

STRATEGICA

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Local versus Global

Edited by

Constantin Brătianu

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STRATEGICA

Local versus Global

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HOW CAN DELOCALIZATION FOLLOW A CORRECT SUSTAINABLE SUPPLY CHAIN APPROACH? LESSONS FROM RANA PLAZA DISASTER IN BANGLADESH

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Abstract. *The aim of this paper is to analyze the state of the art of CSR in the process of delocalization by multinationals in the textile sector. In particular, the study focuses on the strategies employed in the supply chain as a result of the Rana Plaza disaster in Bangladesh. The first aim of the research is to define the causes that saw multinationals involved in such a disaster. The second objective of the paper is to identify the CSR strategies that have been implemented by textile sector in Bangladesh to get over the impact of the negatives causes, underlined in the first part of the paper. The research methods to address the objectives are: a) a descriptive analysis of the Rana Plaza disaster to identify the critical aspects; b) documental analysis of the main theories of CSR that could have prevented this disaster; c) critical analysis of the reactions and strategic actions adopted after the disaster by the institutions, associations of workers and local unions, non-governmental organizations, as well as the companies responsible for the incident. The primary findings show the negative externalities of social and moral dimension behind the delocalization phenomenon that caused the disaster of Rana Plaza. It is due among others to the lack of control in the workplace, lack of control of the codes of conduct, disparity of the codes of ethics and lack of adequate legislation for workers' rights in Bangladesh.*

Keywords: *Corporate Social Responsibility; global strategy; sustainable supply chain; social compliance model; Rana Plaza disaster; reputational risk; delocalization.*

Introduction

The globalization allowed multinationals to carry out a massive relocation of intensive human capital phases in developing countries, where the savings from lower labor costs allow a competitive advantage in comparison to companies that do not delocalize their production. China, Bangladesh and other countries of Southeast Asia and Central and South America have become places where the lowest cost of labor attracts investments of the largest global traders.

Two aspects facilitated this phenomenon 1) all the processes that helped to eliminate barriers and stimulate global trade; 2) the awareness of corporations to specific needs such as getting a better flexibility and a better streamlining within the business units, which have been provided through outsourcing and delocalizing the production. The outsourcing activities with less value making allowed

concentrating their efforts on the core business activities. The Western multinationals investment of huge capital in outsourcing and offshoring brought a significant source of wealth for the local communities. Such context endorsed in emerging countries an intense downward competition based on the price at the workforce's expense in terms of salary, union rights and harsh working conditions that increased the risk of accidents, often turning into real disasters.

The global scenario redefined to a certain degree the roles for different countries: while Western countries exercise the role of brand leaders, many developing countries have become key partners regarding the delivery system. The centrality of the relationships in the clothing and textile sector is defined by the brand company, which brands the product and puts it on the market, thus taking responsibility towards consumers.

The case study of the Rana Plaza factory, located in the Savar district on the outskirts of Dhaka (Bangladesh), collapsed due to structural failure on the morning of the 24th April 2013. The disaster had more than 1,100 people died, mostly young women and more than 600 severely injured. Apparently the structural failure was caused by the vibrations created by the machinery because building was not suitable to accommodate factories and machinery used in the production of the goods.

Looking to the previous accidents in the supply chain of the industry in Bangladesh (a blaze in the Tazreen Fashion Factory) have been considered with a certain degree of confusion. Distinctively, the magnitude of the disaster of Rana Plaza has led the corporation of the sector to admit their direct responsibilities. The building housed a number of clothing factories that employed about 5,000 people, several shops, and a bank. This massive disaster has highlighted the inefficiency of the corporations supply chain management, based in developing countries, and how this results in a substantial reputational risk, even if they already applied a social compliance model.

On this background, the research aims to analyze the supply chain's model adopted by corporations and the adequate CSR implementation in the supply chain in developing countries. This analysis will take into account two factors: the value chain in the process of supply and the geographical matrix understood from west to east, that is from "brand company" to "supply enterprise".

Case study analysis

Guidotti (2006) noted that the dynamics of delocalization in the emerging countries, where the protection of workers is minimal, lead Western companies to run into what is called reputational risk in terms of sales, image and repositioning in the market. In this case, the risk is negative because the reputation becomes a threat to the performance of a company (Schettini & Gherardini, 2011). The reputational risk for the brand corporations, whose economic implications can cancel the competitive advantage created by the savings obtained through the same delocalization of process of production (Klein & Dawar, 2004).

