SCALE MATTERS

Scalability of Business Case Sustainability
Initiatives in the Garment Industry

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The purpose of this report is to explore why social and environmental sustainability initiatives designed to incentivise garment producers by presenting win-win business cases have not scaled up to make widespread impact. The production of this report entailed interviewing representatives from garment brands and retailers, producers, and programme implementers. Based on these interviews and reviewing documentary records, this report scrutinises the design of business case sustainability initiatives, considers various scaling challenges, and presents recommendations to help scale these initiatives as well as to make greater impact on sustainability in the global garment industry.

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Contents

Executive Summary

Over the past few decades, garment brands and retailers (hereafter, brands) have been outsourcing production on a large scale to developing countries. As production in global supply chains has grown, so has the scale of social and environmental problems involved in production. The dominant response of brands remains implementing supplier standards and auditing. However, widespread use of the auditing model has not had the intended effects and substandard environmental and labour conditions remain the norm in garment supply chains.

Responding to this ongoing challenge, a number of initiatives have emerged that focus on social and environmental upgrading within factories through capacity building. This report focuses on 'business case sustainability initiatives' (BCSIs), a type of capacity building initiative that claims to bring tangible financial benefits to participating factories while improving social and/or environmental sustainability. The promised benefits include saving money on resources, reducing worker turnover as well as improving productivity. While many of these initiatives have impressive pitches, they have not scaled beyond catering to a relatively small group of global brands and a subset of their suppliers.

This report considers why BCSIs, that are proposing tangible benefits, have faced problems scaling and what can be done to address the scaling challenge. It draws on 102 interviews with brands, factories, programme implementers, and other industry experts.

The main analysis is divided into two parts. The first half scrutinises the business cases made by BCSIs, examining how the return on investment (RoI) is calculated, articulated and perceived by factories. The main findings are: i) the RoI calculations are often too optimistic and opaque, ii) factories do not always trust the RoI numbers presented and iii) the overriding reason why factories join BCSIs is to satisfy their buyers' requests. There

is thus room for BCSIs to make their RoI calculations more realistic and transparent as well as to rethink their communication strategy. Moreover, buyers rewarding suppliers for engaging in these initiatives to enhance sustainability would make perhaps the most compelling incentive for suppliers. However, having a strong business case can potentially strengthen participants commitment to implementing the programmes.

The latter half identifies scaling challenges at different levels: suppliers, brands, and initiatives. The key findings include i) a minority of better performing "cream" factories tend to be recruited to BCSIs, ii) factories often do not make facility-wide or long term changes after participating in training, iii) BCSIs have difficulty attracting brands beyond the usual suspects, and iv) participating in BCSIs is time-consuming and expensive for brands and suppliers, while BCSIs have difficulty recovering cost and expanding reach.

Given the inherently resource-intense nature of capacity building, it is not realistic to expect BCSIs to scale as massively as standards and auditing. To make greater impact with limited resources, this report argues for risk-based scaling of BCSIs to focus resources on factories at risk of doing severe harm and to treat interventions as part of risk-based due diligence. It requires a fundamental rethink as BCSIs should not just be a "nice to have" marketing exercise but also a "must have" risk management tool to prevent, mitigate, and remediate harm in global supply chains.

This report has identified various ways to overcome constraints and capitalise on opportunities for brands, initiatives, suppliers and other stakeholders in order to scale BCSIs and to realise greater impact on supply chain sustainability. Below sums up key recommendations and action points for key actors.

Recommendations for Brands

I. Systematically reward more sustainable suppliers, bearing in mind that this is possibly the most compelling incentive for suppliers to participate in BCSIs.

Actions:

- Embed sustainability performance in supplier selection and evaluation criteria.
- Prioritise ordering from factories with better sustainability performance.
- Publicly endorse better performers (e.g. awards).

II. Apply the risk-based due diligence approach to capacity building (including BCSIs) and prioritise suppliers at risk of doing more severe harm.

Actions:

- Prioritise factories that are at risk and more likely to benefit from interventions rather than already better performing factories.
- Do not overburden factories with similar initiatives. Consider factories' prior and current experience before proposing a new programme.

III. Allocate increased budget and invest beyond pilot projects by relocating and pooling resources.

Actions:

- Shift resources away from auditing to capacity building, including BCSIs.
- Tap into other departments' budgets (e.g. marketing, communication).
- Collaborate with other brands sourcing from the same factories on capacity building to achieve a greater impact and to reduce duplication and cost.

Recommendations for BCSIs

I. Make the RoI calculations more realistic, transparent, and tailored to specific factories, and improve participant experiences.

Actions:

- Make the assumptions of future savings more realistic and transparent.
- Take into account indirect costs and different factory characteristics in RoI calculations.

- Promote peer-to-peer communication and learning.
- Assist participating factories in measuring impact.

II. Target beyond "cream" factories and cater to factories that are more likely to benefit from interventions.

Actions:

- Do not overburden factories with similar initiatives. Consider factories' prior and current experience as part of eligibility to participate in programme.
- Create tracks focused on assisting SMEs with limited capacity.

III. Attract brands beyond the usual suspects by creating separate tracks to cater to their needs.

Actions:

- Encourage smaller brands to join by creating less resource-intensive tracks, with lower fees and less need to allocate staff time.
- Incentivise leading brands to join by creating tracks focused on innovation and leadership.

IV. Reduce the cost base and develop longer-term funding models.

Actions:

- Relocate the secretariat to a production country or shift roles based in a high-cost country to a production country.
- Train local staff and build local capacity to develop and manage programmes.
- Seek new sources of external support and funding (e.g. governments and intergovernmental agencies).

V. Collaborate with similar initiatives to share, coordinate, and scale.

Actions:

- Share and standardise tools and resources among BCSIs proposing similar services to increase global reach and reduce cost.
- Coordinate geographic coverage with similar BCSIs so that each initiative can specialise in certain geographic areas and scale. Create equivalency of programmes to help brands gain global coverage.
- Consolidate with similar BCSIs to scale and reduce cost.

Recommendations for Production Facilities

I. Be open to considering business cases presented by initiatives and seek help in measuring impact.

Actions:

- Demand more clarity and details underlying RoI calculations (i.e. savings, indirect cost, factory variance).
- Talk to peers and learn from those who participated in BCSIs.
- Seek help in assessing impact of interventions.

II. Be savvier about using sustainability credentials (e.g. participation in BCSIs) as a marketing tool to attract and retain brands.

Actions:

- Ask brands and BCSIs to publicly recognise engagement in sustainability efforts.
- Extensively communicate sustainability credentials (e.g. websites and social media).

Recommendations for Funding Bodies

I. To achieve greater impact, prioritise initiatives that are reaching out to factories at risk of doing more severe harm.

Actions:

- Make new or ongoing funding conditional upon the risk-based targeting of factories (i.e. those at risk of doing more severe harm and more likely to benefit from interventions).
- Be open to covering both development and implementation costs of initiatives that reach out to factories at risk.

II. To reduce overlap and duplication, prioritise initiatives that are coordinating or consolidating with other initiatives.

Actions:

- Channel funding into initiatives that are coordinating or consolidating with others.
- Make new or ongoing funding conditional upon coordination or consolidation.

Recommendation for Industry Associations (with Producers as Members)

Collaborate with initiatives to help factories with limited capacity become more sustainable, bearing in mind that a minority of factories' bad practices can tarnish the industry's reputation.

Actions:

- Provide hands-on implementation support to factories with limited capacity in partnership with BCSIs.
- Subsidise the implementation cost of BCSIs catering to factories with limited capacity.

Recommendation for Multi-Stakeholder Initiatives and Industry Associations (with Brands as Members)

Promote collaboration among members as well as between initiatives to achieve greater impact and efficiency.

Actions:

- Encourage brand members who participate in BCSIs to pool resources and leverage over suppliers.
- Encourage BCSIs (for which members are participants) to collaborate with other BCSIs.

List of abbreviations

amfori BSCI	amfori Business Social Compliance Initiative
BBW	Benefits for Business and Workers
BCSI	Business Case Sustainability Initiative
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
FWF	Fair Wear Foundation
IFC	International Finance Corporation
ILO	International Labour Organisation
PaCT	Partnership for a Cleaner Textile Industry
REF	Resource Efficiency Financing
RoI	Return on Investment
SAC	Sustainable Apparel Coalition
SME	Small and Medium Enterprise
STWI	Sweden Textile Water Initiative

1. Background

Garment brands have outsourced most of their production to suppliers in developing countries, leading labour activists to launch antisweatshop campaigns to hold brands responsible for social and environmental conditions in global supply chains.[i] In response, brands have engaged in what can be called the first generation of sustainability work in supply chains, namely standards and auditing. The auditing approach has scaled to the extent that most Western garment brands have adopted codes of conduct and engaged in in-house or third-party auditing of suppliers. Despite its popularity, research has shown that the auditing approach has largely failed to improve conditions on the factory floor.[ii]

As the limits of auditing became more apparent, brands and industry stakeholders started to experiment with alternatives to the auditing approach. The second generation of sustainability work focuses on capacity building of suppliers and/or workers. 'Business case sustainability initiatives' (BCSIs), the focus of this report, fall under this category. BCSIs claim that participation would bring supplier factories tangible benefits such as cost savings, lower staff turnover, and higher efficiency, while improving social and/or environmental sustainability (See Box 1 for definition).

