

**Supplier strategies towards economic and social upgrading: the drivers and implications
for workers**

**A thesis submitted to the University of Manchester for the degree of Doctor of Philosophy
in Business and Management in the Faculty of Humanities**

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Abstract

Name of the university: Alliance Manchester Business School, University of Manchester

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Purpose: The thesis sets out to investigate the different upgrading strategies adopted by suppliers, the firm-level and relational conditions driving these, and their implications for employees' working and personal lives. The study is based on 18 Bangladeshi garment manufacturing firms involved in a specific form of international outsourcing relationship with their buyers, namely, tacit promissory contracting. Within this relational arrangement, the studied firms have been engaged in recurrent discrete transactions with the same buyers since their inception, but without the existence of any original legally binding written agreement.

Design: The study adopts a multiple case study approach. Face-to-face interviews have been conducted with 25 owners/managers of the studied firms and 35 workers of those firms. Additionally, organisational documents and local newspaper articles have been collected wherever possible. The data analysis has been conducted using template analysis and fuzzy set analysis.

Findings: The analysis has led to three key findings. First, the small suppliers have mainly focused on output (capacity) enhancement in their initiation of economic upgrading. In contrast, relatively larger firms have concentrated on higher value-adding actions. The social upgrading strategies of the small firms have mainly involved implementing measurable dimensions of the codes, while, in the case of large and medium sized firms, these have also involved addressing more sophisticated rights of the workers. Second, the suppliers are more eager to unilaterally pursue economic upgrading compared to undertaking social upgrading. Third, the upgrading initiatives have generated mixed results for workers in different sized firms. Their socially grounded needs have been neglected in the process of implementing the labour standards prescribed by the buyers.

Originality: The thesis contributes to the IB and GVC literatures in three ways. First, the thesis elucidates a to-date unexplored form of international outsourcing relationship, namely tacit promissory contracting. Second, the thesis has emphasised the role of suppliers as the initiators of their firm-level upgrading strategies. Third, the study has revealed the broader implications of upgrading strategies by identifying the root causes of the problems associated with them, including their human rights implications. The study advances understanding in IB by moving beyond the typical MNE-centric approach and placing central focus on suppliers, along with integrating the voices of their workers. It has also identified the limitations of the social upgrading approach in GVC and has pointed out how focusing on a wider range of human rights would yield more insights into this concept.

Declaration

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

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Author's research standing

Published journal papers

- J01 Hoque, Samia Ferdous, Noemi Sinkovics, and Rudolf R. Sinkovics (2016), "Supplier strategies to compensate for knowledge asymmetries in buyer-supplier relationships: Implications for economic upgrading," *European Journal of International Management*, 10 (3), 254-283. (DOI: 10.1504/EJIM.2016.076292).
- J02 Sinkovics, Noemi, Samia Ferdous Hoque, and Rudolf R. Sinkovics (2016), "Rana plaza collapse aftermath: Are compliance and auditing pressures efficient?," *Accounting, Auditing, and Accountability*, (in press)
- J03 Sinkovics, Noemi, Rudolf R Sinkovics, Samia Hoque, and Laszlo Czaban (2015), "A reconceptualization of social value creation as social constraint alleviation," *Critical Perspectives on International Business*, 11 (3/4), 340-363. (DOI: 10.1108/cpoib-06-2014-0036).
- J04 Henderson, Stephen and Samia Ferdous Hoque (2010), "The ethnicity impact on attitudes toward country of origin for products with different involvement levels," *Journal of International Consumer Marketing*, 22 (3), 271-291. (DOI: 10.1080/08961531003751173).
- J05 Faruq, Abdullah Al and Samia Ferdous Hoque (2009), "Anti-piracy strategies adopted by companies in china: A comparison between multinational corporation and small and medium-sized enterprise," *Skyline Business Journal*, 2, 34-40.

Journal papers under review

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Book chapters

- B03 Hoque, Samia Ferdous and Abdullah Al Faruq (2010), "Exploitation of labour in Bangladeshi ready-made garment sector: Who is responsible?," in *Corporate Social Responsibility in Asia*, Kyoko Fukukawa (Ed.). London: Routledge, 121-140.

Invited book sections under review

- B01 Sinkovics, Rudolf R, Samia Ferdous Hoque, and Noemi Sinkovics (2017), "Global value chain and global production network literatures in international business research: An investigation of the nature of integration" in *The Routledge companion to international business and economic geography*, Gary Cook, Jonathan Beaverstock, Jennifer Johns, Frank McDonald, and Naresh Pandit (Eds.). London: Routledge.
- B02 Sinkovics, Rudolf R, Ursula Ott, and Samia Ferdous Hoque (2017), "Developments in using software for data analysis," in *The sage handbook of qualitative business and management research methods*, Catherine Cassell, Ann L Cunliffe, and Gina Grandy (Eds.). London: Sage Publications.

Selected conference papers

- C01 Sinkovics, Noemi, Samia Ferdous Hoque, and Rudolf R. Sinkovics (2016), "Rana plaza collapse aftermath: What do we learn from compliance pressure? (Developmental paper, *Academy of International Business UK & Ireland Conference, London, 7-9 April 2016*)
- C02 Hoque, Samia Ferdous, Noemi Sinkovics, and Rudolf R. Sinkovics (2015), "Suppliers' Access to Multinational Enterprises' Knowledge Resources: Implications for Economic Upgrading" (Developmental paper, *Academy of International Business UK & Ireland Conference, Manchester, 16-18 April 2015*)

Chapter 1: Introduction

This thesis sets out to investigate the different types of upgrading strategies adopted by Bangladeshi garment manufacturers and exporters who are involved in a specific form of international outsourcing relationship with their buyers, namely, tacit promissory contracting. Tacit promissory contracting is defined as “a form of outsourcing relationship whereby supplier firms are involved in recurrent discrete transactions with the same buyers since their inception or at least for a long period of time, but without the existence of any original legally binding written agreement” (Hoque, Sinkovics, and Sinkovics 2016:258). The study identifies the conditions that drive both economic and social upgrading within this specific form of relationship. Further to this, the thesis elucidates the implication of suppliers’ upgrading strategies for their employees’ work and personal lives.

The academic motivation for the study originates from the limited understanding in the international business (IB) literature of suppliers’ role as fabricators of their firm-level upgrading strategies (cf. Johns et al. 2015). In recent years there has been a significant rise in the participation of firms from developing countries in the global economy as suppliers to multinational enterprise (MNE) buyers (Strange and Newton 2006). Nevertheless, the IB literature has continued to focus predominantly on the perspectives of MNE buyers, while assuming suppliers merely as passive recipients of standards. Only limited attention has been accorded to the strategies adopted by suppliers to improve their capabilities for moving up the value chain in their engagement with MNEs (Marchi, Maria, and Ponte 2014). There is still a narrow understanding in IB literature about the conditions that drive such strategies within an international outsourcing relational context and the intended and unintended consequences of those strategies on the workers. This thesis, therefore, examines the upgrading strategies adopted by the suppliers, the firm-level and relational factors driving these strategies and the implications of such actions for workers. To explore these issues, the current study draws on 18 Bangladeshi garment suppliers of varying sizes and having different states of resources.

The concept of upgrading has been borrowed from global value chain (GVC) analysis and is defined as the “capacity of a firm to innovate to increase the value added” (Giuliani, Pietrobelli, and Rabellotti 2005). According to this analysis, economic upgrading stimulates innovation and competitiveness among firms and social upgrading promotes employment based on decent work and respect for labour standards (Lee, Gereffi, and Barrientos 2011). Thus, the current study

follows up on recent research interest in the cross-disciplinary engagement of IB and GVC perspectives (Johns et al. 2015).

The notion of upgrading in the GVC literature has shifted attention from the lead firms (i.e. MNEs) as the focal node of analysis to the suppliers. For this reason, the GVC literature is considered to be more progressive, in comparison to IB studies, in terms of integrating suppliers in the analysis (cf. Gui 2010). The GVC literature has also investigated the conditions under which upgrading is likely to occur (Lee and Gereffi 2015). A key argument underlying such an analysis is that the upgrading strategies of local firms are intermediated through their ties with global lead firms and the associated power and knowledge dynamics (Gereffi 1999; Humphrey and Schmitz 2002). For example, previous studies in GVC have reported that suppliers involved in quasi-hierarchical relationships with their lead firms are less likely to succeed in pursuing upgrading to higher levels of performance (Humphrey and Schmitz 2002; Isaksen and Kalsaas 2009). Thus, the form of governance and the structure of the value chain remain at the heart of the analysis of upgrading in the GVC discipline, while suppliers' firm-level efforts are given only secondary importance. The strategies for upgrading at the firm level adopted by the suppliers remain largely hidden in the GVC literature (Kadarusman and Nadvi 2012; Morrison, Pietrobelli, and Rabellotti 2008). Thus, GVC studies has also been criticised for their lack of focus on the firm-level internal strategy (Gui 2010; Marchi et al. 2014). This thesis, therefore, contributes to the GVC literature by putting suppliers at the centre of analysis and exploring their firm-level strategies towards upgrading.

Further to this, the present study seeks to contribute to the IB literature by focusing on a, to date, largely neglected form of international outsourcing relationship. The findings of the thesis indicate that all the 18 Bangladeshi garment manufacturers studied have been producing and supplying finished apparel to the same buyers since the time of their inception. While each of these transactions has been discrete, there is evidence of recurrent discrete transactions without any legally binding original agreement for repeat purchase. Instead, there is an implicit (or at most orally expressed) promise for future orders that is subject to suppliers' ability to maintain the expected level of performance within the current exchange in terms of price and quality specifications, on-time delivery, social compliance and protection of intellectual property. In order to meet the expectations of individual buyers, the suppliers are required to make investments for purchasing customised raw materials, training the labour force to develop specific skills, and

implementing the internal specifications of buyers, in order to be able to meet individual buyers' expectations. This investment is necessary not only for the completion of the transaction in hand, but also for the realisation of buyers' promises to make repeat purchases. Hoque et al. (2016) have coined the expression "tacit promissory contracting" to describe this specific form of relationship. This specific relational context holds a particular significance in this thesis for understanding the upgrading strategies of the suppliers and the conditions driving those strategies. Against this background, two of the three research questions of the study are:

RQ1: What strategies are adopted by the suppliers in order to pursue social and economic upgrading within a tacit promissory contracting context?

RQ2: What are the conditions that drive suppliers' initiatives towards social and economic upgrading within a tacit promissory contracting context?

The second objective of this thesis is to identify the impact of suppliers' upgrading strategies on their employees' work and personal lives. So far, a limited number of IB studies have explored the impact of MNEs' corporate social responsibility (CSR) strategies on their stakeholders (e.g. Blowfield 2004; Kolk and Tulder 2010). Even so, these studies have rarely empirically included the voices of the stakeholders (Cairns and Sliwa 2008). Given that suppliers have received secondary importance in the IB discipline (Marchi et al. 2014), this body of literature has paid limited attention to the impact of their firm-level strategies on their stakeholders. Nevertheless, the strategies that the suppliers undertake to satisfy their powerful global trading partners can potentially have an influence, direct or indirect, on employees' work and personal lives. Thus, suppliers' upgrading strategies may generate unintended consequences for the workers, in addition to the ones that were originally intended (Sinkovics, Hoque, and Sinkovics 2016a). This study is, therefore, geared to identify those implications for the workers, both intended and unintended. Hence, the third research question of this thesis is:

RQ3: What implications do the upgrading strategies of the suppliers have for the workers?

This thesis is structured as follows. The literature review section of this thesis is divided into two chapters. Chapter 2 conceptualises the specific form of international outsourcing relationship under study, namely, tacit promissory contracting. The chapter then seeks to understand the notion of upgrading by drawing upon IB and GVC studies. Chapter 3 analyses the GVC literature and CSR-related IB studies to understand the possible implications of upgrading strategies for the workers. Chapter 4 presents an overview of the garment industry in Bangladesh, including discussion of its institutional setting, the condition of social and economic upgrading of the firms, and the current challenges in the industry. Chapter 5 sets out the research methodology and also provides an overview of the studied firms. Chapter 6 includes the findings relating to the different strategies of suppliers regarding economic and social upgrading. Chapter 7 analyses the conditions under which economic and social upgrading may occur within the tacit promissory contracting context. Chapter 8 presents the findings regarding the impact of economic and social upgrading on workers. Overall, Chapter 6 and 7 contain findings related to answering RQ1 and RQ2, and Chapter 8 includes findings regarding RQ3. Finally, Chapter 9 sheds light on the key findings and contributions of the thesis. The implications of the study for policy and practice are also highlighted here, and the chapter also suggests possible directions for future research.

Chapter 2: Upgrading in an international outsourcing context

The first objective of this chapter is to explain the specific form of international outsourcing relationship, tacit promissory contracting, that connects the Bangladeshi garment manufacturing firms under study with their key MNE buyers. In recent research introducing the notion of tacit promissory contracting, Hoque et al. (2016) argue that the upgrading strategies adopted by suppliers can potentially be influenced by the nature of power and knowledge dynamics within this specific form of non-equity relationship. The analysis of upgrading strategies, therefore, necessitates an understanding of the structure of the MNE–supplier relationship, the role of each of the actors within the relationship, and the level of interdependencies, power and knowledge asymmetries between MNEs and their suppliers. Unfortunately, while there has been a significant rise in international outsourcing since the 1980s, IB literature has continued to predominantly focus on equity forms of relationship. Only limited attention has been accorded to achieve an in-depth understanding of the non-equity forms of international relationships (Strange and Newton 2006). In contrast, the GVC/GPN literature takes non-equity modes for granted and offers insights into a range of non-equity-based relational forms (Marchi et al. 2014:5). Thus, a synthesis of ideas from IB and GVC studies is necessary to conceptualise the specific form of non-equity relationship in question, which has been attempted in this chapter.

The second objective of this chapter is to understand the notion of upgrading and analyse the ways in which suppliers' upgrading strategies may be influenced by the nature of tacit promissory contracting. The GVC analysis offers a framework for understanding the power and knowledge dynamics within different forms of relationship between lead firms and their suppliers (Gereffi 1994; Gereffi, Humphrey, and Sturgeon 2005). The studies in this discipline have also found an interplay between the form of governance adopted by the lead firm and the level of upgrading achieved by the suppliers (e.g. Gereffi and Memedovic 2003; Humphrey and Schmitz 2002). Therefore, considering the development of GVC studies in the conceptualisation of the notion of upgrading (Gui 2010), insights from the GVC literature are incorporated in this chapter. Nevertheless, in the GVC landscape, upgrading is predominantly seen as a consequence of the governance structure of the value chain rather than an outcome of suppliers' firm-level strategies (cf. Johns et al. 2015). Since IB studies are particularly concerned with firms' strategies (Marchi et al. 2014), this chapter analyses ideas adopted from research into the GVC through an IB-inclined strategic lens. For this reason, a synthesis of the concepts from the GVC and IB studies has also

been made to analyse how suppliers' upgrading strategies may be affected by the specific relational context explored in this study.

The chapter is structured as follows. The next section explains the nature of tacit promissory contracting, including an analysis of how this specific non-equity form of relationship is positioned in relation to existing theories in the IB and GVC disciplines. The second section discusses how the notion of upgrading, both social and economic, has been defined in GVC studies and how the interplay between the form of governance and upgrading has been conceptualised in this discipline. By synthesising insights from IB and GVC studies, the third section analyses how economic and social upgrading strategies may be affected by the dynamics of the international outsourcing relationship, while paying specific attention to the tacit promissory contracting context. Finally, the discussions in the chapter are summarised in the postscript section.