In the early '90s a major scandal that raised the attention to media involved the Nike Inc (Brause, Locke & Qin, 2007) for its exploitation of child labor and low paid workers. The episode has heavily damaged the company's reputation. The public opinion was influenced by the high attention that the media has given to the scandal, and consequently the consumer's trust dropped sharply, in parallel to its commercial revenues. Therefore, Rana Plaza is not the first of this kind of disasters and delocalizing in countries with a weak protection of the working conditions. The companies could have prevented this disaster through an appropriate risk assessment: evaluating the geographical, historical, political and cultural conditions in place.

Bangladesh, in fact, is the seventh most populous country in the world and the last decade has seen an average annual growth rate of 6%. Nevertheless, the increasing development did not affect the high rate of poverty, which in the recent years remains above 30%. The textile and clothing sector is the backbone of the industrial sector, and 80% of the country's exports in 2013 exceeded \$21 billion, around 18% of GDP. With the obtained independence from Pakistan in 1971, the government nationalized the textile

industry, which was mostly controlled by large Pakistan's businessmen (Table 1). The government nationalized the industry through the establishment of Bangladesh Textile Mills Corporation or BTMC. The bureaucratic barriers in combination with other problems, such as low labor productivity, lack of planning and control, lack of accountability and disorganization, have led to a lack of profitability of the industry and made the government decide to privatize the production gradually. Another factor that could have had an effect on this growth is the Multi-Fiber Arrangement (MFA) (1974-2005), an international agreement that governed the textile and clothing sector through the imposition of restrictions on share-exports to industrialized countries by certain leading countries in the field, such as China, South Korea and Taiwan. The primary aim was to protect and safeguard the European industries and North America, but the same restrictions allowed other developing countries to make their way in this market area.

Table 1. Phases of the development of Ready-Made Garments (RMG) (Mazedul Islam et al., 2013)

TIME	PHASES OF DEVELOPMENT
1977-1980	First phase of growth
1981-1982	Process of privatization of enterprises
1982-1985	Years of great development and boom in the sector
1985	Imposition of restrictions on share-export
1990's	Significant development of the clothing sector
2005	End of the control system of the units

Currently, Bangladesh is one of the largest exporters in the world of textiles and clothing along with China, the undisputed leader in the field. The RMG industry is a significant source of wealth from the point of view of employment, accounting for 45% of all employment in the secondary sector of the country. Over 95% of the owned textile factories are governed by companies or business families of Bangladesh, rather than foreign investors. The fact that most of these investments are managed by local entrepreneurs means that there is an established interest in the future of the industry in Bangladesh. Some of the main issues to deal with is the dependence of the textile industry from imports of inputs. Clothing manufacturers need to import materials, resulting in higher purchase costs and disrupting the efforts to speed up response times. Furthermore, makes the clothing manufacturers vulnerable to movements in exchange rates and the logistical problems of transport, in conjunction with the risk of supply disruptions stemming from a potential political conflict. The lack of investment in research and development, the difficulties of access to credit and the lack of infrastructure and security are among the factors that prevent proper development of the textile sector and ensure that the competitive advantage is based purely on low labor costs. Despite the national economic growth, the working conditions in the textile industry are among the worst in the world. The various accidents in recent history highlighted specific problems related to safety in the workplace. Local entrepreneurs have built production facilities without complying with the safety regulations set by the government, and this has not ensured adequate measures for the supervision and implementation of the rules.

All this involves nearly 4 million textile workers, who represent about 45% of the industrial employment; about 20 million people depend indirectly on this sector for their sustenance. Three are the main problems for the sector in Bangladesh: 1) poor working conditions, low wages and in particular other problems specific to women (80% - 85% of the workforce of the RMG sector) including difficulty in care for their children, lack of bargaining power and the absence of career opportunities; 2) informal employment/sector (ILO, 2003) as the low availability of regular jobs has meant that the work not regularly formalized continued to constitute a significant share of employment for the past 10 years. Over 80% of all manufacturing work in Bangladesh is carried out by non-regularized workers who earn three times less than workers in good standing and that, consequently, do not have any protection regarding basic health and paid rest (ILO Report, 2013); 3) youth workers between 15 and 24 years in Bangladesh have been particularly affected by the lack of improvements in the labor market and have not benefited from the economic gains of recent years. For this category participation to the labor market and employment rates are low and stagnant. Around 13 million young people participate in the labor market, 47.6% of the total, a percentage significantly lower than the corresponding rate reported for adults aged