Based on the above three criteria for BCSIs, the following key initiatives can be identified as clear examples: Bangladesh PaCT, Clean by Design and the Sweden Textile Water Initiative (STWI) for the environment; and, Business for Social Responsibility (BSR)'s HERproject and Impactt's Benefits for Business and Workers (BBW) for social issues. There are also hybrid initiatives that are difficult to categorise. One such example is Better Work which is still largely viewed as auditing-oriented. For the purpose of this project, we have included Better Work as a partial BCSI. Table 1 below provides basic information about these key initiatives. While we focus on initiatives that cater to multiple brands, we also consider single-brand initiatives (e.g. GAP's PACE, Tchibo's WE).

Box 1: Definition of Business Case Initiatives (BCSIs)

We propose three criteria that initiatives must fulfil to be classified as BCSIs.

1) They are chiefly focused on capacity building as opposed to requiring compliance with standards, such as codes of conduct, representing a break from the auditing approach.

2) They are explicitly focused on social and/or environmental sustainability. In other words, pure productivity or quality-enhancing initiatives such as lean manufacturing are not categorised as BCSIs, despite their potential positive impact on sustainability.[ii]

3) They should claim that it makes financial sense for factories to participate based on improved internal operational efficiencies, regardless of whether participation helps attract or retain brands.[iii]

Some initiatives are straightforward to categorise as BCSIs. For example, the Sweden Textile Water Initiative has an explicit focus on environmentally sustainable supply chains, offers extensive capacity building support for factories, and claims to bring impressive returns on investment. Similarly, Impactt's Benefits for Business and Workers initiative focuses on social sustainability, trains workers and supervisors, and claims to bring high returns on investments in three months. It is also clear that more auditing-oriented initiatives such as amfori BSCI, the Fair Labor Association, and the Fair Wear Foundation (FWF) do not fulfil the criteria, as they do not have a strong capacity building component and rarely claim a business case (in terms of internal operational efficiencies) for factories. It is worth noting, however, that some of these initiatives are increasingly embracing elements of capacity building, such as FWF's Workplace Educational Programme.

Table 1: Key Examples of Business Case Initiatives

Initiative	Implementer	Years	Issue coverage	Countries	Factories (total)	Brands (total)
Bangladesh PaCT[iv]	International Finance Corporation (IFC)	2013-ongoing[1]	Water, energy and chemical use (factories)	Bangladesh[2]	200+[2]	13[2]
Clean by Design[v]	Natural Resources Defense Council [original] Apparel Impact Institute [current]	2007-ongoing	Water, energy and chemical use (mills)	4 countries	100+	--[3]
Sweden Textile Water Initiative (STWI)[vi]	STWI	2010-ongoing	Water, energy and chemical use (factories)	5 countries	227	29
HERproject[vii]	Business for Social Responsibility	2007-ongoing	Worker health, financial literacy, empowerment	14 countries	750+	47
Benefits for Business and Workers[viii]	Impactt	2011-ongoing	HR systems, communications, fire and building safety, productivity	3 countries	188	17
BetterWork[ix]	International Labour Organisation (ILO), IFC	2007-ongoing	Working conditions, labour rights	7 countries	1600	35

[1] Since the original Bangladesh PaCT program, PaCT II has started in Bangladesh and Levi Strauss and Co have started an international programme targeting Levi's factories.

[2] For PaCT I 2013-2016

[3] Data unavailable.

Capacity building, including BCSIs, is gaining ground, at least rhetorically among leading global brands.[x] Despite the claimed business case for participating factories, however, existing BCSIs have faced problems scaling beyond pilot projects. In this report, "scaling" of BCSIs refers to an increase in the number of i) participating brands, ii) participating suppliers and internal levels of adoption of practices promoted by BCSIs, iii) countries and industries covered, as well as iv) services offered by these initiatives. This report problematises the lack of scaling and seeks to uncover the constraining and enabling factors for BCSIs to scale. In so doing, we also scrutinise the "business case", considering how it is constructed and perceived by different actors.

Box 2: What do we know about scaling challenges and opportunities?

High Cost of Interventions

Capacity building initiatives seeking to change the status quo are resource-intensive and costly to scale because it takes a long process of trust-building and convincing to change the way businesses are run.[xi]

Recruiting Factories for Sustainability-Related Training

Given that factories are often resistant to change and unwilling to participate, existing studies stress the importance of making a clear business case for factories.[xi] Financial returns on investment can be direct through efficiency gains and/or indirect through attracting and retaining buyers.

Brand-Supplier Relations

The nature of buyer-supplier relationships has been found to be central to improving sustainability in global supply chains.[xii] Trustful and long-term brand-supplier relations have been found to motivate factories to implement positive changes while indirect and distant relationships have not.[xi & xiii]

Auditing vs. Capacity Building

Tensions can exist between auditing and capacity building.[xiv] While the auditing approach is based on policing, capacity building requires a more collaborative relationship based on trust.[xv] Given that the auditing approach remains dominant in the industry, it is difficult for both brands and factories to make the switch.

Voluntary vs. Mandatory Participation

There may be trade-offs between making supplier participation mandatory and leaving it voluntary. While mandatory participation would cover more factories, voluntary participation has been associated with greater commitment to success.[xvi] Nevertheless, Impactt's assessment of BBW has found that voluntary or mandatory participation did not affect the programme results.[xvii]

Practice-Based, Collective Learning

Business advisory services (a type of capacity building) are most effective for small businesses when they employ practice-based approaches (e.g. brainstorming, games), collective learning (e.g. managers from different firms learning together), and tailored content, particularly if targeted at a problem that the business self-identifies.[xviii]

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2. Methodology

This report, exploring constraining and enabling factors for BCSIs to scale, is based on primary and secondary data. The main source of data is 102 interviews conducted with brands, BCSI managers, and industry experts from 2016 to 2020. The research was conducted in two phases. Phase 1 focused on talking to global brands and BCSI managers to draw out key themes and issues. Phase 2 involved interviewing garment factory managers and other stakeholders in Bangladesh. This was supplemented by conducting follow-up interviews with global brands and industry experts. An overview of the interviews is provided in Table 2.

Table 2: List of Interviews

Interviewee Type	Overview
Global Brands	29 interviews with representatives of 17 global brands (Head offices: 5 USA, 4 Germany, 2 Sweden, 3 UK, 1 Netherlands, 1 Denmark, 1 Spain)
Programme Implementers	18 interviews with managers of 11 initiatives (Focus: 7 social, 4 environmental)
Garment Producers	43 interviews with 41 suppliers in Bangladesh
Other Stakeholders	12 interviews (5 consultants, 2 Bangladeshi government officials, 2 Bangladeshi business associations representatives, 1 funder, 1 brand business association, 1 multi-stakeholder initiative)

The global brands we interviewed, based in Europe and in the US, represent some of the largest in the world. Representatives of these companies were able to provide insights based on years of experience engaging with BCSIs and/or implementing their own initiatives. In addition, we obtained diverse perspectives by interviewing programme implementers as well as industry experts and consultants.

Global perspectives were complemented by interviews focused on Bangladesh. Bangladesh was chosen as a case study production location because it is an important sourcing country for many global brands. Furthermore, it is also a country where many BCSIs are implemented. Interviews with factories and stakeholders in Bangladesh helped to clarify local challenges and opportunities in implementing and scaling BCSIs.

Forty-three interviews were conducted with 41 Bangladeshi suppliers, many of whom are past or current participants of BCSIs.[4] An overview of the interviewed suppliers is provided in Table 3.

Suppliers are considered as large if they have 2500 or more workers in one factory or if they are part of a factory group with 2500 or more workers; otherwise the suppliers are considered as small or medium-sized enterprises (SMEs).[5] The average factory size in our sample (2788)[6] is significantly larger than the industry average, which is estimated to range from 597 to 743.[xix] While only about 3% of factories are large, about 21% of workers in this industry are employed by large factories.[xix] Larger factories also tend to be the first-tier suppliers that interact with global buyers, and thus more relevant to this study.

Table 3: Characteristics of Interviewed[7] Suppliers

Size	Number of Suppliers	Participated in BCSIs
SMEs	11	6
Large	27	25
Total	38	31

The interviews were semi-structured and centred around constraints and enablers in scaling BCSIs. Interviews were recorded and transcribed (except for few cases where the respondents preferred not to be recorded and detailed notes were taken). The transcriptions and notes were reviewed and systematically coded using qualitative coding software NVivo11.[8] Following this task, supplier interviews were reviewed to pull out values for a list of variables determined through the qualitative analysis. The data created through this process allowed for quantitative description and analysis of suppliers' reported experiences.[9] Furthermore, to supplement the interview data, we also reviewed publicly available documents and websites of BCSIs and brands to better understand the nature and extent of their engagement.

One limitation of this study is we did not interview workers, who are the ultimate beneficiaries of social BCSIs. As we focus on the scalability and not the impact of BCSIs, we believe that brands, factory managers, programme implementers and other stakeholders can reveal key issues and relevant insights. However, future studies could explore workers' perspectives on scaling of BCSIs.

[4] Of the 41 suppliers interviewed, 38 involved comprehensive interviews and 3 were focused on a narrower set of issues. Of the 38 suppliers with comprehensive interviews, 31 had participated in at least one BCSI. The numbers related to BCSI participation presented in this report are calculated as a percentage of the 31 participating suppliers with whom we had comprehensive interviews.

[5] The definition of a factory being large if it has 2500 or more workers is based on the classifications used by the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

[6] The statistics available on the Bangladesh garment industry focus on individual factory buildings, to use a comparable number, the average figure included here represents the 24 interviews from this study that were focused on a single factory site, with the remainder covering businesses with multiple locations.

[7] This table includes the factories which were covered by comprehensive interviews.