2.1. Tacit promissory contracting

In a recent paper, Hoque et al. (2016) explained the relational form explored in this thesis, drawing upon Williamson's (1985) theory of the governance of contractual relations. Macneil (2000) defines contracts as "relations among people who have exchanged, or expect to be exchanging in the future – in other words exchange relations". In this concept, a contract is not a "specific transaction, specific agreement, specific promise or specific exchange". Instead, it refers to "the 'relationship' in which the exchange occurs" (Macneil 2000:878). Therefore, in line with Macneil's view, a contract can be informal or formal/legally binding. However, in the legal landscape, a contract is always legally binding and is implemented via a tangible agreement including the clauses/conditions stipulating the continuation of the relationship. The agreement is signed by the parties involved and is thus sufficiently certain for the court to enforce (McKendrick 2015). Contract law identifies two main forms of legally binding contracts: classical and relational. While classical contracts are rigid in nature and are used for governing discrete arm's-length transactions, relational contracts refer to original, legally-binding agreements which include flexible clauses and which are applied for the governance of ongoing transactions between firms and also other administrative-type, tacit exchanges that may or may not refer to the original agreement (Macneil 1978).

In the theory of governance of contractual relations, Williamson (1985) theorises about two extreme forms of governance, market and relational, drawing upon the classical and relational

contracting laws, respectively. Market governance is efficacious when a one-off discrete transaction is made with little or no transaction-specific investment made by either party because the goods in question are standardised in nature and could be produced with standard equipment. Such transactions are operationalised through a classical sales contract and there exists no joint planning on future structures or processes for maintaining the relationship. In contrast, relational governance is applied when parties make recurrent discrete transactions under an original legally binding agreement, even if not all of the interactions, investments and exchanges will always refer to the original agreement. Such relationships are characterised by a high degree of reciprocity in terms of relationship-specific investment, socio-economic support, planning for the future and problem solving. The exchanges in such relationships involve a high level of tacit content and cannot always be measured in monetary value. The termination of the relationship is highly unlikely and, if it does occur, is likely to be gradual (Williamson 1985).

The form of relationship studied in this thesis sits in the middle of a spectrum with transactional relationships at one extreme and relational at the other. The studied firms have been making recurrent discrete transactions with the same buyers since their inception, but without the existence of any original legally binding written agreement. Each transaction is discrete and undergoes a process of bargaining in which the buyers often dominate and the suppliers consent to the price through an invoice. The international nature of the transaction could potentially result in greater uncertainty for both parties in terms of currency rate fluctuation, and payment and shipment delays, which necessitates the involvement of a third party as a guarantor. Thus, each time, the exchange is operationalised through a letter of consent (LC), issued jointly by the banks of the supplier and the buyer, providing a guarantee of payment and the delivery of the goods respectively. The LC is the only legally binding document that holds the substance of each exchange, such as the agreed price, volume, quality specifications and other clauses of sale. Buyers are not legally bound to make a repeat purchase, although they make a promise (non-legally binding) in which they informally (primarily orally) consent to make a repeat purchase if the supplier performs at an expected level in the current transaction. Suppliers still have to make relationship-specific investments, such as the purchase of customised raw materials, the specialisation of labour and the implementation of labour codes in order for the current transaction to happen and to attract repeat orders from the same buyer, even though the plans for future orders are never legally binding and always tentative (Hoque et al. 2016).

The buyer’s ‘promise’ is the key incentive that encourages suppliers to make idiosyncratic investments. According to contract law, the definition of a “contract promise” corresponds to a “present communication of a commitment to future engagement in a specified measured exchange” (Macneil 1978:858). In this case, the “specified measured exchange” is suppliers’ past performance and their commitment to serve the buyers’ customised needs (expressed via their relationship-specific investments). Macneil (1978:858) also stresses that “trust must exist if a promise is to be of any value”. Therefore, suppliers make such investments primarily out of their trust in the buyers and their tacit expectation of receiving future orders from them, although there is no legally binding agreement. As the relationship is primarily based on an informal, either orally expressed or implicit, promise, Hoque et al. (2016) coined the term “tacit promissory contracting” to describe it. A comparison of tacit promissory contracting with market and relational governance is displayed in Table 2.1, including dimensions such as level of personal involvement, communication, measurability, socio-economic support, planning, cooperation, sharing of obligations, transferability, duration, commencement, termination and participants’ views (cf. Macneil 1978), to contrast the features of extreme transactional and relational forms of governance.

Table 2. 1: Tacit Promissory Contracting: a comparison between market and relational governance

Dimensions (adapted from Macneil 1978)	Market governance (extreme transactional pole)	Tacit promissory contracting	Relational governance (extreme relational pole)
Nature of transaction	Discrete (one-off) arm’s-length transaction	Recurrent discrete transactions with multiple yet the same buyers over a long period of time without having any original legally binding agreement	Recurrent discrete transactions with one key buyer under the blanket of an original legally binding agreement
Balance of autonomy	Both parties retain autonomy	Buyers retain most autonomy in deciding both exchange specifications and future planning	Both parties retain autonomy; there exists a high level of reciprocity
Personal involvement	Segmental, limited, non-unique, transferable	Mostly transaction-specific interaction with some degree of personal relationship (mostly with the owner), non-unique, transferable	Whole person, unlimited, unique, non-transferable
Type of communication	Limited, linguistic, formal	Formal standards and specifications Informal bargaining and planning for future	Extensive, deep and not limited to linguistic Mostly informal in addition to a formally written original agreement
Subject matter of satisfaction	Performance in current transaction, monetisable, economic exchange only	Current and past performance in terms of meeting delivery time, quality and labour standards; monetisable; social exchange not important	In addition to economic, complex personal non-economic satisfaction; social exchange important

Commencement	One-time discrete transaction based on one clearly written legally binding agreement Classical or neoclassical sales contract used as reference for commencement	Recurrent discrete transactions but no original legally binding agreement exists Each transaction commences through a neoclassical contract that involves a third party (i.e. letter of consent from bank)	Recurrent discrete transactions under an original legally binding agreement Interactions, investments and exchanges may or may not always refer to the original agreement (i.e. relational contracting)
Termination	Non-performance of the conditions specified in the legal agreement No margin of error is permitted	Non-performance of the conditions specified in the LC Future orders from the same buyer depend on past performance Termination is fairly easy, although the buyer may allow some margin of error before making the decision to terminate	Termination is highly unlikely and, if anything, is likely to be gradual Joint efforts to solve errors before making a decision to terminate
Measurement of exchange	Measurable and monetised	Measurable and monetised	Both exchanges and other factors are relatively difficult to measure in terms of monetary value
Sources of socio-economic support	No support provided	No support provided	High level of socio-economic support
Duration	Short agreement process Short time between agreement and performance	Long-term recurrent transaction process Relationship can end with poor performance	Long-term; no finite beginning or end to either relationship or performance
Planning	Complete and specific planning related to particular exchange Only remote contingencies are beyond reasonable planning Tacit expectations are very limited Planning entirely legally binding	Complete and specific planning related to each discrete exchange No joint planning on future structures and processes Suppliers make idiosyncratic investments based on buyers' promises to make future orders that tend to depend on suppliers' consistent performance Tacit expectation of getting future orders from buyers Planned-for future orders are never legally binding and always tentative	Limited specific planning related to particular transaction but extensive planning on future structures and processes; joint creative effort or investment to implement future planning Tacit expectations are a recognised aspect of relational planning, without which relations cannot survive Planning is legally binding but often some degree of tentativeness exists
Future cooperation required in post-commencement planning	Almost not required	Cooperation is not given in either performance or future planning	Success entirely depends on future cooperation in both performance and future planning
Incidence of benefits and burdens	No sharing of benefits and burdens	No sharing of benefits and burdens	Undivided sharing of both benefits and burdens
Obligations undertaken	Genuinely expressed, communicated and exchanged promises from both parties	Obligations are mostly undertaken by the suppliers, some of which are clearly communicated while others are implied	Relation itself develops obligations which may or may not include genuinely expressed, communicated and exchanged promises from the parties
Transferability	Entirely transferable	Transfer involves moderate level of complexity; only pursued if suppliers perform badly	Transfer of relation is likely to be uneconomic and difficult to achieve
Participants' views of transaction or relation	Transaction performance is highly important Altruistic behaviour is not expected Problems are governed by specific rights	Transaction performance is highly important and future continuity depends on performance in current exchange Altruistic behaviour not expected Problems are governed by specific rights	Relational aspects are more important than transactions Significant expectation of altruistic behaviour Problems are resolved jointly

Source: Hoque et al. (2016).

As the current study is a synthesis of IB and GVC studies, it is important to analyse the way tacit promissory contracting embeds in the GVC framework as well. The GVC analysis is arguably a framework for investigating the management of externalisation in a global context (Marchi et al. 2014). More specifically, the framework helps to understand how a group of firms

operating in a specific functional position is governed by a lead firm (Gereffi and Lee 2012). The primary focus of GVC analysis is on the governance of inter-firm relations and thus it offers a basis for IB studies aiming to investigate knowledge flow and power dynamics in international outsourcing relationships between MNEs and their suppliers (Lee and Gereffi 2015). The GVC approach provides a holistic view of global industries from two vantage points: top down and bottom up (Gereffi and Lee 2012). The top-down view focuses on the organisation of value chain activities and the modes of governance coordinating the value chain (Gereffi et al. 2005), while the bottom-up view focuses on upgrading by suppliers (Barrientos, Gereffi, and Rossi 2011; Gereffi 1999; Giuliani et al. 2005; Pavlínek and Ženka 2011).

Within the top-down view, Gereffi et al. (2005) identify five possible modes of governance. Market governance and hierarchical governance are the opposite extremes, with the first one referring to purely transactional, non-equity relationships and the later one referring to equity relationships characterised by a high degree of collaborative exchange. Between these two extremes, the three non-equity forms of relationships are captive, relational and modular. Tacit promissory contracting is very much in line with the captive form of governance. According to Gereffi et al (2005), in a captive form of relationship, buyers restrict the supplier from serving other buyers in order to exclude competitors from reaping the benefits of their efforts. However, one of the key differences in the case of “tacit promissory contracting” is that suppliers are not bound to serve a specific buyer and can serve multiple buyers at the same time. The other characteristics of captivity are still prevalent in tacit promissory contracting, such as the high bargaining power of the buyers, a high ability to codify, low supplier capabilities and an absence of mutuality.

In contrast to Williamson (1985) theory of contractual governance, the “contract” (formal or informal) is not a focus of the theory of GVC governance put forward by Gereffi et al. (2005). Thus, it is not yet sufficiently understood to what extent “tacit promissory contracting” differs from the captive form of governance from a contractual point of view. This ambiguity highlights a specific concern in relation to the theory of GVC governance in relation to the role of a legally binding contract within the different forms of governance. Hoque et al. (2016) have found that the existence and the form of a legally binding contract can potentially shape the extent of uncertainty and power asymmetry involved in a buyer–supplier relationship, which can also influence the nature of the governance. Thus, the form of contract could be an important factor in non-equity-

based governance modes, however, this is not explicitly highlighted in the theory of GVC governance.

2.2. Upgrading in the GVC framework

The bottom-up view in GVC analysis focuses on upgrading, defined as the “capacity of a firm to innovate in order to increase the value added” (Giuliani et al. 2005:550). Economic upgrading is a form of upgrading that has a capital dimension and a labour dimension. The capital dimension refers to the use of new machinery and advanced technology. The labour dimension refers to skills development through which increased productivity is achieved (Barrientos et al. 2011). Gereffi (1999) defined economic upgrading as “a process of improving the ability of a firm to move to a more profitable and/or technologically sophisticated capital and skill-intensive economic niche” (p.38). This thesis adopts this definition of economic upgrading. Humphrey and Schmitz (2002) categorise economic upgrading in the following way:

- i. *Process upgrading* involves changes in the production process with the objective of making it more efficient; this can be achieved by substituting capital for labour.
- ii. *Product upgrading* means introducing more advanced product types, often requiring higher-skilled workers to make items with enhanced features.
- iii. *Functional upgrading* is changing the mix of activities performed towards higher-value-added tasks. Gereffi and Frederick (2010) suggest four functional upgrading trajectories:
 - a. Cut, make and trim (CMT) producers: the focus of the supplier is on production alone, and assembling imported inputs following buyers’ specifications
 - b. Package contractor sourcing or OEM: the supplier takes on a broader range of tangible manufacturing-related functions, such as sourcing inputs and inbound logistics in addition to production.
 - c. Full package provider (or ODM): supplier carries out some of the pre-production processes, including design and R&D.
 - d. OBM: supplier acquires post-production capabilities and is able to fully develop products under its own brand names.
- iv. *Chain upgrading* means shifting to a more technologically advanced production chain that involves moving into new industries or product markets.

Humphrey and Schmitz (2002) find that the mode of governance in the value chain impacts on the potential for distinct forms of economic upgrading pursued by local firms. They observe that product and process upgrading can occur within all forms of governance ties; however, the potential for functional upgrading can be challenged in hierarchical or captive chains. In contrast, Gereffi et al. (2005) stress that the degree of suppliers' capability is an important determinant of the form of governance that the lead firm adopts. The findings of the GVC studies therefore suggest that there is a reciprocity between the governance ties and the potential for upgrading. The GVC studies predominantly see supplier upgrading as a consequence of the form of governance ties between the lead firm and their suppliers. Only a small body of GVC scholars have embraced upgrading as an outcome of suppliers' efforts at the firm level (e.g. Kishimoto 2004; Schmitz 2004; Schmitz and Knorringer 2000). Kadarusman and Nadvi (2012) identify that the efforts undertaken by local firms to acquire new know-how and skills matter in achieving success in the economic upgrading process. Similarly, Morrison et al. (2008) argue that GVC engagement does not automatically translate into economic upgrading for local firms; it is rather a function of firm-level investments and initiatives to develop capabilities within the specific organisation of global value chain activities. However, they argue that the role of firm-level efforts of suppliers in the accomplishment of upgrading is largely hidden in GVC studies. Therefore, the current study sets out to contribute to the GVC literature by investigating suppliers' firm-level strategies for upgrading.

A stream of GVC literature also focuses on social upgrading and the conditions within which it is likely to occur (e.g. Lund-Thomsen et al. 2012; Milberg and Winkler 2011). Social upgrading is defined as the process of improvement in the rights and entitlement of workers as social actors that enhances the quality of their employment (Barrientos et al. 2011). The authors state that social upgrading has two components: measurable standards and enabling rights. Measurable standards are the more quantifiable aspects of the employment, such as wages, working conditions and working hours. Enabling rights deal with more sophisticated issues, such as discrimination, freedom of association, freedom of speech and career development. This definition of social upgrading, proposed by Barrientos et al. (2011), is adopted in this thesis.

Also in relation to social upgrading, GVC studies find a link between the form of governance and the likelihood of social upgrading (Locke, Amengual, and Mangla 2009; Locke 2013; Lund-thomsen and Nadvi 2010). For instance, Locke et al. (2009), Locke (2013) and a

number of other GVC scholars have observed that collaborative governance ties (such as relational or hierarchical) facilitate greater success in pursuing social upgrading. Locke (2013) found that a greater degree of interaction, collaborative activities and transparency within the relational form of governance leads to success at the supplier's end in the implementation of the private standards offered by the lead firms. Locke (2013) also observed that the extent to which suppliers' social upgrading initiatives can be successful depends on their ability to develop capabilities, which necessitates efforts at both the buyer's and supplier's ends. Therefore, in the case of social upgrading as well, the GVC studies implicitly assume that the success in social upgrading depends on suppliers' firm-level efforts.

The discussion above shows that the GVC analysis not only pays attention to lead firms as the focal node that controls upgrading initiatives, but also considers, although implicitly, the suppliers' firm-level efforts. It must be noted here that the GVC analysis has been criticised for its lack of explicit focus on the firm-level internal strategy (Coe, Dicken, and Hess 2008), where IB studies have shown considerable promise. In the IB discipline, however, the focus has predominantly been on the MNEs as strategy makers and suppliers are regarded merely as takers of MNEs' decisions (Marchi et al. 2014). Therefore, in line with the GVC studies, this thesis adopts the approach of placing suppliers at the centre of analysis, while keeping its IB influenced analytical lens in order to pay attention to suppliers' strategic behaviour in pursuing upgrading.