25 to 64 years (64%). The employment rate's gap between the young and the adults is 22.9 percentage points. In a country with these problems, where there is not institutional help of any kind, many tools can be employ. For this reason, the implementation of CSR in the supply chain is required not only in the native country of the brand company but also, and especially, in the one of the "supply enterprise". The development of a process that allows the company to have a good reputation starts with the identification of the relevant stakeholders and with understanding what they expect from the company. Moreover, it is useful to develop a good business reporting and communication, which allows these stakeholders to monitor the activity of the company in a transparent way (Reputation Institute, 2012). Thereby reputation management and everything related to the activities of corporate social responsibility overlap quite clearly.

Analyzing the various cases of sweatshop scandal, such as Walmart, Gap, Disney, H & M, Ciquita, and Nike Inc, it is possible to identify the necessary drivers in order to reorganize the supply chain from the perspective of social responsibility and ethics.

- Awareness to raising campaigns by NGOs and civil groups
- Activism unions and employee associations
- Social Responsible Investing
- Attention of Governments and supranational institutions

Figure 1. Drivers influencing the ethical management in the supply chain

Figure 1 demonstrates that the image and reputational risks are the direct results of the increasing importance of socially responsible consumers (Guidotti, 2006).

The implementation of the principles of sustainability in the supply chain management requires the development of specific tasks: define standards and codes of ethics, social and environmental conduct; make compatible the interests of the parties involved; assessing the sustainability practices of suppliers; analyze the governance, efficiency and management of systemic coordination among partners; mediate conflicts by trying to manage them; take appropriate and preventive measures; monitor impacts and processes. It is possible to bring back the ethical management of the supply chain across time in what we might call an evolution of international companies approach on Ethical Supply Chain Management, that is all those activities that are due to the ethical control of the supply chain.

Since the early nineties, the first steps of this development are inspired by non-governmental organizations. Their lobby encourages businesses to discipline themselves by drawing up codes of conduct as a business response to the risks associated with the relocation in contexts characterized by small workers protection and substantial cost advantages. The systems of the codes, created independently and voluntarily, allowed to define a set of standards, rules and practices of conduct that regulate the relationships in all phases of the supply chain. The codes of conduct developed and adopted in the field of workers' rights basis on the conventions set out by International Labour Organization (ILO), in particular from the eight fundamental conventions in the "Declaration on Principles and Rights at Work and its Follow-up", adopted during the International Labour Conference held in Geneva in June 1998. The traditional approach to the realization of this process is the Social Compliance Model (or model of social compliance), "which has the aim to verify compliance of suppliers and sub-suppliers relation to national laws on the subject of work and the code of conduct stipulated by the company" (Guidotti, 2006).

The implementation issues led companies do not anticipate the disasters in the supply chain. Among issues worth noting the production of many codes of conduct that not represent national legislation and culture of the supply enterprises, individual autonomy in the development of codes of conduct, the voluntary adoption of report and lack of appropriate process of auditing by the companies. Hence is required a process of analysis based on risk assessment in order to identify which suppliers are most likely to violate the rules, implement the monitoring on working conditions and on workers protection

and to adopt a binding form of reports with financial and non-financial indicators. An example is the Global Reporting Initiative, which introduces a number of indicators of supply chain involving different aspects such as how to purchase (procurement) environmental impacts (emissions, environmental assessment), social issues (human rights, labor practices, decent wages).

To investigate the possible forms of cooperation between brand companies and suppliers, it is crucial to understand the governance models of supply chain at the international level that are articulated in the manner of purchase and the contractual arrangements. It can be identified five types of chain (Gereffi et al., 2005): supply chain based on market relations, modular supply chain, relational supply chain, hierarchical chains and captive chain (Figure 2).