[8] During the coding processes, five overarching themes were considered (1. Suppliers' motivations for participating, 2. Experiences with programmes, 3. Scaling, 4. Brand motivations and perspectives, 5. Miscellaneous), which had a total of 349 sub-themes. Across these themes, approximately 3,000 data points (segments of text) were coded.

[9] Quantitative data analysis involved Excel and SPSS.

3. Is there Really a Business Case?

Our point of departure is this basic question: why have BCSIs largely failed to scale despite the promise of return on investment (RoI) for participating suppliers? This section scrutinises the business case, how it is articulated and constructed, as well as how it is perceived by factories and brands.

3.1. Scrutinising the Business Case

Exploring business case propositions shows issues with transparency of calculations and the ways in which business cases are calculated.

3.1.1 Varying Levels of Articulation

Different BCSIs communicate their business case differently, with varying degrees of articulation. Some initiatives showcase RoI calculations on their websites and public reports. For instance, STWI, one such initiative, claims high RoI for participating factories: 762% (2014), 89% (2015), 63% (2016) and 80% (2017).[xx] On the social side, Impactt's BBW presents impressive RoI calculations as high as 2800% for a 12 month period,[xxi] although Impactt does not communicate these numbers as extensively as STWI.

Generally, BCSIs focusing on environmental aspects (e.g. use of water, energy, chemicals) articulate their business case more clearly than those focusing on social aspects (e.g. labour rights, worker education).

This is not surprising given the relative ease for environmental programmes to quantify savings as opposed to social programmes.

For instance, HERproject, focusing on worker training, indirectly refers to improved operational efficiencies by arguing that participation has led to a 4.5% decrease in turnover and 22% decrease in number of products requiring rework, while stating that non-quantifiable benefits are perceived to be the most important by factory managers.[xxii] An impact evaluation commissioned by a donor also claims that it was difficult to assess the RoI for HERproject as the needed numbers were missing.[xxiii] This does not mean that such projects do not bring tangible benefits to factories; rather, the business case is vaguely formulated and hard to evaluate.

It is worth noting that BCSIs generally provide limited details on how they develop RoI numbers. When we tried to scrutinise the RoI calculations of a few initiatives, we faced a number of challenges. The most telling example was when we interviewed key stakeholders of one BCSI and asked how they came up with the RoI calculations, and no one (including the programme representative, consultant who evaluated the initiative, and brand board member) could give any specifics.

3.1.2 Challenges within RoI Calculations

We have identified three key issues with the RoI calculations presented by BCSIs. First, the ways in which future savings are included in RoI calculations are often unclear. While it may make sense to include some type of future savings for some investments (e.g. machinery) for a certain period of time, such assumptions need to be realistic and spelt out. Optimistic future saving numbers (by assuming the best-case scenario for a longer time period) lead to unrealistic RoI calculations.

Second, it is not always clear which costs and investments have been incorporated in the RoI calculations. When it is clear, the calculations tend to overlook indirect costs and in-kind contributions made by factories. Apart from the participation fees (which may be paid by brands), factories incur various costs, including staff's time during training and the opportunity cost of lost production. Such costs are commonly omitted in the RoI calculations but acutely felt by factory managers.

Another problem is that we need to send the workers to different programmes simultaneously which sometimes hinders the regular production process and incurs loss. There is no way to compensate for this loss incurred upon us. (Factory 8)

Figure 1: Suppliers' Motivations for Joining BCSIs

Third, the RoI figures presented by BCSIs show the aggregate number for an "average" factory, obscuring variance across factories. In reality, factory RoI numbers vary substantially in some BCSIs. One brand shared the RoI calculations for 28 supplier factories participating in one BCSI. The RoI ranged from - 93% (i.e. savings cover only 7% of the costs) to + 1520% (i.e. for each dollar invested the factory saved $15) with the others in between (some positive and others negative). We could not identify any clear pattern in terms of country, factory size, supplier tier or size of investment. While not all BCSIs exhibit such an extreme variance, several BCSI and brand representatives stressed that it was difficult to know a *priori* which factories would achieve significant savings.

All in all, RoI calculations presented by BCSIs are often too optimistic and unreliable as they tend to i) include unclear projections of future savings, ii) exclude indirect costs incurred by factories, and iii) obscure factory-level variance. As factory managers care about *actual* RoI for *their* factory, unrealistic and unreliable RoI numbers are problematic. There is scope for BCSIs to make their RoI calculations more realistic, transparent, and tailored to different factories. Nonetheless, making RoI calculations more rigorous may not be sufficient to convince factory managers as factory motivations vary, as outlined below.

### 3.2. How do Factories Perceive the Business Case?

Factories perceived business cases differently and varied in what they see as important.

3.2.1. Factories' Motives for Joining

Factories can be approached about BCSIs through different points of contact, including by their buyers, by representatives of initiatives or by intermediaries, such as business associations (see Box 3). Their main motivation for joining is not necessarily the business case that is presented. Factories mentioned diverse reasons for joining BCSIs (see Figure 1). Almost all suppliers who participated in BCSIs mentioned that their motivation was to satisfy a buyer's request (97%). The second most mentioned motivation was that the BCSIs were aligned with the company's own goal of improving sustainability (58%) and the third most common answer was being motivated by the RoI calculation presented by the BCSI (45%). For the fourth most popular response, reducing future audits (35%), all of the respondents were speaking about the Better Work programme, which promises reduced audits from participating buyers. Of the seven suppliers that had not participated in a BCSI, six said they have never been approached and one said that the management did not want to spend money on such programmes.

We have identified broadly three types of factory perspectives on BCSIs. The first type, which applies to the overwhelming majority of factories, is "buyer-driven". These factories participate in the initiatives to satisfy buyers' requests. They do not seem to pay careful attention to the detailed RoI calculations of BCSIs because their motivation is to please buyers.
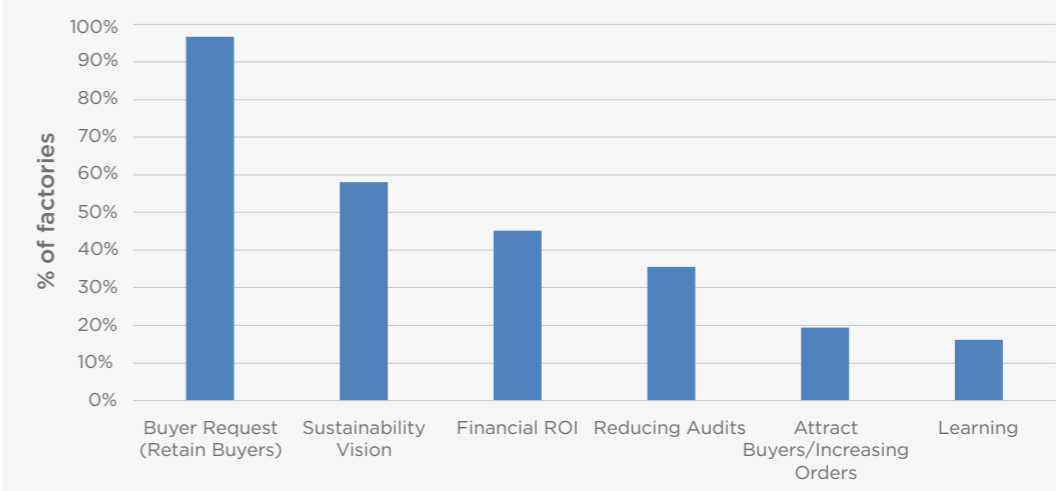
To say no to a brand is difficult. You know the customer is God. (Factory 3)

The second type is "self-motivated". A minority of factories interviewed have proactive sustainability visions and willingly engage in initiatives that help achieve their sustainability goals, knowing that it is also in their interest to be more sustainable. These factories are more receptive to positive RoI calculations, as they are seeking long-term benefits.

Irrespective of the particular [global] programmes we are a part of, we have our own capacity building programmes in collaboration with our local consultants. We are doing these as we have our own intentions to improve ourselves constantly. (Factory 13)

The third type is "sceptics", who are unwilling to join BCSIs even when they are presented with measurable RoI. This group includes SMEs that lack financial and human resource capacity to understand benefits and implement changes. They tend to see immediate cost implications, of say sending staff for training, while discounting medium to long-term benefits.

There are factories which are reluctant to take their staff to the forums for like 4-6 hours. They are afraid of the immediate loss in production but don't foresee the larger benefit. (Factory 27)

Also, there is an element of mindset. Some factory managers see consultants/implementers as annoying outsiders meddling with the way they run their business. Indeed, factory managers do not always trust the cost benefit calculations presented by the initiatives' consultants, which is understandable given the rosy assumptions often used and the great variance in actual RoI achieved across factories, as discussed above.

We also didn't find the programme interesting based on cost benefit analysis. As the initiative personnel were from an academic background, they might have vast theoretical knowledge. Whether they would be the potential solver to face the practical field challenges...
(Factory 11)

Box 3: Multiple Recruitment Paths

We have identified three recruitment paths for BCSIs: top-down, bottom-up, and through intermediaries. While the top-down channel through brands is heavily used, a multi-pronged approach is likely to be needed to scale beyond pilot projects.

Top-Down

Top-down brand nomination of factories is the most common recruitment channel for all the initiatives covered in this study. A representative from a BCSI shared "If you want an honest insight, I will tell you-- most of the factories do it under pressure from their buyers" (Programme 13). However, brands often nominate only a handful of suppliers, making it difficult to move beyond pilot projects.