2.3. Upgrading strategies in non-equity relationship

With rising global competition and the ever-increasing power of well-known branded retailers, numerous suppliers compete to be members of the GVCs of these retailers. There exists an asymmetry of power and knowledge between MNEs and their suppliers (Pietrobelli and Saliola 2008; Ponte and Gibbon 2005). This asymmetry is even more intense when suppliers are tied to their MNE buyers through non-equity forms of relationships (Hoque et al. 2016). Strange and Newton (2006) argue that MNEs might extend, rather than relinquish, control over their suppliers as they achieve more flexibility through non-equity relationships. Engagement with a large pool of suppliers could potentially enhance MNEs' flexibility even more and elevate their bargaining power. In contrast, were the suppliers to have equity investment from their MNE buyers, there would be a situation of bilateral monopoly (or oligopoly) with a reduced level of asymmetry.

In a tacit promissory contracting relationship, the absence of a legal agreement enhances the flexibility and the bargaining power for the MNE buyers, making termination fairly easy and rapid, without incurring a significant transaction cost. This explains why MNEs can control operations through an informal promise of a repeat purchase without any legal obligation to deliver on that promise. The higher degree of flexibility translates into greater uncertainty for the suppliers. As a consequence, suppliers are likely to be more committed to offer reciprocity in exchange for MNEs' promises by maintaining expected levels of performance and relationship-specific investments (Hoque et al. 2016). These specific dynamics of the relationship may generate conditions which may drive suppliers to pursue upgrading either reactively or proactively. To this end, it is necessary to examine what strategies suppliers may adopt for upgrading in a tacit promissory contracting relationship and how those can be affected by the dynamics of this specific relationship. By drawing insights from IB and GVC literatures, this section further explores this aspect in relation to the individual cases of economic and social upgrading.

Suppliers are often dependent on their MNE buyers for sales and flow of resources (Schmitz 2006). This dependence may oblige suppliers to undertake idiosyncratic investment to satisfy their powerful trading partners (cf. Marchi et al. 2014). For instance, in their study on Taiwanese information communication technology (ICT) suppliers, Sinkovics, Roath, and Cavusgil (2011) found that suppliers' performance standards regarding product quality, delivery service and order fulfilment were constantly reviewed by their MNE buyers, which resulted in their enhancement of their performance. This finding implies that even in non-equity relationships, suppliers have to be responsive towards the demands of their buyers and thus make idiosyncratic investments in order to maintain output-oriented performance. Therefore, economic gains for suppliers can emerge from such reactive investments that they undertake in the process of satisfying their global trading partners.

It must be noted, however, that not all investments made by the suppliers may be reactive. Buckley (2009) stressed that, in order for a supplier to upgrade its position in its buyer's production network, it is also a requirement to demonstrate a certain degree of skill and managerial resources. These skills and managerial resources can only be accumulated, financed and protected by an immense effort of will and concentration of other resources. Suppliers may proactively invest to gain higher profit margins achieved through the sale of higher-value-added goods and by improvement of the level of social compliance. Such investment may allow them to supply to

value-conscious buyers who are less price sensitive and thereby offer better prices; and/or it may even allow them to create their own brands (cf. Buckley 2009). Therefore, upgrading initiatives may be proactive and emerge from the urge to improve their power position in the value chain. Nevertheless, as discussed earlier, the strategies for upgrading regardless of their approach (i.e. proactive or reactive) cannot be examined in isolation from the relational setting of suppliers with their MNE buyers.

In a tacit promissory contracting context, the dependence on buyers is even more intense, as the suppliers mainly sell to a limited number of key buyers over a long period of time. In addition, there exists no legal commitment to continue the relationship from the buyer's end. Thus, the supplier's urge to satisfy the buyer is likely to be greater in order to retain the buyer for the long-term. This pressure may in turn drive a greater degree of reactive investments than is observed in typical subcontracting relationships. On the other hand, suppliers may proactively pursue economic upgrading in order to attract buyers that prefer higher-value added products. Such buyers are often more committed and unlikely to switch based on price dynamics only. Within a tacit promissory contracting context, in which the level of certainty is very low, such a strategy can provide suppliers with a stronger platform to attract repeat purchases from buyers. To this end, the current study seeks to empirically examine the different types of upgrading strategies adopted by the suppliers and the conditions driving those within the relational context of tacit promissory contracting.

In this thesis, a labour-intensive, low-tech industry context has been selected. This will provide original insights as most existing IB studies related to upgrading by suppliers have focused on capital-intensive and high-tech industries, such as auto-parts (Corredoira and McDermott 2014; Khan, Lew, and Sinkovics 2015; Kumaraswamy et al. 2012), car manufacture (Li, Kong, and Zhang 2016), and electronics and semiconductors (Eng and Spickett-Jones 2009; Kong, Zhang, and Ramu 2016). In these industries, greater degrees of collaboration and knowledge sharing are necessary to create value for the buyer, and this can further be expected to result in some sort of value for the supplier (Khan and Nicholson 2014; Sinkovics et al. 2015). For example, Liu and Zhang (2014) find that Taiwanese technological suppliers are able to move up the value chain by switching from original equipment manufacturing (OEM) to original design manufacturing (ODM) or even original brand manufacturing (OBM) as a result of tacit knowledge transfer from their MNE buyers. In contrast, the nature of production in labour-intensive industries is fairly

standardised and codified, and requires modest skill (Strange and Newton 2006). The transfer of tacit knowledge, such as design, advertising and information technologies, is not needed to create value for MNEs in such industries (Ernst and Kim 2002). Therefore, it is not surprising that MNEs create high entry barriers to suppliers by protecting their tacit knowledge and by reducing unintended leakages to a minimum level (Strange and Newton 2006). As a consequence, suppliers in labour-intensive, low-tech industries face higher barriers to the acquisition of tacit knowledge than suppliers from capital-intensive high-tech industries. This thesis, therefore, seeks to examine whether, and how, suppliers' economic upgrading initiatives may be influenced by these relational dynamics.

The relational dynamics may equally influence the social upgrading strategies of the suppliers. In the IB discipline, the notion of social upgrading is mainly conceptualised as CSR code compliance. Kolk and Van Tulder (2005:3) define CSR codes as “guidelines, recommendations or rules issued by entities within society (adopting body or actor) with the intent to affect the behaviour of (international) business entities (target) within society in order to enhance corporate responsibility”. This topic of CSR code compliance has been studied from various points of views in the IB landscape. For instance, a number of studies have investigated the strategies/approaches adopted by MNEs towards the development and implementation of CSR codes for their global suppliers (e.g. Husted and Allen 2006; Kolk 2005; Tulder and Kolk 2001; Tulder, Wijk, and Kolk 2009). Another body of scholars has critically analysed the effectiveness of CSR codes in improving labour conditions and addressing poverty in developing countries (Blowfield 2004, 2005, 2007; Blowfield and Frynas 2005; Prieto-Carrón et al. 2006). The CSR codes are also conceptualised in IB studies as a tool for manifestation of the power of MNEs that are central to the working of their global capitalism (Taylor 2008, 2011). The impact of top-down imposition of CSR codes on suppliers' businesses (Baden, Harwood, and Woodward 2009; Tencati, Russo, and Quaglia 2008) and on the buyer–supplier relationship (Boyd et al. 2007) have also been studied previously. A small number of researchers has critiqued the appropriateness of these codes within the social context of developing countries (Khan and Lund-Thomsen 2011; Lindgreen et al. 2010). It must be noted, however, that most of the exciting IB papers studying the impact of CSR code compliance have explored the topic by adopting a MNE-based perspective, predominantly that of Western MNEs (cf. Gugler and Shi 2009). The strategies/approaches of suppliers with regard to the adoption of CSR standards, extent of compliance with them and the

impact of compliance on their stakeholders have rarely been studied in the IB discipline. Egels-Zandén (2007), therefore, has stressed the significance of outlining a research methodology that could integrate a supplier perspectives into future research on codes of conduct.

The relational dynamics in a non-equity tie can influence the social upgrading strategies in two distinct ways, as broadly suggested in the CSR-related IB literature. Suppliers either adopt such strategies reactively, because lead firms explicitly require them to do so (e.g. Locke, 2013), or proactively, in the hope that compliance will allow them to enter a value chain and/or strengthen their position within a value chain (Barin and Boehe 2008; Taylor 2011). For example, Gugler and Shi (2009) find that clothing manufacturers in Cambodia adopt CSR practices to differentiate themselves from low-cost Chinese producers. Furthermore, a World Bank survey finds that over 80% of the 107 MNEs surveyed consider the CSR performance of their suppliers before entering into a relationship. In a similar vein, Baden et al. (2009) find that 82% of the investigated UK SMEs have implemented CSR codes as a response to their buyers' pressure on them to demonstrate CSR activities. Similarly, Tencati et al. (2008) identify compliance pressures from MNE buyers as the main reason for the adoption of CSR standards within the Vietnamese footwear industry. In contrast to these findings, Taylor (2011) has identified that higher-tier suppliers frequently adopt a high-road approach proactively and substitute capital for labour as a way to generate greater productivity. Therefore, many CSR initiatives happen in response to external pressures to restore or maintain legitimacy (cf. Scherer, Palazzo, and Seidl 2013), while others are pursued proactively to achieve higher economic return.

Taylor (2011) postulates that labour codes are often used as tools to succeed in the "politics of production" and therefore has particular significance in shaping multiple power-asymmetric relations (i.e. between suppliers and their MNE buyers, and between suppliers and their workers). Due to the absence of a contract in tacit promissory contracting, the codes may serve as the key legal document for MNEs to control labour conditions in suppliers' premises. It may also be the principle tool to standardise working conditions within their large pool of global suppliers who are involved in the production of the same product. In a tacit promissory contracting context, suppliers may adopt CSR codes reactively in order to achieve legitimacy with MNE buyers and thus attract repeat purchases from them.

Alternatively, Taylor (2011) pointed out that the labour intensive industries can largely benefit when "workers are collectively utilised within the production process in a way that gives

maximum benefits to the management” (p.450), and, within this context of a collective labour process, supplier firms may adopt the codes as a reasonable protection against the collective strength of labour. Therefore, suppliers may also proactively adopt CSR standards developed by independent third parties (such as the ILO) in order to discipline their labour force, through which they can maintain the price and quality of the product at levels that would allow them to offer reciprocity in exchange for promises from their buyers for repeat purchases. Thus the high level of uncertainty involved in tacit promissory contracting may encourage suppliers to invest in the implementation of the codes proactively in order to attract buyers that are value conscious.

2.4. Summary

By synthesising literatures from IB and GVC studies, this chapter has contributed to the understanding of how suppliers’ upgrading strategies, both reactive and proactive, may be shaped by the power and knowledge dynamics in an international outsourcing context. Furthermore, a specific form of non-equity relationship between MNEs and their suppliers, namely “tacit promissory contracting”, has been conceptualised by drawing upon the theory of contractual governance and the GVC governance framework.

In a tacit promissory contracting context, the asymmetries of power and knowledge between suppliers and their MNE buyers are very high. Suppliers are expected to make investments to satisfy the demands of their long-term buyers, and in some cases, such investments are even necessary preconditions to enter into a relationship. While suppliers are expected to demonstrate a considerable degree of commitment to the buyers, they do not receive the same level of commitment from the buyers’ end. This is because the buyers are not legally committed to maintain the relationship for any specific period of time. Thus, even after making idiosyncratic investments, there is no guarantee of repeat purchase from the buyers. This high level of uncertainty, which is a key nature of this specific form of relationship, could potentially influence suppliers’ upgrading strategies. Thus, Chapters 6 and 7 will be empirically investigate what upgrading strategies the suppliers adopt, and what conditions drive these strategies within this specific form of relational context.

Chapter 3: The implications of upgrading for workers

This chapter seeks to understand the implications of both economic and social upgrading for workers by synthesising insights from three bodies of literature: GVC, IB-related CSR studies and human rights. The GVC analysis primarily explores two important questions related to upgrading: first, whether economic upgrading leads to social upgrading (e.g. Pipkin 2011; Zhu and Pickles 2014); and second, to what extent social upgrading initiatives improve labour conditions (Barrientos and Smith 2007; Selwyn 2013). Studies related to the first question investigate whether workers benefit from firms' improved and thus more profitable position within the GVC. For instance, Knorringa and Pegler (2006), Barrientos et al. (2011), Lee et al. (2011) and Rossi (2013) have all found that the processes that influence firm upgrading do not necessarily lead to an improvement in labour conditions. These studies report rather mixed results that depend on the skill levels of the workers and the nature of the activities upgraded (Knorringa and Pegler 2006). For instance, Barrientos et al. (2011) and Rossi (2013) found that economic upgrading has resulted in social upgrading for skilled workers, but this was followed by a deterioration of working conditions for the unskilled workers. These findings in GVC studies, therefore, indicate the need for a more critical insight into the implications of economic upgrading for the workers, which will be explored in this thesis.

The GVC studies investigating the second question also show valuable results that deserve further critical examination. For instance, Barrientos and Smith (2007) have observed that the supplier firms have pursued social upgrading mainly to comply with technocratic standards that demand measurable or tangible outcomes. The implementation of the "process-oriented rights" of workers that "challenge the embedded labour relations or social norms underlying the production process" have been ignored by both the multinational buyers and their suppliers. The buyers' emphasis on "minimum compliance" directed towards "outcome-oriented standards" encourages suppliers to put priority on those (Barrientos and Smith 2007:717). Subsequently, the social upgrading approach has been criticised for having little effect on the improvement of less tangible issues, such as gender imbalance, freedom of expression and career development (Locke et al. 2009; Locke 2013; Lund-Thomsen and Lindgreen 2013). An alternative body of GVC scholars, adopting a more labour-centred approach, also questions the effectiveness of social upgrading for promoting the voice of the "elite" (i.e. the lead firm) while excluding those of workers (e.g. Selwyn 2013; Taylor, Newsome, and Rainnie 2013).

All these GVC studies, therefore, make important contributions to critically analysing the implications of economic and social upgrading for the workers. Nevertheless, there are two key shortfalls of these studies that should be noted. First, their analytical models rarely empirically include the perspectives of either the suppliers or the workers. Second, the link between firm-level strategies and the respective consequences on the workers is not systematically analysed. Therefore, the current study is geared to achieve further critical insights into the impact of economic and social upgrading on the workers by directly collecting data from them and also by linking those consequences with the firm-level upgrading strategies of the suppliers.

In comparison to the GVC studies, the IB literature has paid limited attention to examining the socio-economic and human rights impacts of firm-level strategies on the workers (cf. Giuliani and Macchi 2014; Meyer 2004; Ramamurti 2004). As discussed before, IB literature has been criticised for being overly focused on the MNE perspective and for overall reluctance to integrate other stakeholders in the analytical model (Cairns and Sliwa 2008). Even so, a number of CSR related IB studies have examined the impact of MNEs' CSR strategies on their stakeholders (e.g. Adewuyi and Olowookere 2010; Blowfield and Frynas 2005). The notion of social upgrading has been conceptualised as CSR code compliance (i.e. with the private codes of the multinational buyers) in CSR-related IB studies (Baden et al. 2009; Boyd et al. 2007; Kaufman et al. 2004). The compliance-based approach has been criticised by this body of scholars as a "top-down" approach whereby the high cost of implementation is fully taken by the suppliers (Tencati et al. 2008:519). This approach is argued to be a "coercive mechanism rather than working hard to achieve the shared goals of the different supply chain members" (Boyd et al. 2007:342). Thus, a compliance-based approach caters more to the establishment of MNEs' imperialism rather than improving labour conditions (Khan and Lund-Thomsen 2011). Nevertheless, these studies contain two key limitations: first, these studies predominantly analyse the impact of MNEs' strategies rather than those of suppliers; and second, the empirical findings are not generated from workers' views. Therefore, the voice of workers is also largely excluded in the IB studies. A systematic link between suppliers' firm-level upgrading strategies and labour conditions is also absent. This chapter presents analytical insights that provide useful lenses through which to examine the implication of suppliers' firm-level upgrading strategies for their workers through the collection of empirical evidence directly from interviews with workers.