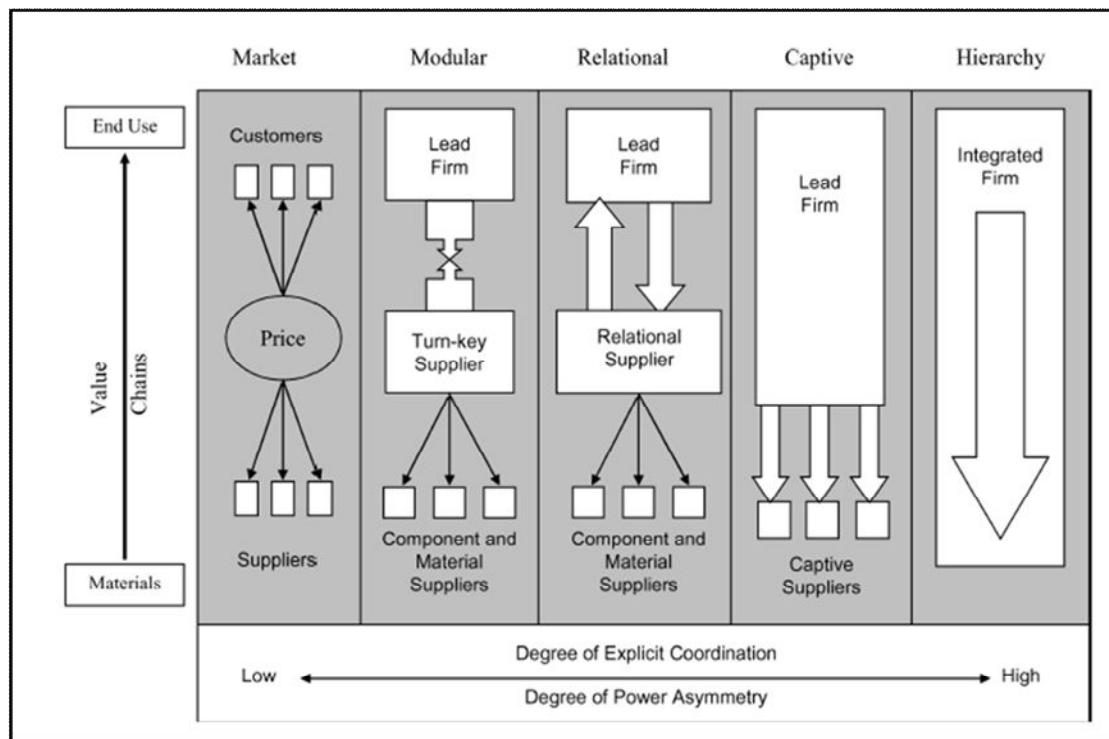


Figure 2. Chain' types and governance models

In the types of relational, hierarchical and captive supply chain, the leader company due to its influence on the supply chain, has a chance to develop vertical collaborations rather than forms of negotiation, usually implemented by customers in order to deal with suppliers in the supply chains of market or modular type. While the first types of chain expansion of CSR practices is facilitated by the power of the company leader in the market by developing constructive and collaborative relationships based on the interest and mutual trust, regarding the second models (market and modular) the expansion of responsible practices is distorted by the variety and the extent of the criteria that different companies demand individually and of the related control procedures, not always coordinated. In these types of supply chains, in fact, the suppliers, having to interact with a large number of companies, are often obliged to comply with various codes of conduct (they are processed individually by the leader companies). All this increases costs related to the application of procedures for sustainability for the suppliers, which are not shared by all players in the sector. It is clear that it is possible draw a positive relationship between the integration of CSR practices in the supply chain and the "strength" of the companies leaders in the supply chain, a factor that depends causally from the number of competitors. For this reason at the beginning of the new millennium many organizations have begun to question the effectiveness of the model of social conformity in relation to the fact that this type of approach is characterized by the individual initiative of each company. It begins to take a series of multi-stakeholder initiatives characterized by a collaborative approach to the various stakeholders. The collaboration involves the contribution of NGOs, trade unions

and companies that through their expertise can make a greater contribution to the sustainability issue (Table 2).