Bottom-Up

The bottom-up approach involves initiatives directly recruiting factories. Although a few initiatives have been able to recruit factories themselves, it is often challenging. "You can just picture it, almost a door-to-door salesman, going to these facilities... to this point, it really hasn't worked for programmes like ours" (Programme 4).

Through Intermediaries

Working through intermediaries, such as business associations, is another way for initiatives to reach out to factories. For example, Impactt worked with the Bangladesh Garment Manufacturers Exporters Association (BGMEA) and UK Trade and Investment to recruit factories for BBW in Bangladesh. Bangladesh PaCT has also partnered with the BGMEA to help SMEs implement the programme (See Box 4). Intermediaries can be used to help recruit not only factories but also brands. For example, Clean by Design has used Sustainable Apparel Coalition (SAC) as an intermediary to attract brands.

3.2.2. Perceived Benefits of Participation

To understand how the business case is viewed by factory managers, we have considered the responses of 33 managers from 31 Bangladeshi factories that have participated in at least one BCSI. When asked about the perceived benefits of BCSIs (see Figure 2), the most common benefit mentioned was achieving the sustainability related goals of the BCSIs (71%). The second most common benefit mentioned was reducing waste (65%),[10] which overlaps with the previous benefit. The third most common benefit mentioned was a financial RoI

(48%). Seven factories reported increased orders (23%), four of which referred to the same global brand, which has promised to prioritise suppliers with higher sustainability scores. While five factories mentioned reduced audits (16%) as benefits of joining BCSIs; they were all referring to the Better Work programme.

A fundamental challenge for factories' self-assessment of participation in BCSIs is a lack of systematic measurement of impacts (see Figure 3). Only about half (48%) reported having done any measurements for impacts (3 SMEs, 12 large suppliers), while a third (35%) said they had not

done any measurements (3 SMEs, 8 large suppliers).[11] In cases where measurements had taken place, they were usually focused on quantifying savings of resources. Only one firm mentioned measuring indicators that could be used to assess social outcomes, such as turnover rate, absenteeism and levels of overtime.

While interviewees emphasized high indirect costs of participation, they did not calculate these exact costs either. Given that our sample covers larger factories with more managerial capacity, the industry average level of willingness and ability to measure impacts is likely to be much lower. A problem with not measuring impacts can be seen in the fact that in one case, where two different representatives were interviewed for the same factory, one said they had experienced a financial RoI and the other said they had not. This lack of measurement hinders uptake as factory managers fail to see concrete benefits.

Our research also highlights a potential benefit of measuring in that suppliers that indicated that they had carried out any measurement processes related to BCSIs were more likely to have reported perceived benefits in the areas of financial returns, reduced waste and social/environmental outcomes.[12] This may indicate that measuring exposes positive benefits that may not otherwise be observed or the process of measuring encourages suppliers to make more significant changes. However, it may be that suppliers who had the capacity to measure also had the capacity to implement the BCSI requirements more successfully and hence, may have experienced greater benefits. A final caveat is that firms who felt they had been forced into initiatives may not have done internal measuring and had a negative perception of the projects' impacts.

Figure 2: Suppliers' Perceived Benefits of Participating in BCSIs

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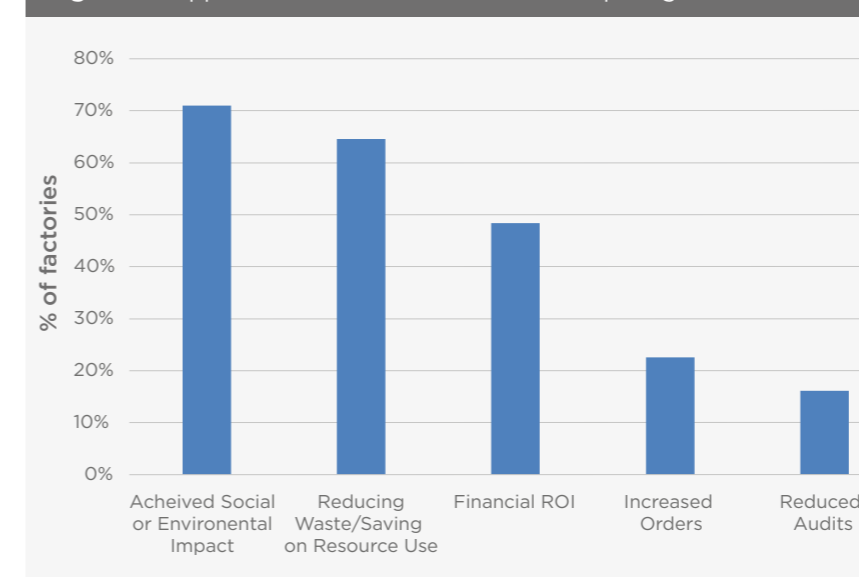
[10]Water access is free in Bangladesh, meaning reducing water use does not necessarily reduce costs.

13   **SCALE MATTERS:** Scalability of Business Case Sustainability Initiatives in the Garment Industry

[11]Six factories (19%) did not provide responses.

[12]The connection between measuring and reporting positive results for the three categories that present factories perceptions of changes related to 'Financial RoI', 'Reduced Waste/Saving on Resource Use' and 'Achieving Social or Environmental Impact' was significant based on a Fisher's Exact Test.

SCALE MATTERS: Scalability of Business Case Sustainability Initiatives in the Garment Industry   14

Incorporating this type of work into their sourcing policies, making business decisions based on the way factories perform within programmes such as this. Those brands who have developed a maturity are those who we see being by far the most successful within the programme that we implement.
(Programme 4)

Figure 3: Whether Supplier Factories Measured the Impact of BCSIs

■ SME ■ Large

(bar chart)
YES: SME 3, Large 12
NO: SME 3, Large 8
MISSING: SME 0, Large 5
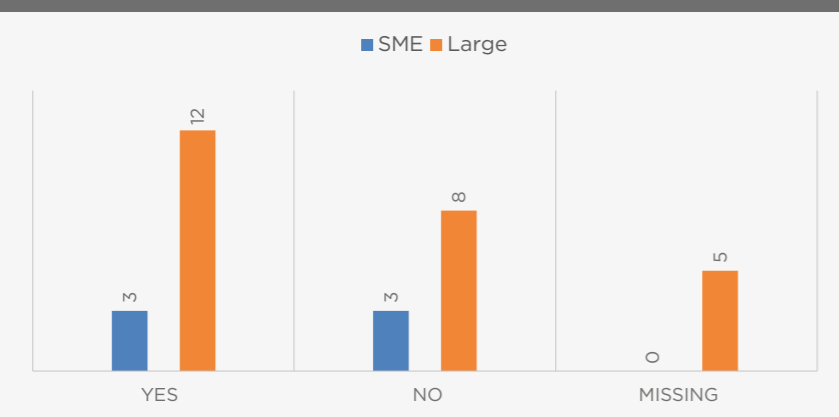
Notwithstanding the widely-held assumption among brands and initiatives of the importance of measurable returns in factories' engagement with sustainability activities, what we have found through interviewing factory managers is that the importance of the business case, in terms of RoI, may be exaggerated as a motivation for getting factories to join BCSIs.

3.2.3. Reaching Factories More Effectively

Based on these challenges, it is important to consider how to reach factories more effectively.

Peer-to-Peer Communication

Several interviewees suggest that the best way to pitch these initiatives is via *peer-to-peer communication*. This is because factory managers tend to trust their peers telling them what they have experienced more than consultants or academics presenting fancy figures. Besides, peer-to-peer communication could foster healthy competition, as factories feel the need to keep up with their competitors.

When I sat and watched the conversation with other fabric suppliers seeing maybe a competitive fabric supplier stand up and kind of brag about everything we did, you could just see in their face, "Oh, I better do this, because that's my number 1 competition up there, and I need to make sure that I'm staying competitive." By the end of that kick-off, everybody basically volunteered to participate in XYZ, rather than me having to chase them.
(Brand 4)

Rewarding more Sustainable Suppliers

Another fundamental way to incentivise suppliers is to promote an indirect business case. Brands can clearly uphold sustainability visions and reward suppliers sharing the vision by increasing orders or making them more consistent. Although we have defined BCSIs as initiatives claiming to bring direct and tangible RoI through improved operational efficiencies, the most frequently cited motivation for factories to join these initiatives is to please buyers. There is then scope to make this a stronger "business case" by clearly favouring factories that perform well in these initiatives. This can be done by fully integrating sustainability criteria into supplier selection and sourcing decisions (e.g. prioritising orders) through supplier score cards, for instance. While a few brands are doing this, many are still only contemplating. Most of the BCSIs we interviewed reported the biggest success and impact in factories supplying for brands that have integrated sustainability into their sourcing practices.

In fact, factories can also be savvier about using sustainability credentials as a marketing tool to attract buyers, as pointed out by several interviewees. A few advanced factories are actively seeking to promote their businesses as sustainable options for buyers.

What the Impactt, PaCT and other projects like this do is, it gives us better access to buyers. If we have these certificates, we get the access to their preferred list. It has its own benefit, it boosts the confidence to negotiate, because many options are open to us. *(Factory 3)*

3.3. Business Case for Brands?

While the business case for suppliers is less obvious than it is often claimed, the business case for brands is even more elusive, as pointed out by a few brand and initiative representatives. They mentioned at least two ways of making a business case for brands: i) sharing the efficiency gains made by suppliers and ii) creating goodwill among brands' stakeholders, such as consumers.

Pitching BCSIs to brands in terms of RoI via shared efficiency gains has caveats, as it can undermine the efforts made by supplier factories. Brands (especially sourcing departments) may demand RoI in terms of lower prices. Indeed, four factories (out of 31) complain that their gains from participating in BCSIs have been taken away by buyers who would demand lower purchasing prices in return.

