aspects of the country and community within which the company operates. This must be taken into account in the decision-making process of investing enterprises' managers and potential host countries' governments. The latter must look for economic progress of the country without dooming its workforce and natural resources to exploitation. Companies must aim for economic profits, but making sure that their products are produced in a social and environmentally respectful way. They are quite capable of monitoring and enforcing required quality standards across their supply line. Corporate social responsibility is not a trivial issue. Events such as the Rana Plaza disaster in Dhaka demonstrate that in many cases many people's lives are at stake.

Still, responsible wealth creation is not a matter that only concerns companies and governments. Final consumers play a big part, since they decide what kind of products they want to purchase. Consequently, they have the final say on the types of products enterprises will produce. Ultimately the consumer, as the final addressee, is who goes through the buying decision process and it should be coherent with the desire of responsible production. This logic is not working since, despite general astonishment and alarm, in May – right after the Rana Plaza catastrophe – figures showed that Bangladeshi RMG exports increased.<sup>63</sup>

Social progress and wealth creation are immoral, groundless and invalid if they derive from an activity that infringes on the rights of people who produce it, and are unsustainable in

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<sup>63</sup> The Financial Express (2013). *RMG exports up over 16pc in April-May this year*. Retrieved from <http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMDdfMDZfMTNfMV8yXzE3NTUwMg==>

the long term. For this reason, in order to measure the success of an economic system, the full costs should be taken into account: economic, social and environmental. These costs should be taken into consideration in the decision-making process of all stakeholders: companies, government, consumers and shareholders. In doing so, the economic, social and environmental value for all stakeholders will raise, business profits will continue being generated and net global wealth will be founded and sustainable.

Hence, corporate social responsibility is a tool that emerges as useful way of management to achieve sustainable and profitable economic performance of business. In order to tackle the supply chain social and environmental concerns of global business performance, responsible supply chain management measures – as those proposed in this report – will need to be implemented.

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