As set out above, the findings of the existing GVC and IB studies regarding the implications of upgrading for the workers will be examined more critically in this chapter, in the course of which the theoretical insights of Sinkovics et al. (2015) will be explored. In a recent paper, Sinkovics et al. (2015) offer a reconceptualisation of social value creation as a means of making sense of different bodies of literature focusing on the development impact of businesses. The authors tie the concept of social value to the three core values of development (cf. Todaro and Smith 2011) manifesting as social and economic human rights (cf. Wettstein 2012). Furthermore, they differentiate between the alleviation of root causes of social problems and the mere treatment of the symptoms of those root causes. This integrated lens for investigating firms' activities targeted at "doing good" not only allows for identifying how a business model treats a social constraint, that is, whether it alleviates, bypasses, or exploits it (Sinkovics et al. 2015); it can also be used to gain deeper insights into whether or not social upgrading initiatives/CSR compliance impact on a wider range of human rights for workers (cf. Giuliani and Macchi 2014). Therefore, the current study also empirically explores the theoretical insights put forward by Sinkovics et al. (2015). In line with their notion of social value creation, the extent to which suppliers' upgrading strategies have created meaningful social value for the workers will be evaluated.

The following three sections of this chapter will provide a brief discussion of the concepts that are necessary for conducting the empirical analysis. The first section discusses the findings in the IB discipline in relation to the impact of firm strategies on the workers. The second section draws on the GVC literature to present the findings related to the impact of upgrading on the workers. The last section explains the notion of social value creation. The insights from these concepts will be summarised in the summary section.

3.1 The impact of CSR compliance

In the IB discipline, the impact of firm-level strategies on workers is mainly explored by analysing the effectiveness of compliance with CSR codes. CSR codes are self-imposed rules that multinational enterprises (MNEs) enforce on suppliers in an attempt to fill the regulatory and legislative gap when operating across regulatory, moral and cultural borders (Van Tulder & Van der Zwart, 2006). Van Tulder, Van Wijk, and Kolk (2009) stress that CSR codes represent a new institution in the global economy. They are interpreted as the new "rules of the game" that serve as a compass in the maze of current international norms. Compliance with the CSR codes has thus

become a *sine qua non* for the suppliers in order to enter into the global value chains of the MNE buyers (Nadvi 2008:323).

Previous studies have found unpleasant results in relation to the impact of CSR compliance on workers. Egels-Zandén (2007) found that Chinese toy suppliers adopt a decoupling strategy for CSR compliance. They comply with just the formally monitored part of the code, such as codes on working hours, minimum wage, child labour, employment contracts and health and safety education. However, they tend to marginalise issues related to workers' voice and bargaining power. They are also found to pay limited attention to other process-oriented aspects of workers' rights. In their study of Thai garment manufacturers, Kaufman et al. (2004) also found a negative outcome of compliance pressures. They reveal that the pressures to increase operational efficiency and to streamline costs adversely affect working conditions and incomes.

Similarly, Lund-Thomsen and Lindgreen (2013) propose that the compliance-based paradigm has stimulated suppliers to prioritise technocratic issues and minimum compliance in their CSR initiatives. Furthermore, Prieto-Carrón et al. (2006) argue that the current CSR initiatives of MNEs demonstrate a lack of understanding of the root causes of poverty and the means of delivering actual benefits to workers and marginalised communities in developing countries. Newell (2008) takes the argument even further and argues that many corporations directly benefit from the poverty and misery of people and sometimes directly lobby for measures that will make matters worse for these vulnerable segments. As a consequence, many CSR initiatives happen in response to external pressures to restore or maintain legitimacy (cf. Scherer et al. 2013). Moreover, Tencati et al. (2008) postulate that suppliers are not only expected to satisfy the price and quality demands of MNE buyers, but also have to bear the high cost of CSR compliance. Against this background, suppliers are sometimes forced to pursue profit at the cost of social value for their workers in order to survive and be able to compete (Taylor 2008, 2011).

3.2 The impact of social and economic upgrading

A central question within the GVC literature is: "Under what circumstances can both firms and workers gain from a process of upgrading?" (Barrientos et al. 2011: 320). Therefore, the impact of economic and social upgrading on the workers has, as a topic, received considerable attention in GVC studies, with some important examples including Knorrinda and Pegler (2006), Barrientos et al. (2011), Lee et al. (2011) and Rossi (2013).

The concept of CSR compliance is parallel to the notion of social upgrading in the GVC literature. When it comes to measuring both CSR code compliance and social upgrading, the worker-related dimensions are more or less identical. It can be argued that the main difference between the two concepts is the focus of the studies that refer to them. While CSR compliance studies focus more on individual firms and their actions, social upgrading studies tend to adopt a broader view through the GVC/GPN lens. Nevertheless, given the parallels between the two concepts, it is not surprising that studies on the meaning of social upgrading for workers have yielded similar and/or often complementary results to the studies connected to CSR compliance. For example, Barrientos and Smith (2007) have found that priority placed by lead firms on technical and outcome standards to achieve social upgrading encourages suppliers to implement only the tangible or measurable dimensions in the labour code. The process-oriented rights that can empower the labour force and facilitate progressive change in labour relations are often ignored by the lead firms and their suppliers. Thus, the authors propose that codes for labour practices are less likely to challenge embedded labour relations, social discriminations and other dominant social norms underlying the production process.

A different stream of GVC studies adopting a more labour-centred approach criticises the concept of social upgrading as “representing an elite comprehension of relations between capital, the state and labour” (Selwyn 2013:75). Selwyn (2013) emphasises that the concept of social upgrading is derived from the International Labour Organisation’s (ILO) Decent Work Agenda that seeks to comprehend and contribute to processes whereby workers can benefit from increased firm-level competitiveness. The paper argues that the concept of social upgrading has “analytical and political ambiguities and weaknesses” because it was developed in collaboration with the elite bodies, in particular firms, states and international bodies. Thus the concept is “top-down”, according to which workers receive secondary analytical importance. The paper, therefore, urges a greater level of integration of work and workers into the GVC/GPN. In a similar vein, Taylor et al. (2013) advocate the inclusion of labour as a source of value in the GVC/GPN. They urge future studies to integrate the interest and the organisation of workers within the concept of social upgrading, rather than depicting them as passive takers of firm-level standards. The notion of social upgrading, therefore, has its limitation and can potentially be advanced by achieving a greater understanding of the workers’ interests, needs and rights.

In terms of the impact of economic upgrading on workers, GVC studies have also reported uneven results. Barrientos and Kritzing (2004) and Rossi (2011) find that increased pressure for product and production quality, coupled with increased pressure for cost reduction, can lead to increased reliance on irregular workers in addition to regular workers. In a similar vein, Barrientos et al. (2011) find that social downgrading is more likely to happen to irregular workers, while regular workers are more likely to experience some degree of social upgrading as a result of economic upgrading. In a later study, Rossi (2013) finds that different types of economic upgrading yield different results for social upgrading, with process upgrading improving the measurable standards, product upgrading bringing about skills upgrading for regular workers, and functional upgrading improving the skills and measurable standards, and also enabling rights for regular workers. However, irregular workers were found to be largely excluded from social upgrading opportunities. In their study on the Vietnamese garment sector, Nadvi et al. (2004) also find that, while female workers have largely benefitted from gaining employment and income, they are still excluded from more highly remunerated and technically skilled tasks on the grounds that such work requires the heavier labour of men. Therefore, the impact of economic upgrading is found to be unevenly distributed between different groups of workers, such as skilled and unskilled (e.g. Barrientos et al. 2011), regular and irregular (e.g. Barrientos and Kritzing 2004; Rossi 2011), and male and female (e.g. Barrientos et al. 2005). As a consequence, the process of economic upgrading may not necessarily have positive implications for social upgrading. However, while these GVC studies have made valuable contributions in understanding the implication of economic upgrading for the workers, they fall short in establishing a systematic link between the strategies undertaken by the firm and the respective consequences on labour.

3.3 Social value creation

From the previous two sections, it is apparent that the effectiveness of CSR code compliance and social upgrading is being questioned by a growing number of scholars. Sinkovics et al. (2016a) find that, even in cases where empirical results indicate positive outcomes for workers, the question that still remains unanswered is: what human rights implications could be associated with these upgrading initiatives? Thus, further critical insight is necessary to answer whether and to what extent suppliers' firm-level upgrading initiatives produce meaningful changes in workers' work and personal lives. In this respect, Goldewijk and Fortman (1999) offer a need-

led approach to human rights that provides a useful lens for the in-depth evaluation of this question. They propose two types of human needs: expressed needs and felt needs. Expressed needs include those that are tangible in nature, such as food, shelter, clean water, health care, etc. Felt needs, on the other hand, are intangible, referring to issues such as self-esteem, dignity and living a life with freedom (see also Todaro and Smith 2011). While expressed needs can easily be articulated, the same is not the case for felt needs. The prevalence of power asymmetry prevents the weaker party from expressing their felt needs, while at the same time providing a platform for abuse and oppression by the stronger party. Therefore, when it comes to designing the firm-level strategies, the stronger party can implement strategies that promote their interests while distorting the felt needs of the weaker party. In such situations, although the independent developmental agencies are expected to highlight the voice of the weak, doing so is often a challenge due to resource scarcity, bureaucratic ignorance, or legitimacy-driven opportunism (Goldewijk and Fortman 1999; Scherer et al. 2013; Sethi 1975). As a result, the agencies that are responsible for policing the violation of, and restoring, human rights tend to promote the “prescribed needs” due to the influence of the bureaucratic, professionally constructed processes of the powerful party (Goldewijk and Fortman 1999). Therefore, the incorporation of felt needs in firm-level CSR strategies is likely to be complex (Sinkovics et al. 2016a). Based on this need-based perspective on human rights, Sinkovics et al. (2016a) argue that both CSR code compliance and social upgrading approaches cater more to prescribed needs than to felt needs.

Indeed, it may be difficult to identify and measure felt needs (cf. Barrientos et al. 2011) as such needs are usually deeply embedded in cultural contexts and value systems (London and Hart 2011; Sinkovics et al. 2015). Being outsiders, the original developers of the CSR codes (i.e. buyers or independent agencies) often demonstrate limited understanding of cultural rights (cf. Lund-Thomsen 2008). The purposive exclusion of the voice of real beneficiaries (i.e. workers) of these CSR initiatives (or social upgrading measures) results in further distortion of cultural rights (Selwyn 2013). Additionally, some needs constitute constraints, the alleviation of which does not always seem possible to the individuals that are affected (Sinkovics et al. 2015).

Sinkovics et al. (2015) reconceptualise the notion of social value creation by building on Wettstein (2012), who adopts a multiple systems view to bring together the ideas from CSR and human rights literatures. This approach allows for a more cohesive and distinct evaluation of problems in a society and the ways businesses respond to them. Based on this approach, social

value is reconceptualised as social constraint alleviation in Sinkovics et al. (2015). These authors define social constraint as “the root cause that prevents a system from reaching its goal. The system here denotes a group of individuals with the same goal and who are being affected by the same root causes. The goal in this context is the ability of these individuals to make use of their socio-economic human rights” (Sinkovics et al. 2016a). In addition to socio-economic human rights, the current thesis also takes into account the cultural rights of workers (cf. Goldewijk and Fortman 1999).

Sinkovics et al. (2015) also regard any given organisation as a system. They emphasise that “businesses should generate revenue as a necessary condition for survival rather than adopting this as a single most important driving force behind the existence of the organisation”. In line with Sinkovics et al. (2015), the adoption of a multiple system approach will enable businesses to act responsibly. An organisation’s process for developing policies and procedures (e.g. CSR codes) needs to go beyond promoting prescribed needs to address the constraints that prevent workers from attaining their social, economic and cultural rights (Sinkovics et al. 2016a). Doing such may not, however, be possible when the motivation of doing good is not organically embedded in the business model (Sinkovics, Sinkovics, and Yamin 2014). Mere treatment of symptoms for the purpose of whitewashing will not allow businesses to develop policies through which “needs can meet with the rights” (Goldewijk and Fortman 1999). Within such a context, even if upgrading initiatives generate positive outcomes for the workers, these will not be able to alleviate the deeply rooted causes of social constraint. Thus, when upgrading initiatives promote satisfying prescribed needs rather than felt ones, the creation of meaningful social value for the workers becomes only a distant possibility (Sinkovics et al. 2016a).

Further to this, Sinkovics, Hoque, and Sinkovics (2016b) explore the impact of compliance pressure on suppliers’ pre-compliance CSR activities. They found that, although many emerging country suppliers are first exposed to formalised CSR practices through codes of conduct developed by their client(s), this does not mean that they had not engaged in any form of CSR before. In the process of implementing the prescribed policies, resource-constrained suppliers may fail to deliver workers facilities that are more attuned to their felt needs and cultural context. As a result, previously offered social value could be lost in the process of compliance. Due to their local embeddedness and contextual knowledge, the suppliers are at least in a better position to identify workers’ problems and their symptoms, if not the root causes (cf. London and Hart 2011). In

contrast, when CSR strategies are developed and imposed by MNEs, this can only promote western imperialism (e.g. Khan and Lund-Thomsen 2011; Lund-Thomsen 2008). Nevertheless, the adoption of these practices is frequently a prerequisite for participation and/or advancement in GVCs (cf. Gugler and Shi 2009). Therefore, it is also possible that in the process of implementing the buyers' prescribed codes, suppliers may divert from their pre-compliance CSR activities that were developed based on workers' felt needs and were, therefore, of more value to the workers. To this end, this thesis also presumes that buyer-imposed CSR codes limit suppliers' opportunities to create meaningful social value for their labour force. The empirical section of this thesis will explore this proposition by drawing upon insights from the notion of social value creation.

3.4 Summary

This chapter has critically analysed the effectiveness of social and economic upgrading and CSR compliance in terms of creating real improvement for the workers. In so doing, the chapter draws on GVC, IB-related CSR studies and human rights studies. The literature review suggests that both social upgrading and CSR compliance approaches can be criticised for espousing “top-down” imposition of standards on labour. Both approaches address labour as passive takers of standards and tend to undermine their interests and voices. The significance of felt needs as opposed to prescribed needs is highlighted in the chapter by drawing upon Goldewijk and Fortman (1999). The chapter argues that both social upgrading and CSR compliance approaches have a tendency to promote prescribed needs, rather than addressing felt needs. For this reason, the chapter points out why it is necessary to move beyond the boundaries of these two approaches in examining the implications of upgrading for the workers. Thus, the chapter espouses theoretical insights put forward by Sinkovics et al. (2015), in which the authors propose an alternative lens for analysing social problems and how businesses should respond to those. In their reconceptualisation of social value creation, they proposed to understand and alleviate the social constraints that prevent a particular disadvantaged group of people from enjoying their social, economic and cultural rights.

In line with this view, therefore, this study argues that meaningful social value for workers can only be created by suppliers when they are able to acquire a greater understanding of the felt needs of their labour forces. Such comprehension can better equip the suppliers to adopt upgrading activities that are more suited for alleviating the social constraints that prevent labour from

enjoying their rights. Greater insights into workers' constraints are likely to emerge from suppliers taking a proactive approach in their CSR instigations, rather than adopting buyers' private codes as a ticket to enter into the GVCs of those MNEs.

Based on insights from the concepts of CSR compliance, social upgrading and social value creation, the empirical section of this thesis will next evaluate, first, the extent to which the upgrading initiatives of suppliers have remained successful in fulfilling the rights and needs of the workers; and, second, identify the incidences of lost or gained social value in the process of implementing suppliers' firm-level upgrading strategies.