The buyer … is very clever. When we let them know about our benefit then they want to reduce the price of the product.
(Factory 26)

This scenario is off-putting to factories, further depressing factories' uptake. There is therefore a need to clarify and agree among all the parties involved about where the gains from participating in BCSIs should go and be transparent. One BCSI's manager clearly said the gains should stay with the factories and that BCSIs need to make a different business case to brands, in terms of marketing (Programme 13).

Indeed, one CSR manager frankly pointed out the main business case for brands is PR benefits in terms of telling nice stories in their CSR reports (Brand 17). But the challenge for BCSIs is to make a case that these nice stories actually translate to sales. The aforementioned BCSI manager shared his challenge in trying to convince brands, who want to see "Excel-based RoI" not some guesstimates of consumers' goodwill. Quantifying such marketing benefits remains a huge challenge, limiting BCSIs' ability to pitch and convince brands to invest.

Nonetheless, sustainability is a clear industry trend, named as the biggest industry challenge as well as the biggest opportunity in a 2020 McKinsey report.[xxiv] This is driven by increasingly enlightened younger generations demanding action and transparency.[xxv & 13] While it may be difficult to quantify the extent of how brands' investment in suppliers' capacity building translates to sales, one can argue that brands that do not show purpose and engagement will be left behind. Here, it would be more productive for representatives of BCSIs to make a case to the senior management with a bigger picture rather than to purchasing departments looking for "Excel-based returns".

Furthermore, investing in capacity building to tackle risks in supply chains is an important part of due diligence, as defined by the OECD Guidelines for Multinational Enterprises.[xxvi] In other words, there is likely to be a business case for brands based not only on marketing value (telling nice stories) but also on risk management (preventing bad news), if BCSIs help mitigate risks in their supply chains.

3.4. Summary

We have found that the RoI calculations presented by BCSIs are often too optimistic and unreliable as they tend to i) assume unclear streams of potential future savings, ii) exclude indirect costs incurred by factories, and iii) obscure factory-level variance. Perhaps rightly then, factory managers do not always believe in the RoI calculations presented by BCSIs. In fact, the main reason why factories join BCSIs is to please buyers who ask them to participate (97% of our respondents). Contrary to our expectations based on the business case rhetoric of these initiatives, the main logic behind suppliers joining BCSIs is very similar to that of social auditing: to satisfy buyers.

These findings have important practical implications. First, there is definitely scope for BCSIs to make their RoI calculations more realistic, transparent, and tailored to specific factories. This means the business case in terms of RoI would be less attractive but more credible.

Second, part of the reason why factory managers do not buy the RoI numbers presented is because they do not trust external consultants. More thought needs to go into how to communicate the business case to factories and not just refining their RoI calculations. This is especially important for recruitment paths that do not involve brands. Peer-to-peer communication has proved promising in fostering healthy competition and learning among suppliers.

Third, our research suggests that buyers rewarding suppliers for engaging in these initiatives to enhance sustainability would make perhaps the most compelling business case for suppliers. Given that RoI through efficiency gains is not believable or a strong enough motivator for many factories, explicitly rewarding them for their participation and engagement would help convince these sceptics. This would further encourage suppliers to use their sustainability credentials as a marketing tool, creating a virtuous circle.

The other side of the coin is the business case for brands, which is even more elusive than for suppliers. Here, trying to extract the efficiency gains made by suppliers by demanding lower prices is likely to undermine suppliers' efforts and be counter-productive. Meanwhile, the business case in terms of marketing (e.g. consumer goodwill and increased sales) can be made but is difficult to quantify.

Another type of business case exists for brands based on the risk management perspective, which has underlined the traditional compliance model based on social auditing. Capacity building is arguably better at addressing underlying causes of non-compliance than auditing as it involves working closely with a supplier to change practices. BCSIs, which place capacity building at the centre, should then be better than auditing at mitigating risks arising from substandard labour and/or environmental practices in supply chains. This nonetheless depends on the kind of suppliers targeted by BCSIs, an issue we will turn to in the next section.

4. Scaling Challenges: Beyond "Cream" Factories and Pilot Projects

Key scaling challenges can be identified at the level of suppliers, brands and initiatives. This section explains why BCSIs have often remained pilot projects targeting a minority of suppliers in a few countries. In so doing, we also highlight opportunities at different levels to scale impact.

4.1. Supplier-Level Scaling

Supplier-level scaling can be considered across different dimensions. One is new suppliers joining initiatives. A second is scaling the intervention beyond the initially targeted portion of a supplier (e.g. pilot production line, selected group of workers, participating unit). A third is scaling across time, which involves changed practices persisting over time.

Challenges faced by participating factories affect all three scaling dimensions. Interviewed suppliers cited multiple challenges based on their experiences with BCSIs (see Figure 4). The two most common challenges related to the level of resources required. They were direct expenses (45%) and high human resource needs (42%). The third most common challenge was a tie between fatigue experienced by having participated in repetitive programmes to please their buyers (29%) and having difficulty in changing workers habits (29%).

4.1.1. Beyond "Cream" Factories

The implementers only chase cream factories; they have no interest in such a medium or small factory. (Factory 38)

Scaling BCSIs and achieving greater impact requires reaching out to factories that are far from being excellent. In reality, however, brands tend to target their strategic suppliers while initiatives are more likely to recruit already better-performing so-called "cream" factories. Many factory managers claim that brands and initiatives are looking for success stories to showcase rather than making impact.

Looking at the characteristics of size and BCSI participation (see Figure 5), it can be seen that in our sample, larger suppliers are more likely to have participated in one or more BCSIs.[14] This concentration of programmes on the largest factories has several implications as discussed below.

Figure 4: Suppliers' Reported Challenges with Participating in BCSIs
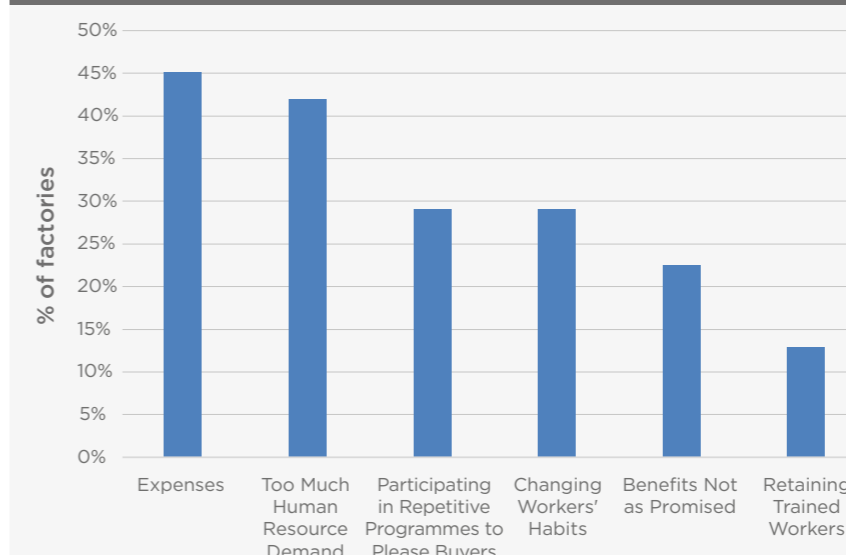
[14]SMEs versus large suppliers were found to have significantly different scores based on an ordinal scale of 1=no participation, 2=participation in one BCSI, 3=participation in multiple BCSIs using a Mann Whitney U Test with an exact significance level of 0.0095 in a one-tailed test.

[13]McKinsey's 2019 State of Fashion report states, "Younger generations' passion for social and environmental causes has reached critical mass, causing brands to become more fundamentally purpose driven to attract both consumers and talent."

Figure 5: Participation in BCSIs for SMEs versus Large Factories

■ SME ■ Large

NONE | ONE | MULTIPLE
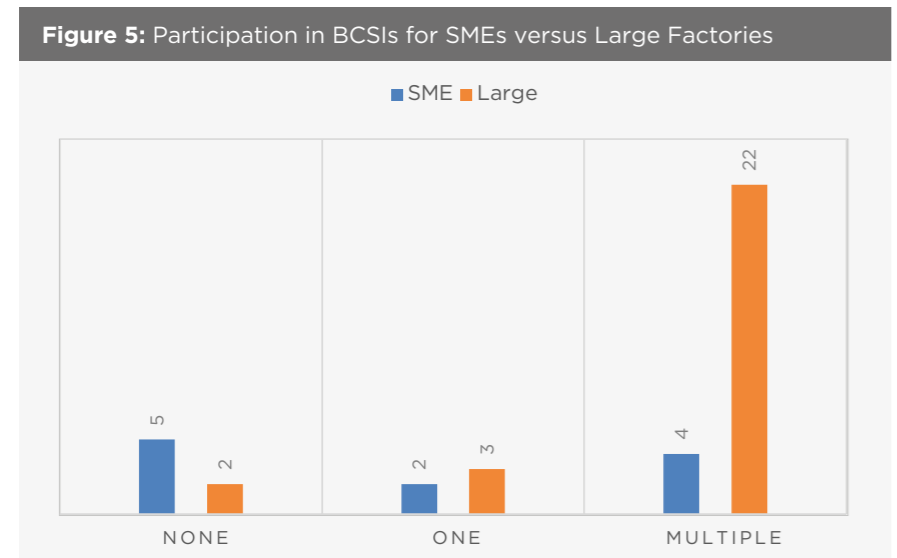
Capacity Building Fatigue

One problem with the current focus on the larger and better performing factories is that there is serious *capacity building fatigue* among this group who are repeatedly approached by brands and "being bombarded with programmes" (Brand 8). Because factory managers rarely say no to brands' requests as discussed earlier, this puts further strains on factories that are already suffering from auditing or monitoring fatigue.[xxvii]

Need for Risk-Based Approach

Another implication of targeting the small group of better performing factories means that resources are spent where they are less needed. These "cream" factories are already operating at a higher level of sustainability, at times exceeding what these initiatives propose. These factories may join initiatives at buyers' request anyway, but the benefits they receive are limited and thus resources wasted. Indeed, smaller factories lacking capacity and technologies are the ones that are more likely to benefit from the low-hanging fruits connected to joining BCSIs.