Table 2. Multistakeholder initiative

YEAR	NAME	STAKEHOLDER	AIMS	CONSIDERATION
1999	Fair Labor Association	Companies, schools, universities and civil society organizations	Code of conduct based on ILO standards, monitoring process, repair and verification of the achievement of these standards	Lack of governmental stakeholder
1998	Ethical Trading Initiative	Department for International Development of the British Government, companies, trade unions, civil society organizations	ETI code of conduct on labor practices based on ILO standards	Lack of multistakeholder organizations engaged in the diffusion of the fundamental labor rights
2003	Joint Initiative on Accountability and Workers' Right	European Commission and the USA Department of State, the main organizations multistakeholder EU and USA	Increased cooperation to reunify the main organizations multistakeholder EU and USA engaged in the diffusion of the fundamental labor rights	Unique collaboration that exceeds traditional multistakeholder approach
2006	Global Social Compliance Program	Companies, NGOs, and civil society organizations	Global platform cross-industry: harmonize existing efforts and provide a common approach	Based more on monitoring; prevalence of brand companies that finance the platform

Even if these collaborations have tried to limit the problems in the supply chain, in countries with cheap manpower, the proliferation of codes of conduct did not stop, as well as the decrease of controls were not carried out by appropriate staff. These difficulties can be traced following two main types of issues: 1) difficulties for companies, unable to make a suitable level of monitoring and implementation, often for unsustainable costs; 2) difficulties for suppliers that, keeping often contractual relationships with various companies, have had to comply with many codes of conduct, standards and rules not always consistent with each other. In response to the accident in Dhaka and failures of initiatives of non-unitary vision, there was an agreement between the European Commission, led by Trade Commissioner De Gucht, the Bangladesh government, represented by Foreign Minister Dr. Dipu Moni, and the International Labour Organization represented by the Director General Guy Ryder. The agreement “*Sustainability Compact for continuous improvements in labor rights and factory safety in the Ready-Made Garment and Knitwear Industry in Bangladesh*” (Table 3) was created in order to establish a sustainable supply chain, culturally and structurally.

Table 3. Bangladesh Global Sustainability Compact

INITIATIVE	STAKEHOLDER	AIMS	CONSIDERATIONS
“Sustainability Compact for continuous improvements in labor rights and factory safety in the Ready-Made Garment and Knitwear Industry in Bangladesh.” 07.08. 2013	EC, ILO, clothing retailers, associations of employers and trade unions, Governments of the US, UK, Switzerland and the Netherlands (the last countries financed the “Better Work Program financed”)	Respect for labor rights, through the implementation of a Public Administration reform to strengthen the labors rights	Adoption: Bangladesh Labour Act, Labour Act edited on 07.22.2013, approaching the national legislation with international labor standards; National Occupational Safety and Health (OSH) Policy on 11.05.2013. Increased capacity of the Ministry of Labour and HR upgrade the Directorate of Inspection for Factories and Establishments (DIFE).
		Monitoring the structural integrity of the buildings used to work through the	Registering 187 new unions trades in RMG industry; Determination of a determined approach to the construction

		recruitment of additional inspectors	of buildings for the production by the National Tripartite Committee
		To encourage responsible business conduct. The Government is committed to joining and benefit from the Better Work Program (BWP), between the ILO and the International Finance Corporation (IFC).	Qualification of BWP Bangladesh; 1685 structural controls completed, initiated the launch of the database, accessible to all, on RMG enterprises as a tool for reporting on inspections for job security

Moreover, it was signed the *Accord On Fire and Building Safety in Bangladesh*, legally binding for a duration of five years, signed by over 150 clothing companies from 20 different countries in Europe, North America, Asia and Australia, two Global Trade Union and several trade unions Bengalis. Clean Clothes Campaign, Worker Rights Consortium, International Labor Rights Forum, and Maquila Solidarity Network are NGOs witnessed the Accord. The ILO works as an independent guide and can provide support in the implementation phase. It aims the customers (brands, traders, suppliers) that supply from factories operating in Bangladesh. The mission of the agreement is to make the textile factories in Bangladesh a safe workplace. Among the different rules, the *Accord* includes independent safety inspections in factories and public disclosure of inspection results. Where security issues are identified, the retailers agree on ensuring that safety measures will be carried out through mechanisms that will allow workers of the involved enterprises to keep being paid. As signatories to the *Accord*, the companies devolve to a maximum contribution of US \$ 500,000 per year. The level of support is based on a scale proportionate to the volume of the annual business enterprise.

The result of these multistakeholder and transnational initiatives by brand leaders was to restore a positive corporate image and to enhance its reputation, through a unified action of ethical control of the supply chain management. It was made possible through an appropriate identification of critical risks in textile/clothing supply chain sector: territorial risk, sector-specific risks, risk-related to supply chain structuring and internal relations risk (Table 4).