Chapter 4: An overview of the Bangladeshi garment industry

The garments industry of Bangladesh is ranked as the second largest in the world after that of China with an export value of over \$25.49bn in the financial year 2014–15 (BGMEA 2016). The industry was created as a result of the Multi Fibre Agreement (MFA) of the World Trade Organization (WTO) that came into force between 1974 and 2004. Under this agreement, Bangladesh was exempt from quota restrictions until 1986, which attracted a number of entrepreneurs from quota restricted countries (mainly South Korea) to enter joint ventures or subcontracting relationships with Bangladeshi garment manufacturing firms (Labowitz and Baumann-Pauly 2014). During this period, numerous initiatives were undertaken by the Bangladeshi government to attract foreign investors and buyers in the sector, including establishment of Export Processing Zones (EPZ), tax holidays for 10 years for foreign investors, duty-free import of machinery and raw materials, and bonded warehouse and back-to-back letter of credit facilities for 100% of export-oriented garment companies (McKinsey 2011). The MFA agreement, combined with the government initiatives, contributed to the rapid growth of the industry with numbers of garments factories increasing from 50 in the early 1980s to 4200 by 2004 (Kabeer and Mahmud 2004). In contrast to the predictions of numerous researchers, the Bangladeshi garment sector has observed a 5% increase in growth rate even after the phase out of the MFA quota system in 2005 (BGMEA 2016). This surge in growth resulted from Bangladeshi garment manufacturers' continued, and even greater, focus on lean manufacturing systems and attention to low cost, low value added and large volume supplies with shorter lead times. These goals were achieved at the cost of rampant labour exploitation and a rise in unauthorised subcontracting to small factories, where working conditions were found to be even worse (Labowitz and Baumann-Pauly 2014). Thus, from 2005, the industry entered into a new phase of problems related to poor working conditions and trade union activism (McKinsey 2011). A number of incidences of factory fire and accidents were reported since then, with the Tazreen factory fire in 2012 and Rana Plaza building collapse in 2013 being the most deadly ones (Taplin 2014).

As a consequence of the occurrence of a series of factory accidents, critiques arose questioning the effectiveness of auditing pursued at the private level by the Western buyers and at the state level by the Department of Labour Inspectorate (DOL) (Taplin 2014). Pressure from international organisations, consumers and civil society prompted the formation of Accord and Alliance, two collaborative agreements among the big Western buyers, government, trade unions

and international organisations established in order to improve fire and building safety in the Bangladeshi garment industry (Accord 2016). Within this changing industry context, local firms have encountered a number of challenges, including high pressure for compliance from Accord and buyers, high cost of implementation of the compliance requirements, and lack of appropriate state support required for the execution of Accord's advice (Labowitz and Baumann-Pauly 2014).

All these changes in the regulatory, institutional and global market environments could potentially have shaped the way the local firms in Bangladeshi garment industry have evolved their upgrading strategies over this period. A clear understanding of the history and nature of local firms, the institutional and regulatory environment, and the lifestyle of the labour force is, therefore, necessary before analysing the upgrading strategies undertaken by the studied firms at different stages of their lives. To this end, this chapter presents an overview of the garment industry in Bangladesh.

The contents of the chapter are as follows. The first section describes the history of the industry. The second section presents a discussion of the nature of the industry, including the number of firms, their value adding activities, the type of buyers served and their key competencies. The third section sheds light on the state of compliance in the industry and also reflects on the lifestyles of the garment workers, their challenges and needs. The insights from the chapter are summarised in the summary section.

4.1 History

As mentioned earlier, the MFA has been the key driver stimulating the rapid growth of the garment industry in Bangladesh. Under the MFA, quota restrictions were imposed by the US and Canadian governments on the import of garments from a number of developing countries, such as Hong Kong, South Korea, Singapore, Taiwan, Thailand, Malaysia, Indonesia, Sri Lanka and India. Initially, Bangladesh had no quota restrictions which attracted a number of entrepreneurs from quota restricted countries (mainly East Asian) to set up subcontracting relationships with Bangladeshi entrepreneurs (Labowitz and Baumann-Pauly 2014). The first such relationship was the agreement between Desh, a Bangladeshi firm, and Daewoo, a South Korean garment firm producing apparel for US-based retailers. In 1978, Desh signed the agreement for exporting garments to US-based customers of Daewoo. The agreement between Desh and Daewoo was sustained from 1980–1986 and was not renewed after the stipulated period due to disputes between

the parties (Kabeer and Mahmud 2004). The Desh–Daewoo agreement facilitated the transfer of tacit knowledge to the workers of Desh. Nearly 130 managers and supervisors from the Desh factory were given six months’ training in South Korea regarding the setup of production units, production of shirts, logistics management and marketing abroad. Within a few years following the abolishment of the agreement, 115 out of 130 Desh employees either started their own factories or got hired by new entrants at significantly high salaries. These employees ultimately became the fathers of what is known in Bangladesh as the readymade garment industry (Labowitz and Baumann-Pauly 2014). The Desh–Daewoo agreement also encouraged a number of other East Asian firms to get involved with Bangladeshi new entrants, either through joint ventures or subcontracting arrangements. Another such example is the joint venture formed in 1980 between Trixim Ltd., a Bangladeshi company owning a 51% stake, and Youngones Corporation, a South Korean company owning a 49% stake (Kabeer and Mahmud 2004).

A number of other factors contributed to the rapid growth of the industry, including the low capital investment involved in starting a garment manufacturing business and the high population density in Bangladesh that, coupled with poverty, ensured a ready supply of cheap labour (Labowitz and Baumann-Pauly 2014). In addition, the government of Bangladesh also implemented numerous initiatives on trade reform to attract foreign direct investment under the guidance of the IMF and World Bank. The policy initiatives involved providing tax holiday for 10 years to foreign investors, duty-free import of machinery and raw materials, bonded warehouse facilities and back-to-back letter of credit facilities for 100% of export-oriented garment companies. Furthermore, two Export Processing Zones (EPZ) were established in Dhaka and Chittagong along with the introduction of a government organisation named Bangladesh Export Processing Zones Authority (BEPZA) for providing support to the export-oriented garment firms (Rahman, 2004). These initiatives of the government also contributed to attracting foreign companies to invest in the EPZ (foreign investment is allowed only in EPZ areas) or make subcontracting arrangements with local firms (Demidova, Kee, and Krishna 2012). As a result, there were 384 factories with 120000 workers in 1984 and, by the next decade, the number of factories had increased five-fold, to slightly more than 2000, with worker numbers reaching more than a million (Labowitz and Baumann-Pauly 2014).

From 1986, Bangladesh was also subject to quota restrictions in the US and Canadian markets. During the initial days of quota restrictions export figures fell, with a few specific items

being most affected. The figures picked up again from 1996 as the producers started to diversify into products where quota limits were still unfilled. A large quota allowance in the North American market along with duty free access to the European Union market under the General System of Preferences (GSP) allowed Bangladeshi garment exporters to enjoy guaranteed markets in the USA, Canada and Europe (Demidova et al. 2012).

By the end of 2004, the MFA was due to be phased out according to a decision made at the WTO Uruguay Round of negotiations. The phasing out of MFA was predicted to affect Bangladeshi export severely (Ahmed 2009; Yang and Mlachila 2007). In contrast to what was forecast, the growth rate of the sector increased from 5% in 2004 to 10% in 2008 (Mottaleb and Sonobe 2011). A survey conducted by the World Bank (2006) found that 19 out of the 35 firms hired more workers after MFA phase out. Successful Bangladeshi suppliers found their own niche in low-cost, low value added markets, mainly supplying products to large bargain retail stores such as Wal-Mart, K-Mart, Sears, J.C. Penny, Primark, H&M, M&S and C&A. With increasing wage rates in China, the value retailers also started considering Bangladesh as the next preferred sourcing destination. As a result, Bangladeshi producers increasingly focused on price and capacity, making lean manufacturing a popular business system in the industry. This system reduced the work-in-process inventory, amount of alterations, rejects and returns and enhanced labour productivity (Mithun and Akter 2012).

Unfortunately, however, the adoption of the lean manufacturing system was followed by even shorter lead times, recruitment of large numbers of temporary workers based on orders and heightened workloads to fulfil buyers' unplanned seasonal orders. These changes raised the potential for labour exploitation through forced overtime and recruiting without contract, resulting in low wages and poor working conditions. Most large firms accepted orders beyond their production capacity, a proportion of which was often subcontracted to other small factories where working conditions were even worse (Labowitz and Baumann-Pauly 2014). As a result, pressure started to rise from civil society and consumers urging the Western buyers to consider human rights violation issues in their supply base. On the one hand, Western buyers became increasingly conscious about the implementation and monitoring of CSR code compliance in their Bangladeshi suppliers' factories in order to reduce their reputational risk. On the other hand, the top-down imposition of compliance pressure by the buyers without sharing the cost stimulated the suppliers to practice audit frauds and deception (Berik and Rodgers 2010). Thus, from 2005, while the

industry was celebrating another golden age of heightened export figures, as if it was a rerun of the 1980s, it also entered into a new phase of problems related to poor working conditions and trade union activism. Deadly factory accidents, such as the Tazreen Fashion fire in 2012 and Rana Plaza collapse in 2013, are just the consequences of this rising trend of unauthorised subcontracting, compliance audit deception and negligence towards workers' rights (Labowitz and Baumann-Pauly 2014).

4.2 The nature of the industry

The garment industry in Bangladesh includes 5000 manufacturers employing 3.6 million workers and having a 12 per cent average annual growth rate. The contribution of the industry to the GDP of Bangladesh is 13 per cent, with a 75 per cent share of the country's total exports. Since 2000, the share of garment exports from China has reduced to nearly half of historic levels, while that of Bangladesh has increased at an annual average growth rate of 12 per cent (McKinsey 2011). An interview with the Western garment retailers conducted by McKinsey (2011) shows that Bangladesh is likely to be the "next China" by the year 2017. The attractiveness for buyers lies in Bangladesh's long term experience and strong performance, mainly in two sourcing criteria: price and capacity. However, Bangladeshi suppliers specialise in a narrow line of products, such as shirts, trousers, t-shirts, jackets and sweaters. The top 10 product lines among the 256 varieties of products produced by Bangladeshi suppliers generate almost 70% of the export revenue, which demonstrates the concentration of the industry capability on these few product lines. Notably, the skills for producing these products have also evolved from the knowledge transferred from the foreign partners and employees of Desh and a number of other early entrants in the industry (BGMEA 2016).

Bangladeshi suppliers are reputed for supplying good quality garments in large volume, however their capability to provide higher value-added services is still limited. Thus, their key focus involves low end (value) and lower mid-market customers. The McKinsey (2011) report shows that a very limited percentage of garment suppliers provide higher value added services, with 39 per cent of suppliers having a quality lab; 36 per cent a design lab; 21 per cent a composite unit; and only 10 per cent having a ticketing facility. The value added by the industry in terms of foreign exchange earnings has remained static at around 25–30% for the last 20 years. As a result, although the Bangladeshi garment industry has occupied the 2nd position in terms of volume

exports of finished apparel, it is still ranked 18th in terms of value added, and even after three decades of experience in garment production, only one firm has been successful in introducing their own fashion brand locally and internationally (McKinsey 2011).

The report by McKinsey (2011) identified a rising interest among the mid-market brands in increasing their share of sourcing from Bangladesh from the current 13 per cent to 20 to 25 per cent by 2020. The share of value market sourcing has also been forecast to increase from the current 20 per cent to 25 to 30 per cent. This growth will be driven by not only an increase in the percentage export of current product lines, but will also necessitate diversification of products to produce more complex, more fashionable and more sophisticated items (for example, outerwear and formal wear for both value and mid-markets). The growing middle-class population in the regional markets is also forecast to bring significant growth to the industry, with regional large wholesalers and retailers intending to exploit the cheap labour in Bangladesh. While buyers may demand Bangladeshi suppliers increase their capabilities, in reality only 50 to 100 out of 5000 firms have the ability to meet the new demands of the buyers (McKinsey 2011).

Nearly 95 per cent of the firms are locally owned, while the remaining 5 per cent involve foreign investment. Foreign investments are only allowed in the EPZ areas, where only 27.7% of firms are fully locally owned, 53.8% are Greenfield investments, and 18.5% are joint ventures (Demidova et al. 2012). A report produced by NYU Stern Business School on the Bangladeshi garment industry identifies three main types of firms in the industry (Labowitz and Baumann-Pauly 2014). The first type (nearly 15%) includes those that act as first-tier suppliers of the US- and EU-based MNE buyers. Many of these have direct contact with the buyers, while the rest receive orders via agents. These firms are usually large and resourceful in terms of workforce capacity and numbers. Most of these firms are located in the EPZ, with a few being situated in the industrial clusters outside Dhaka city. The second type of firms (nearly 10%) work as suppliers to producers or wholesalers from other emerging countries, such as Hong Kong, South Korea, and predominantly China, who ultimately supply finished apparel to American or European retailers. The last group of firms are the majority (almost 75%) and primarily rely on subcontracted orders from large local factories, who often outsource their overcapacity orders to these small factories. Apart from those receiving foreign investment and a few fully local firms, most large firms rely on these small factories to adjust their overcapacity. These small firms have no direct linkage with the foreign buyers or the capacity to open letters of credit on their own. During the off season they

either shut down or produce cheap products in order to earn enough to pay their workers. These suppliers mostly rely on temporary workers who are terminated after completion of the seasonal/subcontracted task. Unfortunately, these small firms are mostly unauthorised as they are not registered under BGMEA (Bangladesh Garment Manufacturer and Exporters Association, an independent collaborative body of garment owners in Bangladesh). This kind of subcontracting, being unauthorised by the buyers, involves no written, legal agreements and is mainly pursued through verbal negotiations (Labowitz and Baumann-Pauly 2014).

Another trend noted in the Bangladeshi garment sector relates to the role of purchasing agents. With most foreign buyers placing orders through purchasing agents, indirect sourcing has become a routine practice in the industry. The BGMEA members' guide lists about 1000 agents in operation throughout the industry. These agents identify and select suppliers based on buyers' preferences (i.e. compliant or non-compliant supplier), negotiate terms of orders, and ensure delivery to the freight forwarder. By exploiting their direct linkage with buyers, these agents utilise bargaining power over suppliers to bring down the price. While the vast majority of buyers still prefer indirect sourcing through purchase agents, a small group of leading buyers including H&M, Tesco, Mark & Spencers, GAP and few others have adopted a more direct sourcing approach by establishing purchasing offices in Bangladesh. These purchasing offices are responsible for supplier screening, selection, negotiation, order placement and follow-up, quality assurance and inspection, compliance inspections, warehousing, shipping and customs (Labowitz and Baumann-Pauly 2014).

4.3 Compliance and labour

On the 24th of April 2013, the collapse of Rana Plaza as a result of non-compliance with building safety regulations cost nearly 1100 workers their lives (Labour Behind Label 2013). This deadly accident came in the aftermath of the Tazreen Factory fire only five months earlier that killed 120 workers. These highly criticised incidents influenced Western buyers to cooperatively pressurise their Bangladeshi suppliers for social compliance (Financial Times 14/05/2013). In May 2013, international labour organisations, non-governmental organisations and retailers collectively formed the Accord, a five-year legally binding agreement to maintain minimum fire and building safety standards in the Bangladeshi textile industry. So far, over 150 corporations from 20 countries in Europe, North America, and Australia, two global trade unions, in addition to

numerous Bangladeshi unions have signed this legal agreement. Up to November 2015, Accord had conducted independent safety inspections at 1326 factories and issued corrective action plans mainly in the areas of fire, electrical and structural safety. In factories where safety issues are detected, Accord ensures that recommendations are carried out by the garment firms and, in severe cases of violations, firms are even instructed to shut down (Accord 25 February, 2016). In terms of suppliers, Accord signatories encompass a group of 1676 factories among the total 6000 factories in Bangladesh. With the majority of the factories, and possibly the most vulnerable ones, being outside the scope of Accord inspection, the effectiveness of this initiative has been questioned, for example by Labowitz and Baumann-Pauly (2014).