Nevertheless, SMEs face various barriers. Our interviewed suppliers, despite being larger and more resourceful than the industry average, cite direct and indirect costs

of participating in BCSIs as a major challenge (see Figure 4). In fact, the actual fixed cost of joining these initiatives is higher for SMEs than for larger firms that are already operating at higher standards. Because many SMEs lack managerial capacity and systems, they have to set up systems and train or hire staff to implement the programme. Such costs are seen as excessive and unbearable by many factory managers, who are more concerned with immediate cost implications and shipment deadlines than medium to long-term benefits which may or may not be realised.

While reasons abound why "cream" factories are targeted and less capable factories are shunned, this fundamentally contradicts with the risk-based principle of due diligence, which is defined by The OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector as "the procedures that an enterprise implements to conduct due diligence are proportionate to the severity of the harm".[xxviii] Moreover, the OECD Guidance clearly says that "Where enterprises have large numbers of suppliers, they are encouraged to identify general areas where the risk of adverse impacts is most significant and, based on this risk assessment, prioritise suppliers for due diligence".[xxviii]

In other words, to properly conduct due diligence, brands need to focus their resources on where the risks are the severest and the needs greatest in their supply chains. By prioritising key issues in risky factories rather than targeting already better performing ones, brands can not only make real impact but also enhance their risk management.

One way to reach beyond "cream" factories including SMEs with limited resources and capacity is to create separate tracks within existing initiatives that specifically cater to SMEs, requiring less extensive capital investment and staff time. For instance, Impactt's BBW has adapted to different needs of factories by proposing three versions of their programme: Lite, Refresh and Advance with

different levels of training. Moreover, reaching factories with limited capacity requires dedicated support to help them implement changes in a hands-on manner. This

could be done, for instance, by teaming up with local industry organisations. Box 4 discusses the experience of the BGMEA as they sought to help SMEs implement PaCT.

Box 4: Helping SMEs implement PaCT

PaCT promotes increased resource efficiency by helping factories adopt low-cost cleaner production practices and facilitating investments in technology. In Bangladesh, it has involved cooperation between a local business association (BGMEA) and the IFC, in addition to brands and Solidaridad, an NGO. While many factory managers interviewed commented positively on PaCT, some factories struggled to adopt necessary changes. A stakeholder shared some SME challenges:

They [SMEs] don't hold that mid-level management capacity that will help them to understand the strategic advice we are giving them…PaCT only states some requirements of resources to reach the goal of profit maximisation. The rest of the hard part of the work is done by the BGMEA. We had to pitch ideas to them but to really make them agree to it, we had to go through cost-benefit analysis with them . . . We literally had to do some spoon-feeding work as well. The effort that was invested in SMEs was 20-30 times larger than that of big factories. (Stakeholder 8)

While some changes are low or no cost, others require investments in new technology. The IFC assists PaCT participating factories in accessing financing through their Resource Efficiency Financing (REF) process.

REF process:

1. Registration: Factories, nominated by brands, sign up to PaCT.

2. Assessment: PaCT identifies upgrade and investment opportunities.

3. Financing Upgrades: PaCT evaluates opportunities to identify bankable projects and develops investment proposals.

4. Introduction to PaCT Partner Banks: Factories meet with partner banks, specially trained in REF by PaCT. The banks evaluate costs and benefits of implementing the proposed projects.

5. Financial Closure: Banks lend to factories and provide links to service providers.

6. Implementation of Upgrades: Factories implement the recommended projects.

To get expensive new equipment, factories have to go through the above process. While a loan may be helpful or necessary, the amount of paperwork and complexity involved in the loan application process is challenging to SMEs (Factory 5). Overall, SMEs may need additional support throughout all stages of programme implementation.

What is clear is that targeting factories with limited capacity is more expensive and time-consuming for all parties despite large potential gains. The business case is likely to be more elusive for these factories, at least in the short term, given the need to set up systems and invest in capacity from scratch. Moreover, it is more expensive for initiatives to cater to these factories needing hands-on help and intensive interactions. Left to the market forces alone, these factories are less likely to be approached and recruited, hence the problem of "cream" factories. There is then a case for external donors and relevant actors (e.g. government, inter-governmental agencies, and industry associations) to support initiatives to specifically target more needy factories.[15]

4.1.2. Scaling Across Establishments and Over Time

Another challenge is whether learning can be scaled across the business and over time. It is often the case that even when factories participate, they fail to adopt the changes across their establishment and/or factory group and to make lasting changes to their practices. This is partly related to the brand-driven nature of recruitment, often leading to lack of commitment.

> *...the businesses themselves do things on a customer service basis, not because they genuinely see the need, they see only the need to satisfy the demand of a foreign buyer...The parties who should actually drive the change don't believe in the change that they're meant to drive. (Brand 1)*

At the factory-level, several key issues were identified that hinder scaling. First, sometimes factory staff—top, middle, and/or bottom— are resistant to change. Old practices die hard and making changes across the establishment and over time requires commitment and willingness at all levels. Top management often have a short-term time horizons, fail to show commitment to sustainability objectives, and do not make resources available, for

instance by investing in necessary equipment and allowing their staff to get training.

> *The owners like to think in terms of present cash flows. Instead of investing in the utility machineries such as the EGB boiler, they usually want to expand the [factory] project.*
> *(Factory 19)*

Moreover, the middle managers, often promoted from within, without formal management training, are often focused on tight production and shipment deadlines. They can be resistant to changes that may cause temporary slowdowns or do not have clearly visible concrete benefits.

One way to increase factory management's buy-in is to match the problems factories themselves have self-identified. While initiatives promote particular practices, for instance saving water, the factories they are targeting may see different challenges such as chronic power outages. Given that factories are more likely to fully engage in programmes that meet the needs they have self-identified, brands and initiatives need to pay more attention to matching factories' needs and priorities when they pitch capacity building initiatives.

Another approach to increase commitment is to require participants to have skin in the game by paying fees. For instance, PaCT requires factories to pay fees, although they amount to a small portion of the total funding. Clean by Design requires mills to pay about a third of the programme cost. Programme implementers note that having participants pay leads to a higher level of engagement and commitment as they do care about getting their money's worth. Nonetheless, this may be more difficult for socially-focused BCSIs, where RoI is less clear.

Furthermore, workers tend to have persistent habits in the way they do things and limited experience with formal education. For training programmes to have long-term impact, they need to take into account workers' perspectives, priorities and motivations. A further

challenge for factories considering investing in worker training is high turnover in the industry. When factories constantly lose trained supervisors and workers who take their new skills with them, they become reluctant to invest in training their staff.

4.2. Brand-Level Scaling

> *For years and years we've just done pilot, pilot, pilot – we've got a really big supply chain, and...we're really trying to put a focus on whether things can get scale. (Brand 9)*

To scale BCSIs beyond pilot projects, more brands need to enlist more of their supplier factories, and BCSIs need to attract new brands to join, which entail the following challenges.

4.2.1. Overcoming Budget Constraints

The biggest impediment to scaling from brands' perspective is lack of resources and competing demands placed on brands' sustainability-related budgets. Many brands have a portfolio of auditing and capacity building activities, and while these activities are often seen as complementary, they compete for budget. BCSIs are more resource-intensive than traditional auditing as they require not only participation fees but also continuous and extensive interaction with both programme implementers and factory management. This often requires brands' local staff monitoring and intervening.

> *When we went out and did our own programme...it was very resource intensive for us. I would say we had two team members who probably spent 50% of their job over the last year working on a programme with just 10 suppliers. (Brand 4)*

Scaling in terms of enlisting more factories, therefore, requires sustainability-related departments to find creative solutions to increase their budgets by: i) shifting resources, ii) tapping into other departments' budgets, and iii) pooling resources with other brands.

The first approach is to shift resources from auditing to capacity building, including BCSIs. One of the brands interviewed was considering moving away from social auditing all together and concentrating on capacity building (Brand 8).

The second way is to tap into the budgets of other departments such as communication and marketing, as a few brands have done.

> *We are getting a lot more interest from the communications and marketing teams, which is really good...if we are going to scale working through the brands model. (Programme 2)*

The third approach is to pool resources and leverage with other brands sourcing from the same or similar sets of factories. Brand collaboration on capacity building is "a huge opportunity" (Brand 9) as brands can exert joint leverage over suppliers, as in the case of *the Bangladesh Accord on Fire and Building Safety*, which involved over 200 brands. The Accord participating brands we interviewed are generally convinced of the benefits of having one standard, one platform, and one voice, contributing to collective leverage.[xxix] Besides, it helps to recruit factories when two or more brands sourcing from the same factory request participation in the same BCSI.[xl] Moreover, brands sourcing from the same factory could share the cost of capacity building such as programme fees, helping ease brands' resource constraints. This is a promising way forward, and brand collaboration is growing in PaCT, for instance.