Table 4. Risk assessment activities

TERRITORIAL	SECTOR SPECIFIC	STRUCTURE	RELATIONAL
Risks: political, environmental conditions, labor rights, population, violation of human rights and children's rights	Risks: flammability of textiles, toxicity of chemicals used in production processes and incorporated into products, security products, water management and natural resource used, risk to consumer health and safety	Risks: fragmentation, dispersion, difficulty of assessing the reliability of suppliers in terms of compliance with international standards, quality and safety of products offered	Risks: selection of partners located in various countries geographically and culturally far, it could lead companies to not know how to manage coherent and integrated relationships

Conclusions

During the recent years heavily defined by globalization, one of the main issues of Corporate Social Responsibility is characterized by the ethical control of supply chains. The Western economy, in fact, holds its recent development for the consistent supply of products coming from suppliers located in countries with low labor costs, qualified by social and environmental standards quite low in comparison with those of the industrialized countries, which are now well expressed in numerous documents of international organizations, such as the ILO Conventions. Leading enterprises of the channel as the big brand companies and large commercial corporations are found to be accomplices to what happens in their supply chain, and they are responsible for their suppliers' behavior.

Corporate Social Responsibility cannot be confined only to the company but must involve all components of the supply chain, the company of which is an integral part. The choice of suppliers can represent an essential characteristic regarding the business activities, but also for the success of CSR strategies and reputation of the company itself. The latter element is important in current markets for the high degree of competition and the increased availability of information, which have made consumers more active and susceptible to certain ethical issues. Large companies, in fact, are no longer held liable to the community only for internal activities, but increasingly for the environmental and social impacts of their suppliers as well as of their entire supply chain (Andersen et al., 2009). For large companies, the management of relationships with suppliers and supply chain management are an essential element for the implementation of CSR strategies. Big international companies, leaders of industries, have the duty not only to manage an ethical approach in its structures, but automatically to be responsible for using their power to influence and raise awareness in a positive way for the weakest parts of the supply chain they belong to, such as suppliers from emerging and developing Countries. This action should encourage the establishment to adopt appropriate environmental and social standards and the gradual spread of better practices (Amaeshi et al., 2008).

The integration of CSR in the supply chain is a way for companies to: provide answers to the ethical problem by encouraging the improvement of the company atmosphere; minimize the reputational risk linked to the process of global outsourcing and delocalization, which involved the economy of Western companies trying to increase the confidence of consumers; create positive conditions for development, improving relations with international, national and local Institutions. Most companies are aware that the implementation of social and environmental standards in supply chains requires the control working mechanisms of its suppliers (Jenkins et al., 2002). International companies have started the stipulation of ethical guides and codes of conduct to ensure acceptable working conditions in their supply chains. Some of these companies have developed specific codes of conduct that included criteria of social responsibility in the supply chain management and specific criteria for relationships with suppliers, increasing own standards or promoting CSR initiatives throughout the supply chain in collaboration with NGOs. Following the disaster of the Rana Plaza, in order to avoid exposing the suppliers of emerging markets to the duplication of compliance efforts to more ethical standards and trying to reduce the consequent inefficiencies, brand companies are promoting initiatives of horizontal collaboration between competitors orders to effectively promote and implement CSR across the supply chain, even in those sectors in which the structure can complicate this process. To date, *Bangladesh Accord* report (October 2014) emphasizes that on 1,106 enterprises inspected were made over 400 corrective action plans from suppliers and the signatory companies. More than 80,000 security issues have been identified, and they must sort out. Among the most common corrective actions adopted, we can find reducing weight loads and structures strengthening, installation of fire doors and automatic alarm systems. In 17 of the inspected facilities, the integrity of the structure was below the acceptable levels, recommending the evacuation of the building and the block of production.

The collaborative and Transnational multistakeholder approach responds to the production of a single code of conduct that Western societies could propose to the providers of developing countries like they do with types of audit/monitoring. In this way it will be possible to limit the proliferation of different social models of compliance done by the purchasing companies, which slow down the process of accountability in supply chains, hindering the application of international labor standards and respect for human rights for a non-unitary vision of Western Governments, brand companies, trade union and the main International Organizations.

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