The Business Social Compliance Initiative (BSCI), an initiative of the Foreign Trade Association (FTA), is another independent institution that works in parallel with Accord, covering 40 per cent of Accord listed suppliers (BSCI 2011). While Accord audits mainly focus on structural dimensions based on their own code on building and fire safety (Accord 2016), the BSCI audit refers to the National Labour Act 2006 covering broader areas of working conditions, wages and human rights (BSCI 2011). The effectiveness of BSCI audits has also been called into doubt after failing to identify the illegal construction of Rana Plaza during the audits of New Waves Style and Phantom Apparels, the two occupant factories in the building who were active suppliers to BSCI brands at the time of the collapse (Clean Clothes Campaign 2013).

Following the Rana Plaza accident, the government of Bangladesh has also undertaken a number of initiatives under pressure from Western buyers and international developmental agencies (bdnews24.com 2013), including an 80 per cent rise in national minimum wage and amendments to the National Labour Law stipulating factories to allow workers to join trade union without informing the employer, to form workers' participatory committees, to have a central fund to improve living standards, and to provide medical and childcare facilities to workers (RISES 2014). Nevertheless, the implementation of these laws is still weak and the government lacks the resources, administrative capacity and often the political will to protect workers' rights. Due to the weak state regulatory system, multinational buyers often require their suppliers to undergo audits by their recommended private auditing bodies, such as BSCI and Accord. As a result, buyers play a significant role in regulating the garment sector instead of the government of Bangladesh (Labowitz and Baumann-Pauly 2014).

A survey conducted by the World Bank in the year 2006 revealed that only 11 per cent of the 190 garment manufacturers surveyed were “highly compliant”. Since 2005, after the MFA phase-out, a number of factories have eventually improved their compliance status out of the realisation that compliance is a pre-condition to maintain business with their existing buyers and attract new ones. As a result, 93 per cent of the purchasing officers of US and EU based MNEs interviewed in McKinsey (2011) report agreed that the compliance standard in Bangladesh had improved. Even so, deadly incidents such as the Rana Plaza collapse and Tazreen Fashion fire occurred within two years of publishing the report. Both the factories were audited by the Department of Labour and independent agencies few months before the incidents, which reinforced doubts about the effectiveness of such a compliance based paradigm since 2013. Further to this, the working conditions in unauthorised factories are even more vulnerable. The labour conditions in these factories are not monitored by any authority, be it the buyers, government or Accord (Labowitz and Baumann-Pauly 2014).

In addition to these incidents of factory fire and building collapse, there are other labour-related issues prevalent in the industry. While issues related to factory accidents are tangible – often attracting extensive attention from the media and civil society – the other labour-related issues, being more sophisticated and abstract in nature, are largely hidden. For instance, discrimination based on age, gender and marital status is widely practised in the firms. The garment industry in Bangladesh employs 3.6 million workers, of whom 85 per cent are female (Labowitz and Baumann-Pauly 2014). According to a study conducted by the Bangladesh Bureau of Statistics, 92.5 per cent of the female workers are aged less than 30 years, with the average age being 23–24 years (Bangladesh Bureau of Statistics 2010). In this respect, Sikdar, Sarkar, and Sadeka (2014) discuss the tendency of factories to prefer young workers over older ones due to their availability at lower salary levels while being more productive. The data on garment workers’ level of education show that 2.5 per cent of workers are illiterate, 35 per cent have only primary education, 48 per cent have secondary education, and 2.5 per cent have higher secondary education. The marital status of the workers is 55 per cent married and 45 per cent unmarried (Bangladesh Bureau of Statistics 2010). The employers also demonstrate a preference for unmarried workers, believing that married workers are less committed to work (Sikdar et al. 2014).

Collective bargaining is not a preferred option for most workers. Following interviews conducted with workers, Human Rights Watch (April 22, 2015) reported that they were indirectly

or directly threatened with dismissal by employers if they joined the union. In addition, the unions were alleged to be politically influenced and dominated by male leaders who failed or were unwilling to understand the constraints that female workers face.

The issues faced by labour are not always limited to their work or workplace. They experience problems in their personal and social lives due to reasons that are either directly or indirectly related to their work. With 76 per cent of the garment workers migrating from rural areas or nearby parts of Dhaka city, accommodation is a major problem experienced by them. Most of these migrant workers live in “bostee” (city slum) which is equivalent to a squatter settlement comprising a group of thatched or tin-roofed one room houses standing next to each other with inadequate shared sanitation facilities. Such accommodation is usually occupied by workers who have other family members living with them. Such settlements are usually equipped with two gas hobs to be shared by 8–10 families, poor sanitation and drainage system, interrupted power supply and only a few hours of water supply. “Bosteess” are usually established in cheap neighbourhoods, often beside garbage dump centres, big canals, drains or ditches. Many garment workers who are single and whose families reside in villages live in a building mess, which is a dormitory type group house where each room is shared by a number of other occupants. Both kinds of accommodation arrangements involve security issues, given that other kind of anti-social occupants (such as drug smugglers, thugs, and prostitutes) live in the same place. It is therefore highly insecure for female workers to reside alone, and thus they prefer to live in groups (Absar 2002; Bhuiyan 2012).

A number of studies have reported transportation as the other major problem experienced by the garment workers, with limited availability of public transport facilities (Absar 2002; Bhuiyan 2012; Sikdar et al. 2014). Thus, thousands of workers struggle to reach work daily, mostly on foot. They often walk in groups to avoid getting intimidated by local thugs or sexually harassed (“Eve teasing”), which is a very common phenomenon. Returning home after late night shifts could be particularly challenging, with incidences of rape attacks on garment workers becoming increasingly common.

A number of previous studies have attributed all these problems to the poor income levels of the workers (Absar 2002; Bhuiyan 2012; Sikdar et al. 2014). Although the minimum wage rate has doubled since 2013, with the rising cost of city living, the current amount is still not sufficient

to afford the basic needs, such as decent and safe accommodation, transportation, healthcare, food and education for children.

Other issues related to lifestyle include lack of recreation facilities and ability to save money (Sikdar et al. 2014). The garment workers are often in agony due to malnutrition resulting from their lack of ability to afford nutritious food and they also suffer from chronic coughing due to exposure to high levels of pollutants including cotton dust. The long working hours and lack of rest also lead to chronic fatigue. Sikdar et al. (2014) have found that most garment workers' health deteriorates after joining the industry, with this becoming one of the key reasons for taking leave from work. The factories mostly offer first aid facility only, rather than providing treatment or even consultation for long-term problems.

4.4 Summary

The garment industry in Bangladesh is the lifeblood of the country, having years of experience and thriving potential. Over the years, the industry has grown in terms of number and capacity of firms. The continual focus on low price and on-time delivery has been the key factor underpinning the industry's success. However, the future progress of the industry depends on suppliers focusing on enhancing the capability for producing more complex and sophisticated products and offering high value-added services to mid-market and up-market buyers. Both capital and labour dimensions need attention in order for a higher level of economic upgrading to occur.

In terms of social compliance, the industry is currently undergoing a massive shift. The compliance status in the factories has continually improved over the past three years. Nevertheless, workers are still not able to access their basic human rights. Although a large number of workers' problems relate to their personal, family and social lives, such as accommodation, transportation, health and education, the causes underlying these problems mainly originate from their work, such as poor income level, long working hours and lack of safety and security in the workplaces and outside. At the same time, poor living standards can lead to reduced labour productivity resulting from increased need for leave, absenteeism, tiredness at work and even drop outs. Therefore, the employers may need to move beyond solving the workplace related issues only and place a greater degree of focus on workers' personal/social problems. Unfortunately, the compliance regime does not oblige the suppliers to address those issues. To this end, this study aims to discover to what

extent suppliers' strategies for economic and social upgrading can actually create meaningful impact in both the work and personal lives of employees.

Chapter 5: Methodology

This chapter sheds light on the methodology adopted for conducting the current study. The chapter includes a discussion of the research approach, sample selection, data collection and analysis. A brief overview of the studied cases is also included in this chapter. Finally, the methodological challenges and the ethical considerations related to the study are also discussed here.

A qualitative case study approach has been adopted for conducting the study. Given the paucity of IB studies focusing on suppliers' firm-level upgrading strategies (cf. Johns et al. 2015), the qualitative case study approach aids in-depth insight on this topic. There is a high degree of complexity involved in understanding different aspects of the current study. For instance, understanding the nature of the tacit promissory contracting relationship requires in-depth analysis of the formal and informal mechanisms governing the exchanges between buyer and supplier, the balance of authority and power, and the responsibilities and expectations of each party. Similarly, the examination of suppliers' upgrading strategies needs in-depth data on suppliers' internal processes for deriving strategies (RQ1) and the firm-level and relational factors shaping those (RQ2). The implications of upgrading for workers can also be revealed in full by listening to workers' experiences at work and in their lives after the compliance-driven changes (RQ3). Therefore, given the multifaceted nature of the thesis, a closer investigation of the study phenomenon is necessary. In addition, the study takes account of how suppliers' relationships with buyers and their upgrading initiatives have evolved over the period since the inception of the firm. The adoption of a qualitative methodology has allowed the capture of the complexities involved in all these aspects of the topic, while taking note of historical accounts of the firms.

The case study approach enabled an exploration of the aspects of the topic in their real life context. For instance, the managers were able to physically demonstrate their upgrading initiatives in their factories. The impact of those initiatives on workers could thus be linked by hearing directly from the workers. The case study approach further allowed collection of data from multiple sources, such as, interviews, organisational documents, and observation. The consideration of multiple cases allowed comparison of findings across cases, which in turn aided the development of patterns and themes. Multiple cases also facilitated qualitative comparative analysis using fuzzy set technique (fsQCA), that has been performed to identify the drivers of economic and social upgrading.

5.1 Sample

The unit of analysis of the study is Bangladeshi garment firms. In total, 18 Bangladeshi garment manufacturing firms have been selected for the study. Two factors were given most importance during the selection of the firms: i) the form of relationship they have with buyers, and ii) the size and state of resources of the firm. All the chosen firms were involved in international outsourcing relationship with their buyers, in which there was no involvement of equity investment. Firms of mixed size (small, medium and large) with varying number of employees, turnover and production capacity were chosen in order to identify differences in their approaches towards upgrading. According to BGMEA (2016), firms with nearly 500 employees, less than £15 million annual turnover and less than 10 production lines are categorised as small firms. Medium sized firms are defined as having between 1000 and 2000 employees, annual turnover less than £35 million and less than 35 production lines. Firms with number of employees, annual turnover and number of production lines beyond these levels are categorised as large firms.

Prior to the selection of the cases, one of the directors of BGMEA was contacted using a personal contact of the researcher and his advice was sought to decide the list of firms to be invited for participation. His assistance was used to determine the contact information for the selected firms. Based on the advice of the director of BGMEA, 30 firms (ten from each size group) were chosen initially. Only two firms agreed to participate after the initial email invitation was sent. As a result, the researcher had to use personal contacts to seek permission for access in other firms. Eighteen firms (eight small, eight medium and two large firms) out of thirty finally consented to participate in the study. An overview of the firms is presented in Tables 5.1, 5.2 and 5.3.

The studied firms belong from three size groups: small, medium and large. The small firms (Firms A–H) have a production capacity ranging from 2–6 production lines and number of employees between 50 and 600. The annual turnover of these firms ranges from £1 million to £15 million with a net profit under £0.50 million. Three of the eight small firms are CMT service providers and the rest are OEM suppliers. The OEM suppliers offer a full package service including sourcing of all raw materials through to production of finished garments. They are the lead contractors, having their own networks of suppliers locally. In contrast, although the CMT service providers manufacture the garments, they are not equipped to do labelling, quality testing and final packaging. They do not have their own networks of suppliers; rather, they import raw

materials from buyer approved ones. All the small firms produce basic low-value added products including T-shirts, polo shirts, hoodies and shorts. Four of the small firms (Firms A–D) supply mainly to USA and European customers, while the remaining four (Firms E–N) export to non-Western buyers from Asia, Asia-Pacific, Eastern Europe and South America. The employees in most of the small firms are of Bangladeshi origin. Except three small firms who have their own building, others are situated in rented settings shared with other industrial occupants.

Table 5. 1: Overview of small firms

Topic/firm	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F	Firm G	Firm H
Starting year	2010	2009	2010	1988	2008	2007	2003	1991
Country location	Bangladesh	Bangladesh	Bangladesh	Bangladesh	Bangladesh	Bangladesh	Bangladesh	Bangladesh
Ownership structure	Investment from Turkish and Bangladeshi owners (joint venture)	Owned by two brothers (local)	Owned by two friends (local)	Owned by single entrepreneur	Owned by single entrepreneur	Owned by single entrepreneur	Owned by single entrepreneur	Owned by single entrepreneur
Surrounding environment	Urban: rented building	Industrial: own newly constructed building	Industrial: rented shared building	Industrial: own newly constructed building	Industrial: rented shared building	Urban: Rented shared building	Urban: Rented shared building	Rural: Own building
Number of employees	500	600	550	650	490	250	50	284
<i>Workforce nationality:</i>								
Managers	Bangladeshi and foreign	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi
Supervisors	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi
Workers	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi
No. of production lines	Five lines	Six lines	Five lines	Six lines	Three lines	Two lines	Six sewing machines	Two lines
Turnover	£9 million	£13 million	£6 million	£14.39 million	£3 million	No data	£0.04 million	£3.5 million
Net profit	£0.18 million	£0.24 million	No data	£0.32 million	No data	No data	No data	£0.15 million
Product type	Top part: graphic T-shirts, sweat shirt, hooded jackets	Top part: T-shirt, polo shirt, jacket	Top and bottom: T-shirt; polo shirt; shorts	Top and bottom: T-shirt; polo shirt; shorts	Top part: T-shirt; polo shirt	Top part: T-shirt and hoodies	Jersey for cricket team and sports garments	Plain white polo shirt
Production method	Traditional (progressive bundle system)	Traditional (progressive bundle system)	Traditional (progressive bundle system)	Traditional (progressive bundle system)	Traditional (progressive bundle system)	Traditional (progressive bundle system)	Traditional (progressive bundle system)	Traditional (progressive bundle system)
Services offered	OEM Full-package including production of garment and sourcing of raw materials	OEM Full-package including production of garment and sourcing of raw materials	OEM Full-package including production of garment and sourcing of raw materials	OEM Full-package including production of garment and sourcing of raw materials	CMT Cutting, making and trimming only	CMT Cutting, making and trimming only	CMT Cutting, making and trimming only	OEM Full-package including production of garment and sourcing of raw materials
Form of relationship with MNE buyer	Non-equity, non-contractual, captive	Non-equity, non-contractual, captive	Non-equity, non-contractual,	Non-equity, non-contractual,	Non-equity, non-	Non-equity, non-	Before: non-equity, non-contractual	Non-equity, non-

			captive	captive	contractual, captive	contractual, captive	Current: Contract with Bangladeshi Cricket Board	contractual, captive
Structure of local value chain	Lead contractor with own network of suppliers in Bangladesh	Lead contractor with own network of suppliers in Bangladesh	Lead contractor with own network of suppliers in Bangladesh	Lead contractor with own network of suppliers in Bangladesh	Does not have own network of suppliers; import raw material from buyer certified supplier and then cut, make and trim garment	Does not have own network of suppliers; import raw material from buyer certified supplier and then cut, make and trim garment	Does not have own network of suppliers; import raw material from buyer certified supplier and then cut, make and trim garment	Lead contractor with own network of suppliers in Bangladesh; some fabric used from own factory
Origin of buyers	Mainly the Netherlands; other European	The Netherlands, Belgium, and Spain	The UK and Italy	Germany, Spain, UK	Poland, Romania	Turkey, China	Before: Europe, Mexico Current: Bangladesh	China, South Korea
Means of contact with buyer	Direct	Direct and buying house	Direct and buying house	Direct and buying house	Direct and buying house	Direct and buying house	Direct and buying house	Direct and buying house
Length of relationship with buyers	Mixed (long-term and short-term); most less than 5 years	Mixed (long-term and short-term); most less than 5 years	Mixed (long-term and short-term); Most less than 5 years	Mixed (long-term and short-term); Most less than 5 years	Mostly short-term; Most less than 2 year	Mostly short-term; Most less than 2 year	Mostly short-term; Most less than 2 year	Mixed (Long-term and short-term); Most less than 5 years