[15] It is worth pointing out that transparency tools such as Open Apparel Registry and Mapped in Bangladesh can help identify factories and their customers.

4.2.2. Attracting Brands Beyond the Usual Suspects

> *If you're in one of these 215 factories in PaCT, that are associated with H&M and Walmart and C&A and Inditex, you're lucky, right? What about the 4,800 additional factories in Bangladesh?...My question would be how do these initiatives move beyond the usual suspects to the non-usual suspects?* (Brand 2)

Given the buyer-driven nature of recruitment, scaling BCSIs requires more brands joining these initiatives, in addition to existing brands enlisting more of their suppliers. The problem is there is always the same small core group of brands interested in these initiatives, while the bulk of brands are still focused on the compliance model and not interested in capacity building, as remarked by several CSR managers. Given the fragmented nature of the global garment industry, just having top 20 brands on board does not cover much of the industry.

One big challenge, therefore, is to attract brands beyond the usual suspects. One way may be to create tracks that are easier for smaller and less well-endowed brands to join. One factor increasing potential for this option to develop is that SME garment brands account for a growing proportion of global market share and some of them are being founded with explicitly sustainability-oriented business models.[xxiv] A BCSI participation option targeted at SME brands could be less resource-intensive, with lower fees and less need to allocate staff time. Another approach, as mentioned earlier, is pooling resources and leverage with other brands, which is a particularly attractive option for smaller brands accounting for a smaller share of suppliers' capacity and facing tighter budget constraints.

It is easy to understand why BCSIs do not scale due to non-participation by non-usual suspects. What is less obvious, however, is that members of the group of "leading" brands actively engaged in beyond-compliance

capacity building often choose not to participate in existing BCSIs, contributing to the scaling issue.

4.2.3. In-House Capacity Building Programmes

We have found that brands leading sustainability efforts in the industry tend to develop their own in-house programmes for various types of capacity building. Interestingly, then, these "leaders" also contribute to the scaling problem by going it alone. Several factors emerged though interviewing these "leading" brands. First, one brand claims that they can be more innovative and experimental as "We can push the boundaries" (Brand 8). Another brand points out collaborating with others slows down the process and may even kill progress.

> *We're usually quite selective on the collaboration side, because... actually, too much collaboration could kill progress...It comes back to your question of scale. You create more scale by having more people involved, but actually the more people involved, the longer the process becomes.* (Brand 1)

Besides, there is also the issue of control, as several brands remarked that in-house programmes give them "more control and influence". One brand leading in sustainability proudly said "we do not outsource responsibilities" (Brand 10) by joining third-party initiatives.

Lastly, having brand-specific programmes better serves brands' marketing purpose. One brand representative called it "brand ego" that they have to have their own thing (Brand 4). In other words, joining existing initiatives undermines the marketing value as they cannot sell it as unique to the brand.

While there may be genuine benefits to developing brands' in-house programmes, this leads to fragmentation, replication, and wasted resources. One way to address this issue is to have different levels

of engagement and tracks within a given initiative. Those leading brands willing to commit further and innovate can form a separate group within the initiative and try out new things, for instance. One interesting example is the Palm Oil Innovation Group, which was formed by progressive members (both civil society and corporations) of the Roundtable on Sustainable Palm Oil, a multi-stakeholder initiative that certifies sustainable palm oil. The Palm Oil Innovation Group seeks to go beyond what is required by the Roundtable and "creates a space for them to be recognised for their leadership and innovation and to develop ways to independently verify how well they are doing".[xxx]

This way, leading brands frustrated with the slow pace of progress in existing initiatives could collaborate, innovate with like-minded partners, and be recognised for their leadership. Initiatives need to build in a certain level of flexibility to allow such experimentation. Brands also need to bear in mind that going it alone leads to fragmentation and replication while it takes scaling and collaboration to transform the industry. Brands that still prefer their in-house programmes should at least share their tools, materials, and experiences by publicly disseminating outcomes to foster industry-wide learning.

4.3. Initiative-level Scaling

Finally, initiative-level scaling entails overcoming resource constraints, expanding reach, and reducing competition among initiatives.

4.3.1. Overcoming Resource Constraints

To scale BCSIs, the initiatives need to have capacity and resources to accept more participants, which is often lacking. Most importantly, it is difficult to make these resource-intensive initiatives financially self-sustaining. Costs are particularly high during the initial development phase but even when programmes are established, costs can continue to exceed revenue from participating brands and factories. Indeed, most of the initiatives studied rely at least partially on external donor funding to recover their costs or were at least partially funded by their implementing organisations income from other sources. As for programmes hosted by inter-governmental organisations such as PaCT and Better Work, as much as half of the funding still comes from donors including government agencies.

To make initiatives more or less self-sustaining, scaling operations and achieving economies of scale to lower the unit cost of brand participation is crucial. This begs the question of how to scale in the first place, leading to the chicken-and-egg problem. For example, one BCSI shared that they solved the problem of high costs in the early phase by obtaining a substantial three-year grant from a foundation that covered development as well as implementation costs of an innovative programme (Programme 2).

Nonetheless, it is becoming difficult to secure such funding as donors are increasingly reluctant to cover implementation costs. In light of this trend, almost all of the studied initiatives claim to be in the process of becoming self-sustaining financially, albeit at a different pace. For example, one BCSI says it is increasing brand and factory fees to make up for the decline in funding from a government agency (Programme 13), while another one is increasing brand fees from covering only local implementation costs to charging the full cost, including the secretariat (Programme 2). Another alternative is for BCSIs to look for new sources of funding that are more willing to cover implementation costs based on a promise of ongoing positive impact.

One promising way to reduce the unit cost is to relocate programme management activities to the countries, where programmes are implemented. Often the most expensive part of BCSIs is the overhead, or the cost of the secretariat, especially if they are based in Western countries. One initiative says they no longer receive donor funding but can offer the same content for about the same price without subsidy, having built local capacity to manage projects (Programme 5).

This relates to human resource constraints initiatives face. While scaling requires the capacity to accept more brands and factories into the initiatives, such capacity is not always there. In particular, recruiting qualified experts capable of running the initiatives is seen as the bottleneck by many initiatives. This is true both for initiatives that recruit and train internal staff and those that rely on external experts. Given that an important part of scaling BCSIs is to generate demand as well as supply, local capacity building needs to be built into programmes from the outset.

4.3.2. Issue and Geographic Scope

The funding and human resource constraints partly explain why BCSIs cover limited issues and geography. This limited coverage is another often cited reason why brands do not enlist more suppliers or join BCSIs. Brands look for a match in terms of issues covered by the initiatives and those high up on their strategic agenda. For example, one interviewed brand was satisfied with the results of HERproject but perceived a mismatch in terms of issues covered by the programme and the brand's priorities, leading the brand to develop their own in-house programme (Brand 6).

Besides, brands are prone to fads and fashion, as remarked by several interviewees. When an issue becomes hot, whether it is circularity or detox, they feel the need to join the bandwagon and shift resources to hot topics rather than scaling existing initiatives that work throughout their supply chains. This fire-fighting approach needs a rethink.

In addition to issue fit, brand representatives stressed the importance of a geographic fit. While BCSIs are limited in geographic coverage, most brands' supply chains are global. Many brands say they would be more interested in programmes with global reach, with a few noting that the IFC is a promising partner in this respect. Indeed, Levi's has partnered with the IFC to take PaCT beyond Bangladesh, rolling out renewable energy and water saving interventions across ten countries (Pakistan, Bangladesh, Sri Lanka, India, Mexico, Lesotho, Colombia, Turkey, Egypt, and Vietnam).xxxi This is a promising example of BCSIs partnering with key brands to expand their geographical coverage.

Meanwhile, brand and initiative representatives stressed the importance of in-depth local knowledge and tailoring the programme to specific localities and contexts. In other words, there are tensions between going global and responding to local needs and conditions. There is scope for BCSIs covering similar issues to deliberately specialise in different geographies so that there is less overlap and more global reach overall. BCSIs can also benefit from cooperating with civil society and labour movement actors.

4.3.3. Competition Among Initiatives

BCSIs often find themselves competing with other similar initiatives and brands' in-house programmes, as discussed earlier. While competition may drive innovation in programme offerings, a plethora of separate and sometimes overlapping initiatives also lead to fragmentation, replication and wasted resources due to lack of scale.

One way to overcome this challenge is to promote collaboration among initiatives. This can involve for instance i) coordinating geographic coverage, ii) sharing and standardising tools and resources, and iii) sharing information and lessons more in general. First, coordinating geographical areas to avoid initiatives overlapping can not only increase global reach but also help each initiative scale and reduce cost. Second, sharing tools and materials among similar initiatives would reduce development costs. Moreover, standardising tools and procedures and recognising each other as one's "equivalent" would help entice brands who want more global reach and standardisation. A further step to scale and reduce costs could include consolidation of similar BCSIs. Lastly, more general sharing of information and lessons learned among initiatives would help improve their effectiveness and efficiency.

Such collaboration among different initiatives could be promoted by umbrella organisations, notably multi-stakeholder initiatives that have been playing a convening role in the industry. For instance, SAC has been suggested as a promising platform, with their members' combined annual apparel and footwear revenues exceeding $500 billion. Funding bodies also have a role to play to encourage collaboration and consolidation among competing initiatives by prioritising those initiatives that are trying to reduce overlap and duplication.

4.4. Summary

The above section has identified various scaling challenges and opportunities at the level of suppliers, brands, and implementers of BCSIs. The main supplier-level scaling challenge relates to the targeting of "cream" factories, where more capable, better-performing factories are recruited for BCSIs. This creates capacity

building fatigue among suppliers repeatedly approached by different brands and initiatives, as it is difficult for suppliers to say no to customers. Moreover, by selecting better performing factories, resources are spent where they are less needed. Indeed, smaller factories lacking capacity and technologies are the ones that are more likely to benefit from the low-hanging fruits connected to joining BCSIs. In reality, however, reaching out to these factories and implementing changes is more time-consuming and resource-intensive for brands, BCSIs, as well as for factories, that need to invest in building capacity and developing systems from scratch.

Reaching beyond "cream" factories and making greater impact on the ground requires a different approach. First, brands should adopt the risk-based due diligence approach, prioritising key issues in risky suppliers. This would mean trying to recruit factories that pose greater risk on issues that can cause severe harm. Such a risk-based approach would not only help make impact but also enhance brands' risk management. Second, initiatives need to focus on bringing change to those suppliers who would most likely benefit from interventions. This may entail creating separate tracks that are less resource-intensive and providing tailored and hands-on help to implement change. As this is more time-consuming and expensive for initiatives, external support both in terms of funding and implementation (e.g. from local industry associations or government agencies) is likely to be needed.

The main scaling challenges at the brand-level concern expanding brands' budgets for capacity building, attracting brands beyond the usual suspects, and convincing leading brands not to go it alone. Brands could overcome budget constraints by i) shifting resources from auditing to capacity building, ii) tapping into other departments' budgets, and iii) pooling resources and leverage with other brands sourcing from the same supplier base. To attract brands that have never invested in these initiatives, BCSIs could create tracks that are less resource-intensive. Meanwhile, to convince leading brands to join existing initiatives rather than to create similar in-house programmes, separate groups could be formed within the existing BCSIs for brands interested in innovating and pushing boundaries.

By allowing space to experiment and collaborate with like-minded brands, scale can be balanced with innovation and speed.

At the initiative-level, the key scaling challenge involves long-term funding. Given the resource-intensive nature of interventions, most BCSIs have difficulty recovering cost by participation fees only. BCSIs thus need to find new sources of funding and/or reduce their cost base. One way to reduce the overhead cost is to relocate the secretariat to a producing country, where interventions take place. This has the double benefit of reducing cost and building local capacity to develop and manage programmes, which is also a key to scale these initiatives. Initiatives can also look for funders willing to support longer-term operational costs.

Another initiative-level challenge is the balance they need to strike between going global to match brands' global reach on one hand and the need to tailor the programme to the local context on the other. Meanwhile, BCSIs proposing similar content compete with each other to attract brands and factories, leading to wasted resources and limited scale. There is scope for BCSIs to collaborate by i) coordinating geographic coverage, ii) sharing and standardising tools and resources, and iii) sharing information and lessons more in general. Such alliances and possible consolidation would reduce replication and help BCSIs scale and reduce cost.

5. Conclusion

It's worth taking the time to think a little bit about why the only thing that has truly scaled has been auditing, which is scaled to an extraordinary degree. It's nothing to do with impact on workers and it's nothing to do with any efficacy.
(Programme 5)

To answer the question why BCSIs have largely failed to scale and what can be done about it, it is useful to ask why auditing has scaled to such an extent, as pointed out by this quote. One of the reasons why auditing has scaled is that it is not resource-intensive, at least for brands. Supplier audits can be easily outsourced to external audit firms or service providers, which make up the $80 billion industry.[xxxii] However, the cost of auditing is often shouldered by suppliers, making it an inexpensive option for brands.

It is clear that capacity building can never be as cheap as auditing. Given the need to engage, interact, change behaviour, and make investment, capacity building is inherently more resource-intensive (i.e. staff's time, capacity, finance) than auditing. From the cost perspective, therefore, the prospect for BCSIs to scale massively is limited. Another reason behind the popularity of auditing is that it has become a widely-accepted risk management practice, giving brands a sense of control, however flawed.[xxxiii] In other words, auditing is generally seen as a "must have" risk-management tool for multinational enterprises rather than a "nice to have" marketing exercise as is the case for capacity building. The question then is whether capacity building, including BCSIs, can be part of brands' risk management.

We have argued in this report that it can and should be, because capacity building is better at addressing the root causes of poor labour and environmental practices than auditing. Nonetheless, this hinges upon reaching out beyond "cream" factories, including SMEs with limited capacity and resources. Focusing resources on where the risks of doing harm are the severest in the supply chain

is the essence of the *risk-based approach* as defined by the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector. It is equally important that brands reward those suppliers that participate in initiatives to upgrade their social or environmental sustainability.

In sum, what we should aim at is *risk-based scaling* rather than massive scaling of BCSIs to create greater impact where there is greater risk and treat it as part of due diligence. This report has identified various ways to overcome constraints and capitalise on opportunities for brands, initiatives, suppliers and other stakeholders in order to scale BCSIs and to create greater impact on supply chain sustainability. Below sums up key recommendations and action plans for key actors.

5.1 Recommendations for Brands

I. Systematically reward more sustainable suppliers, bearing in mind that this is possibly the most compelling incentive for suppliers to participate in BCSIs.

Actions:

- Embed sustainability performance in supplier selection and evaluation criteria.
- Prioritise ordering from factories with better sustainability performance.
- Publicly endorse better performers (e.g. awards).

II. Apply the risk-based due diligence approach to capacity building (including BCSIs) and prioritise suppliers at risk of doing more severe harm.

Actions:

- Prioritise factories that are at risk and more likely to benefit from interventions rather than already better performing factories.
- Do not overburden factories with similar initiatives. Consider factories' prior and current experience before proposing a new programme.

III. Allocate increased budget and invest beyond pilot projects by relocating and pooling resources.

Actions:

- Shift resources away from auditing to capacity building, including BCSIs.
- Tap into other departments' budgets (e.g. marketing, communication).
- Collaborate with other brands sourcing from the same factories on capacity building to achieve a greater impact and to reduce duplication and cost.

5.2 Recommendations for BCSIs

I. Make the RoI calculations more realistic, transparent, and tailored to specific factories, and improve participant experiences.

Actions:

- Make the assumptions of future savings more realistic and transparent.
- Take into account indirect costs and different factory characteristics in RoI calculations.

- Promote peer-to-peer communication and learning.
- Assist participating factories in measuring impact.

II. Target beyond "cream" factories and cater to factories that are more likely to benefit from interventions.

Actions:

- Do not overburden factories with similar initiatives. Consider factories' prior and current experience as part of eligibility to participate in programme.
- Create tracks focused on assisting SMEs with limited capacity.

III. Attract brands beyond the usual suspects by creating separate tracks to cater to their needs.

Actions:

- Encourage smaller brands to join by creating less resource-intensive tracks, with lower fees and less need to allocate staff time.
- Incentivise leading brands to join by creating tracks focused on innovation and leadership.

IV. Reduce the cost base and develop longer term funding models.

Actions:

- Relocate the secretariat to a production country or shift roles based in a high-cost country to a production country.
- Train local staff and build local capacity to develop and manage programmes.
- Seek new sources of external support and funding (e.g. governments and intergovernmental agencies).

V. Collaborate with similar initiatives to share, coordinate, and scale

Actions:

- Share and standardise tools and resources among BCSIs proposing similar services to increase global reach and reduce cost.
- Coordinate geographic coverage with similar BCSIs so that each initiative can specialise in certain geographic areas and scale. Create equivalency of programmes to help brands gain global coverage.
- Consolidate with similar BCSIs to scale and reduce cost.

5.3 Recommendations for Production Facilities

I. Be open to considering business cases presented by initiatives and seek help in measuring impact.

Actions:

- Demand more clarity and details underlying RoI calculations (i.e. savings, indirect cost, factory variance).
- Talk to peers and learn from those who participated in BCSIs.
- Seek help in assessing impact of interventions.

II. Be savvier about using sustainability credentials (e.g. participation in BCSIs) as a marketing tool to attract and retain brands.

Actions:

- Ask brands and BCSIs to publicly recognise engagement in sustainability efforts.
- Extensively communicate sustainability credentials (e.g. websites and social media).

5.4 Recommendations for Funding Bodies

I. To achieve greater impact, prioritise initiatives that are reaching out to factories at risk of doing more severe harm.

Actions:

- Make new or ongoing funding conditional upon the risk-based targeting of factories (i.e. those at risk of doing more severe harm and more likely to benefit from interventions).
- Be open to covering both development and implementation costs of initiatives that reach out to factories at risk.

II. To reduce overlap and duplication, prioritise initiatives that are coordinating or consolidating with other initiatives.

Actions:

- Channel funding into initiatives that are coordinating or consolidating with others.
- Make new or ongoing funding conditional upon coordination or consolidation.

5.5 Recommendation for Industry Associations (with Producers as Members)

Collaborate with initiatives to help factories with limited capacity become more sustainable, bearing in mind that a minority of factories' bad practices can tarnish the industry's reputation.

Actions:

- Provide hands-on implementation support to factories with limited capacity in partnership with BCSIs.
- Subsidise the implementation cost of BCSIs catering to factories with limited capacity.

5.6 Recommendation for Multi-Stakeholder Initiatives and Industry Associations (with Brands as Members)

Promote collaboration among members as well as between initiatives to achieve greater impact and efficiency.

Actions:

- Encourage brand members who participate in BCSIs to pool resources and leverage over suppliers.
- Encourage BCSIs (for which members are participants) to collaborate with other BCSIs.

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