Table 5. 2: Overview of medium firms

Topic/firm	Firm I	Firm J	Firm K	Firm L	Firm M	Firm N	Firm O	Firm P
Starting year	1984	1989	1984	1994	1985	1989	2000	1987
Country location	Bangladesh	Bangladesh	Bangladesh	Bangladesh	Bangladesh	Bangladesh	Bangladesh	Bangladesh
Ownership structure	Owned by husband and wife	Owned by single owner	Owned by father and son	Owned by an Indian entrepreneur	Owned by two brothers	Owned by single entrepreneur	Owned by single entrepreneur	Owned by single entrepreneur
Surrounding environment	Urban: Different units in different rented shared building	Industrial: Own buildings in a compound	Two factories in Dhaka city and one in industrial area	Industrial: Own building	Industrial: Own building in the EPZ area	Urban: Entire building rented Industrial: other vertically integrated units	Industrial: Own buildings in different places of the area	Industrial: Own buildings in different places of the area
Number of employees	900	1200	1600	1800	968	2000	1500	2200
<i>Workforce nationality:</i>								
Managers	Bangladeshi	Bangladeshi, Sri Lankan, Danish, Turkish	Bangladeshi and Turkish	Bangladeshi and Sri Lankan	Bangladeshi	Bangladeshi and Sri Lankan	Bangladeshi and Sri Lankan	Bangladeshi, Sri Lankan and Korean
Supervisors	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi
Workers	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi	Bangladeshi
No. of production lines	14 lines	19 lines	20 lines	19 lines	250 embroidery machines	31 lines	14 lines	33 lines
Turnover	£18 million	£29 million	£25 million	£23 million	£11 million	£37 million	£21 million	£35 million
Net profit	£2 million	£4.5 million	£3.2 million	£2.8 million	£0.72 million	£8 million	£2.54 million	No data
Product type	Top and bottom part: T-shirt; polo shirt; uniform; denim trousers; child wear	Top and bottom part: T-shirt; Women's fashion tops; knitwear; denim trousers	Top and bottom: mostly denim trousers; T-shirts and Women's fashion tops	Top part: fashion tops, sports wear, children wear	Embroidery, applique and patches on towel, shoes, knit, denim, sweater and woven garments	Top part: formal shirt; office wear	Top and bottom part: office shirt, sport wear, T-shirt, denim trousers	Top and bottom part: T-shirt, fashion tops, children wear, knitwear, denim trousers
Production method	Traditional (progressive bundle system)	Traditional (progressive bundle system)	Traditional (progressive bundle system)	Traditional (progressive bundle system) Unit production system in new factory	Traditional (progressive bundle system)	Traditional (progressive bundle system)	Traditional (progressive bundle system) Unit production system in new factory	Traditional (progressive bundle system)
Services offered	OEM	OEM	OEM	OEM	OEM	OEM	OEM	OEM

	Full-package including production of garment and sourcing of raw materials	Full-package including production of garment and raw materials in-house	Full-package including production of garment and sourcing of raw materials	Full-package including production of garment and sourcing of raw materials	Full-package including production of garment and sourcing of raw materials	Full-package including production of garment and sourcing of raw materials	Full-package including production of garment and sourcing of raw materials	Full-package including production of garment and sourcing of raw materials
Form of relationship with MNE buyer	Non-equity, non-contractual, captive	Non-equity, non-contractual, captive	Non-equity, non-contractual, captive	Non-equity, non-contractual, captive	Non-equity, non-contractual, captive	Non-equity, non-contractual, captive	Non-equity, non-contractual, captive	Non-equity, non-contractual, captive
Structure of local value chain	Own vertically integrated units	Own vertically integrated units	Lead contractor with own network of suppliers in Bangladesh	Lead contractor with own network of suppliers in Bangladesh	Own vertically integrated units	Own vertically integrated units	Own vertically integrated units	Own vertically integrated units
Origin of buyers	Before: Spain, Belgium, USA Current: New Zealand, Malaysia	Sweden, Japan, Australia, Germany	Germany and Spain	USA, Dubai, UK	USA and European countries	USA and UK	USA and UK	Sweden and UK
Means of contact with buyer	Direct	Direct	Direct	Direct	Through the local garment suppliers of the buyers	Direct	Direct	Direct
Length of relationship with buyers	Mostly short-term; 1-2 years	Mostly long-term; more than 10 years	Long-term; more than 10 years	Long-term; More than 10 years	Long-term; More than 10 years	Long-term; More than 10 years	Long-term; More than 10 years	Long-term; More than 10 years

Table 5. 3: Overview of large firms

Topic/firm	Firm Q	Firm R
Starting year	1985	1994
Country location	Bangladesh	Bangladesh
Ownership structure	Board of directors; Public Ltd. Company (Listed in Dhaka Stock Exchange)	Family business
Surrounding environment	<ul style="list-style-type: none"> • Factory: Gazipur industrial area; own campus with own infrastructure facility (electrical substation; ICT etc) • HQ: in the same campus 	<ul style="list-style-type: none"> • Old factories: Dhaka city • New factories: Gazipur industrial area (with own electric substation); Chittagong Export Processing Zone • HQ: Dhaka city
Number of employees	12000	10000
Workforce nationality:		
Managers	Bangladesh, India, Sri Lanka, Malaysia, Spain, UK	Bangladesh, India, Sri Lanka, USA
Supervisors	Bangladesh	Bangladesh
Workers	Bangladesh	Bangladesh
No. of production lines	220 lines <ul style="list-style-type: none"> • Yarn: 40 million lbs • Woven and knitted fabric: 140 million lbs • Denim fabric: 20 million yards Apparel: 200 million pcs	230 lines <ul style="list-style-type: none"> • Woven and knitted fabric: 100 million lbs • Apparel: 270 million pcs
Turnover	£450 million/year	£380 million/year
Net profit	£52 million/year	£32 million/year
Product type	<ul style="list-style-type: none"> • Yarn • Woven, knit and denim fabric • Garment accessories • Apparel (T-shirt, formal trouser, formal shirt, denim jeans etc.) • Embroidery, appliqué and printing 	<ul style="list-style-type: none"> • Woven and knit • Garment accessories • Apparel (T-shirt normal and fancy; polo shirt; denim jeans and other bottom, sweat and cardigan etc.) • Embroidery, appliqué and printing
Production method	Traditional (progressive bundle system)	Traditional (progressive bundle system)
Services offered	ODM and OBM <ul style="list-style-type: none"> • Produce and sell own brand locally and abroad (OBM) • Vertically integrated factories for spinning, weaving, knitting, dyeing, washing and accessories production • In-house design facility • Production of low-medium value added garment • In-house lab testing for quality 	ODM and OBM <ul style="list-style-type: none"> • Produce and sell own brand locally and abroad (OBM) • Vertically integrated factories for weaving, knitting, dyeing, washing and accessories production • In-house design facility • Production of low-medium value added garment • In-house lab testing for quality
Form of relationship with MNE buyer	Non-equity; Non-contractual; Captive	Non-equity; Non-contractual; Captive
Structure of local value chain	Own vertically integrated units	Own vertically integrated units
Origin of buyers	<ul style="list-style-type: none"> • USA: American Eagle; JC Penny; PVH; Tommy Hilfiger; Calvin Klein Jeans; Macy's • Europe: Top Shop; Dorothy Perkins; H&M; River Island; s.Oliver; Zara; Arcadia Group Ltd.; Bershka 	<ul style="list-style-type: none"> • USA: Polo Ralph Lauren; Oxford • Europe: C&A; Marks & Spencer; G-star; Celio; Kariban • Japan: Etuchu
Means of contact with buyer	Direct	Direct
Length of relationship with buyers	Long-term; More than 10 years	Long-term; More than 10 years

In the study sample set, the medium sized firms (Firms I-P) have a production capacity ranging from 14–33 lines and employee numbers between 900–2200. Their annual turnover varies from £18 to £37 million having a net profit between £2 million and £8 million. All the mid-sized firms are OEM service providers with six of them having vertically integrated composite units including fabric manufacturing, dyeing, washing, and garment production. The remaining two mid-sized firms source raw materials from their local network of suppliers. These firms produce low to medium value added products for customers at the lower end of the tier. For example, the product range includes women's fashion tops, formal shirts, office wear, denim trousers and children's wear in addition to regular T-shirts and polo shirts. Unlike small firms, most mid-sized firms can afford to recruit experienced employees from overseas at the managerial level, as industrial engineers and HR trainers. For instance, industrial engineers originating from Sri Lanka and managers having Turkish origin are commonly recruited in these firms. These firms primarily provide service to North American and European buyers, except one that supplies to buyers from New Zealand and Asia. Except one (Firm N), the rest of the firms from this group have their own independent building(s), either in Dhaka city or in industrial areas.

The sample set included two large firms (Firms Q and R) that have numbers of employees ranging from 10000–12000 and production capacity of 220–230 lines. Their turnover is between £380 million and £450 million. Both the firms have vertically integrated units for spinning, weaving, knitting, dyeing, washing and even accessory production plants. These firms produce most raw materials in-house and have their own design and lab testing units. Both the firms have their own brand, sold in Bangladesh and neighbouring countries. These two firms have recently undertaken FDI projects to produce finished garment and also new product lines. These two firms are among the very few garment manufacturers in Bangladesh that started as simple assemblers and have implemented incremental transition to high-value-added activities – OEM, ODM and now OBM, along with off-shoring activities. They produce low to medium value added products for middle class customers and the products are mostly fashion items and office wear. Both the firms have recruited a number of overseas managers, industrial engineers, designers and trainers from Sri Lanka, India, Malaysia, UK and USA.

All the studied firms have been involved in repeat transactions with the same buyers for a certain period of time, although there exist no legally binding original agreements for repeat purchases. As a result, each transaction has been carried out as a discrete transaction, and plans for

any repeat transaction are never legally binding. Instead, there is an implicit (or at most orally expressed) promise for future orders that is subject to their ability to maintain the expected level of performance within the current exchange in terms of price and quality specifications, on-time delivery, social compliance and protection of intellectual property. They receive orders, specifications and planning and projection details, if any, directly from the buyers. In order to be able to meet individual buyers' expectations, they have had to make a moderate degree of relationship-specific investment, such as the purchase of customised raw materials, the specialisation of the labour force, and implementation of the corrective action plans advised by Accord and BSCI auditors. This investment was necessary not only for the completion of the current transaction, but also for the realisation of buyers' promises to make repeat purchases. This relationship has been expressed as "tacit promissory contracting" in Hoque, Sinkovics and Sinkovics (2016). The small firms undertake orders received arbitrarily from buying houses in order to fulfil extra capacity, while also providing service to their long term buyers.

Although the existence of tacit promissory contracting was observed in all the studied firm cases, there are a number of minor differences across some of the dimensions listed in Macneil (1978), such as duration, planning, collaboration and personal involvement. Table 5.4 presents the similarities and differences across these dimensions in the cases of each of the three groups of firms. First, while, in the case of small firms, the length of relationship with a particular buyer often continue for a period two to five years, in the cases of medium and large firms, this duration has been greater than five, even 10 years. Over the course of entire duration of relationship with a particular buyer, all the firms have been involved in a number of repeat transactions with them. Second, the medium and large firms receive tentative planning and projection of orders for a one year period (often at the beginning of the year) from the buyers, while the small firms receive no such projection. The projection is not a legally binding contract or a formal purchase order, rather it is a mere planning tool. Although this provides a certain degree of assurance for future repeat purchases, it does not allow suppliers to take any legal action should buyers change their plans or terminate the relationship. Third, the level of collaborative activities with the buyers also varies across the groups of firms. For instance, the large firms experience a relatively higher degree of collaborative exchanges with the buyers through co-designing arrangements. For the purpose of co-designing activities, these firms have a certain degree of involvement with the designers and managers of the buyers. In contrast, the medium and small firms adhere to the codified information

and design specifications provided by the buyers. Thus, there are limited opportunities for collaborative work with the buyers in the cases of medium and small firms. A more in-depth analysis on this is presented in Chapter 7.

Table 5. 4: The nature of relationship with key buyers

Dimensions (adapted from Macneil 1978)	Small firms	Medium firms	Large firms
Nature of transaction	Recurrent discrete transactions with multiple yet the same buyers over a long period of time without having any original legally binding agreement	Same	Same
Balance of autonomy	Buyers retain most autonomy in deciding both exchange specifications and future planning	Same	Same
Personal involvement	Low Mostly transaction-specific interaction with some degree of personal relationship (mostly with the owner), non-unique, transferable	Low Mostly transaction-specific interaction with some degree of personal relationship (mostly with the owner), non-unique, transferable	Moderate Certain degree of involvement with the designers and managers of buyers required for co-designing; difficult to transfer
Type of communication	Formal standards and specifications Informal promise for future order	Formal standards and specifications Planning and projection of order quantity and price is informally informed at the beginning of the year	Formal standards and specifications Planning and projection of order quantity and price is informally informed at the beginning of the year
Subject matter of satisfaction	Current and past performance in terms of meeting delivery time, quality and labour standards; monetisable; Social exchange not important	Same	Same
Commencement	Recurrent discrete transactions but no original legally binding agreement exists Each transaction commences through a neoclassical contract that involves a third party (i.e. letter of consent from bank)	Same	Same
Termination	Non-performance of the conditions specified in the LC Future orders from the same buyer depend on past performance Termination is fairly easy, although the buyer may allow some margin of error before making the decision to terminate	Same	Same
Measurement of exchange	Measurable and monetised	Measurable and monetised	Mostly measurable and monetised; Transfer of knowledge during co-designing cannot be measured
Sources of socio-economic support	No support provided	Same	Same
Duration of overall relationship	Two to five years	Over 5 years, even 10 years with some buyers	Mostly over 10 years

Planning	No planning and projection given for the entire year Planned future orders are never legally binding and always tentative No joint planning on future structures and processes	Tentative planning and projection given for the entire year Planned future orders are never legally binding and always tentative No joint planning on future structures and processes	Tentative planning and projection given for the entire year Planned future orders are never legally binding and always tentative No joint planning on future structures and processes
Future cooperation required in post-commencement planning	Cooperation is not given in either performance or future planning	Cooperation is not given in either performance or future planning	Collaboration only in case of co-designing; however not for other performance or future planning
Incidence of benefits and burdens	No sharing of benefits and burdens	Same	Same
Obligations undertaken	Obligations are mostly undertaken by the suppliers, some of which are clearly communicated while others are implied	Same	Same
Transferability	Transfer involves moderate level of complexity; only pursued if suppliers perform badly	Same	Same
Participants' views of transaction or relation	Transaction performance is highly important and future continuity depends on performance in current exchange Altruistic behaviour not expected Problems are governed by specific rights	Same	Same

5.2 Data collection and analysis

In order to address RQ1 and RQ2, data were collected through face-to-face interviews and analysis of organisational documents. Twenty-five semi-structured interviews were conducted involving garment firm owners, top managers and employees. The interviews lasted for one and a half hours and were followed by factory visits. Interviewees were asked about the history, critical incidents, current constraints and future plans of their firms. The interview guide also included questions about their relationships with their buyers (such as the existence of a contract, length of relationship, process of ordering, materialising and finishing a transaction, exchange of knowledge and information, modes of contacting buyers, critical shapers of repetitive relationships and so on). Interviews were conducted in Bengali and were translated and transcribed afterwards.

For addressing RQ3, thirty-five short semi-structured interviews were also conducted involving the workers of the studied garment firms. In a number of cases, workers were interviewed in groups as they were found to be more comfortable in expressing opinions collectively. Each interview lasted for 30–45 minutes. The workers were asked about their personal background, experience of working in the firm, their views on compliance, and their current issues at work and in their personal lives.

In addition, organisational documents such as annual reports, sample order placement documents and buyers' design specifications were also collected. The analysis of these documents involved reading through these thoroughly and identifying relevant information to support the data collected from interview, such as, examples, numerical figures and financial statements. The use of multiple sources of data allowed triangulation to take place, which enabled the study to integrate and compare the findings from different sources.

All 25 interviews with managers and 35 interviews with workers were translated from Bengali to English. The raw transcripts were then analysed using Nvivo software for qualitative data analysis. A code guide was developed to conduct a cross-case comparison. The development of the codes involved a combination of the inductive and deductive approaches. The code book is presented in Table 5.5.

Different data analysis methods are used to address different research questions. Template analysis has been conducted to identify the nature of the relationship(s) between suppliers and buyers. The same technique has also been used to identify the suppliers' upgrading strategies (RQ1) and their impact on workers (RQ3). The dimensions included in the template and respective literature sources are presented in the code guide. The dimensions for analysing the nature of the relationships with buyers are adapted from Macneil (1978) and those for analysing the state of social and economic upgrading of the firms are adapted from Barrientos et al. (2011). The impact of the upgrading initiatives on the workers is investigated through the lenses of human rights (including economic, social and cultural rights) conceptualised in Wettstein (2012) and Goldewijk and Fortman (1999); and social value creation proposed by Sinkovics et al. (2015). All these dimensions are compared across the cases to identify patterns in relation to the upgrading strategies of small, medium and large firms and their impact on the workers.

The drivers of economic and social upgrading (RQ2) were analysed using fuzzy set analysis. Given the general absence of studies exploring the drivers of upgrading in both the IB and GVC disciplines, this study was geared to adopt an inductive process to derive the relational factors that constrain/enable upgrading. Thus, the analysis of the interviews with managers/owners led to the identification of nine conditions/drivers that could be responsible for the instances of economic and social upgrading in the studied firms. Nvivo software was used for this purpose.

Table 5. 5: Code guide

Topic	Code Level 1	Sources
State of economic upgrading	<p><i>Capital:</i></p> <ul style="list-style-type: none"> Type of upgrading Functional activities Level of automation Technological advancement Level of value added in product <p><i>Labour:</i></p> <ul style="list-style-type: none"> Productivity rate Defect rate Skill development mechanism Incentive system Work allocation system Job rotation allowed Workers' skill 	Adapted from Barrientos et al. (2011)
State of social upgrading	<p><i>Measurable standards</i></p> <ul style="list-style-type: none"> Type of employment Wage level Health and safety Hygiene Working hour Building safety <p><i>Enabling rights</i></p> <ul style="list-style-type: none"> Workers' union participation System of complaining Gender ratio Skill development opportunities Promotion Incentive system Work allocation Job rotation allowed Additional facilities beyond compliance 	Adapted from Barrientos et al. (2011)
Driver of economic upgrading	<ul style="list-style-type: none"> Pressure for social compliance (PFSC) Maintaining relationship with existing buyers (MREB) Attracting new buyers (ANB) Planning and projection from buyers (PPB) Promise from prospective buyers (PFPB) Promise from existing buyers (PEB) Relational continuity (RC) Tacit knowledge transfer (TKT) Suppliers internal motivation (SIM) 	Inductively generated from data
Driver of social upgrading	<ul style="list-style-type: none"> Pressure for social compliance (PFSC) Maintaining relationship with existing buyers (MREB) Attracting new buyers (ANB) Planning and projection from buyers (PPB) Promise from prospective buyers (PFPB) Promise from existing buyers (PEB) Relational continuity (RC) Workers' preference (WP) Suppliers internal motivation (SIM) 	Inductively generated from data
Impact on workers	<ul style="list-style-type: none"> Wage and benefit Social protection Working hour Freedom of association Freedom of speech No discrimination' Skill development Promotion and incentives Lost social value in transition 	Adapted from Barrientos et al (2011) and Sinkovics et al. (2015)

Nature of relationship with buyers	Nature of transaction Balance of autonomy Personal involvement Type of communication Subject matter of satisfaction Commencement Termination Measurement of exchange Sources of socio-economic support Duration Planning Future cooperation required in post-commencement planning Incidence of benefits and burdens Obligations undertaken Transferability Participants' views of transaction or relation	Adapted from Macneil (1978)
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After the identification of the conditions of upgrading (RQ2) (presented in Chapter 7), a qualitative comparative case analysis was conducted following Ragin's (2008) fuzzy set approach. This entire analysis was performed using fsQCA software. At the first step, the qualitative data was transferred into quantitative. This means that each firm was assigned a score between 1 and 9 (where 9 = strongly experienced the presence of the condition and 1 = strongly experienced the absence of the condition) based on researcher's subjective judgement. The scores were assigned based on each firm's degree of experiencing a particular condition/driver in comparison to other cases. The calibrated scores reflect the degree of membership (strong or weak) of each of the cases in the set of a particular condition.

The second step involved development of a truth table by calibrating each firm's membership scores under each condition. The calibration was performed by running the Fuzzy Truth Table Algorithm analysis using the software in which 9 means complete membership, 1 means complete non-membership and the mid-point (i.e. 5) is the cut-off point.

At the third step, final output was derived by running the Standard Analysis function (at consistency cut-off point 0.75), which provided three types of solutions: complex, intermediate and parsimonious. All the three types of solutions show the combination of conditions that could be linked to the outcome. Each solution line in the outcome window shows a separate path to the outcome. While the complex solution is the most comprehensive one, intermediate solutions are usually the most interpretable, but the parsimonious solutions show which conditions are essential to distinguishing between positive and negative cases (Ragin 2008). Subsequently, in this study both intermediate and parsimonious solutions are considered for further analysis and complex solutions are ignored altogether. This process allows identification of the configuration of

conditions that are responsible for the instances of economic and social upgrading. The necessary and sufficient conditions were also identified by running subset/superset analysis in the software and generating an XY plot for each of the conditions. The entire process of fsQCA was conducted individually for generating the conditions of economic and social upgrading.

5.3 Methodological challenges and ethical considerations

The most significant methodological challenge involved arranging permission for access to the firms; the large firms were particularly non-cooperative. The response rate was significantly poor after the first email invitation. Personal contacts were used wherever possible to overcome this challenge. However, due to access limitations, the balance among the three size groups could not be maintained (i.e. only two large firms were included).

The study involved challenges in relation to getting permission to interview the workers. Seven firms refused to allow their workers to participate in the interviews on their premises. As a result, alternative arrangements had to be made to access their workers. All these seven firms are located in the same industrial area, where a relative of the researcher operates a non-profit school for the children of garment workers. The workers of the seven study firms also send their children to this same school. One worker from each firm was invited to interview at the school during the weekend. These workers were given a free lunch after the interview as an incentive for participation.

A number of important ethical and moral obligations were maintained during the study process. These involved, in line with Bryman and Bell (2011): i) avoiding harm to participants; ii) ensuring informed consent; iii) respecting respondents' privacy; and iv) avoiding deception. To adhere to these ethical principles, all the interviewees' consent was obtained before conducting the interviews. The respondents' permission was sought in relation to using their name/position and the organisation's name in the thesis. Their privacy was respected through seeking permission to participate in the interview. Permission from the managers was sought via email, which included an overview of the research and the interview guide. Anonymity of the firms was maintained throughout the thesis. The workers were also given a description of the study before the interview, and they were informed that should they refused to provide an opinion on any sensitive issue, their willingness would be respected.

Chapter 6: The strategies towards social and economic upgrading – Findings

This chapter presents data regarding the strategies adopted by the suppliers for both social and economic upgrading within the context of tacit promissory contracting. It identifies the strategies that they have undertaken as a reaction to external pressure and also the ones that they have adopted proactively. The chapter also presents data in relation to how the studied cases have implemented a particular upgrading strategy based on their size and resources. Four types of social upgrading strategies have been identified from the data. These are: i) No change or downgrading; ii) Measurable standards improvement; iii) Enabling rights improvement; and iv) Social constraint alleviation. The firms have embraced one or more of these four strategies in pursuing social upgrading since their inception.

Similarly, the evidence from the data further shows that the studied cases have adopted a single or multiple strategies in pursuing economic upgrading since inception. Five types of economic strategies have been identified in the study: i) Limited/no change and downgrading; ii) Output oriented upgrading; iii) Establishment of composite factories; iv) Workers' skill development; and v) Design and brand development. This chapter sheds light on the different aspects of each of these social and economic upgrading strategies and also explains the key factors (both firm-level and relational) driving the choice of a particular strategy. A more detailed discussion and analysis on the conditions/drivers responsible for upgrading are presented in the next chapter.

The contents of the rest of the chapter are structured as follows. Sections 6.1 and 6.2, respectively, present the features of different strategies undertaken by the suppliers for social and economic upgrading, while also discussing the firm-level and relational factors driving those strategies. Drawing upon the key findings presented in this chapter, the last section highlights the contributions made in the IB and GVC literature bodies.

6.1 Strategies to pursue social upgrading

The data analysis shows that in the cases of nine firms (including Firms A–I), the focus of social upgrading has mainly been on compliance with the mandatory and measurable dimensions of the labour codes. These compliance initiatives have mostly been undertaken as a reaction to pressure from buyers and/or independent auditing bodies such as Accord, Alliance or BSCI. Five

out of these nine firms (Firms E–I) have followed the National Labour Law, while the remaining four firms (Firms A–D) have adopted the BSCI, Accord or buyers’ private codes. The former group (Firms E–I) complied with the minimum requirements of labour codes as a pre-condition for selling to the foreign buyers. However, as they experienced increasing pressure from the buyers for extending their level of compliance, they shifted their target market from Western retailers to Asian ones, who are often less demanding regarding compliance issues. On the other hand, due to pressure from buyers, the latter group (Firms A–D) have adopted the BSCI and/or Accord codes, although they only concentrate on the tangible or measurable dimensions of the respective codes. They have used the audit certificates issued by BSCI and/or Accord as a key means to sustain relationships with existing buyers.

In contrast, the other nine firms (including Firms J–R) have focused on implementing more sophisticated issues related to workers’ rights, such as workers’ skill development and career progress, their freedom of speech and even improving their family and social lives (in the cases on Firms Q and R only). In addition to complying with the measurable dimensions of codes imposed by BSCI, Accord and/or buyers, they have taken further steps to proactively enhance the levels of skills and performance of their workers. These firms have undertaken varying initiatives to increase the degree of job satisfaction and productivity of the labour force and also reduce the rate of labour turnover. The social upgrading strategies are discussed in more detail below. Tables 6.1, 6.2 and 6.3 summarise the social upgrading initiatives undertaken by small, medium and large firms and the key reason(s) underlying those initiatives. Appendix B includes tables (Tables I–XXVI) that present in-depth, year-wise data on social upgrading initiatives taken by all the firms.

No change or downgrading

The data analysis shows that five firms, Firm G, Firm H, Firm E, Firm F and Firm I, have undergone limited or no change in terms of their social upgrading initiatives. The first four firms are small, while Firm I is a mid-sized one. The owners of these firms stated that they had complied with the National Labour Law during the start of their venture. Firm G, Firm I and Firm E experienced immense pressure for compliance with the Accord codes after the incident of the Rana Plaza collapse. Given their buyers have joined the Accord, they have received formal notice for upgrading their social compliance status from the buyers. Firm E had to undergo BSCI inspection after receiving a written warning from the buyers. The BSCI inspectors scored them at a 56%

compliance level and suggested massive upgrading actions, including clear fire marking and spacious layout for fire safety, more windows and fans for ventilation, day care and medical facilities for workers' well-being, and so on. The owner decided not to implement most of the actions advised by BSCI inspectors. As a result, they received an "orange level" result in the Accord audit that occurred three months after the BSCI audit. In addition to the actions advised by the BSCI auditors, the Accord inspectors further suggested moving to an independent rented building. The Accord auditors warned that shared building arrangements will not be tolerated in the next review. Except for a few basic changes, such as compliance with the new national salary scale and overtime limit, Firm E has not implemented any of the Accord recommendations. The owner of Firm E stated:

"Even if we had implemented all the other recommendations, we would still not achieve Accord clearance due to the shared building issue. We are currently too resource constrained to construct our own building. We had the provision to move to an independent rented setting, which we felt would also be unnecessary knowing that we only need one floor to serve our purpose. Hence, we decided not to implement any of the actions suggested by the BSCI and Accord auditors. Instead, we decided to start serving Eastern European buyers whom we found to be less demanding in terms of social compliance related issues. Fortunately, they are not parts of Accord yet or going to be in near future."

Therefore, Firm E has decided not to implement the recommended changes, but rather shifted their market focus. Since late 2013, they started serving buyers from Poland, Romania and Chile, who were not yet part of Accord and were less sensitive about social compliance issues. Similarly, following increasing pressure for social compliance their their previous Western buyers (e.g. Inditex and Third Stage), Firm G has decided to serve a Mexican buyer instead whose concerns about social compliance were limited. A similar strategy was also adopted by Firm I. The owner of Firm I has said that instead of complying with a particular buyer's pressure for social compliance, they replace that buyer with a new one who is less demanding regarding working conditions issues. As a result, the owner of Firm I has to continually search and add buyers in order to mitigate the risk of losing an old one. The Chairman of Firm I commented:

"I consider that my market is not limited to Europe and USA; opportunities can be found in other parts of the world, in the markets that are still untapped by my

Bangladeshi competitors. When I am facing pressure for social compliance from a particular buyer to which I am unable to respond to, I can always change that buyer. Last year, an old UK based buyer sent a formal notice urging me to upgrade the compliance status of my factory. After receiving repeated reminders and warnings from that buyer, I decided to discontinue our relationship. Instead, I started supplying to a buyer based in New Zealand. As a response to a similar situation, this year I introduced a buyer from Argentina and Spain. Being a marketing graduate, I am not afraid of promoting my business to new buyers”.

Nevertheless, the owners of both Firm E and Firm G have said that their profitability dropped significantly as soon as they shifted their market focus. This has occurred because of a greater degree of pressure from the new buyers for further reduction of price, along with reported incidences of delayed/irregular payments on several occasions. The owner of Firm E reported that they had to cut down the number of full-time workers and management staff within three months following the change of the buyers. The key reason underlying the decision to downsize was to reduce operating costs in order to compensate for the ongoing business loss. The full-time workers were replaced by part-time workers who were less expensive to maintain. The factory also encountered labour protests twice during 2013–2014 resulting from their inability to pay salaries on time. Firm G also experienced a drop in profitability which eventually led the firm to liquidate most of its assets, cut down the number of workers and even stop exporting garments. The firm now only produces jerseys for Bangladesh Cricket board (BCB), who have limited concerns in relation to working condition and hardly ever monitor the compliance status.

In contrast, both Firm H and Firm F have experienced very minimal pressure for social compliance from their buyers. It must be noted here that these two firms mainly sell to non-Western buyers from China, South Korea and Turkey. The owners of both the firms have stated that, although their buyers had initially urged them to comply with the mandatory requirements of the National Labour Law, those buyers had never been overly concerned regarding compliance issues and hardly ever monitored the working condition. The owners of both the firms have said:

“Our main buyers are from China and South Korea who have been concerned more about price and delivery time. They inspected our social compliance only once during the start of the relationship. At a later stage, we have encountered regular inspection by Department of Labour who have always passed our factory ... thus we have encountered limited pressure for social compliance, which has not been typical in the

cases of many Bangladeshi garment exporters supplying to the Western buyers.” (Chairman, Firm H)

“I have no intention to invest for upgrading the working condition in my factory, as because I believe that my factory already complies with the mandatory codes of the National Labour Law. At the moment, I am burdened by the increased national wage rate anyway. Moreover, being the suppliers of a non-Western buyer it makes no business sense for me to invest further for social upgrading. Our buyer only wants to see the DOL audit pass certificate, which we can easily secure with our current compliance arrangements.” (Managing Director, Firm F)

Therefore, both Firm F and Firm H have also undergone limited changes (mainly complying with new national salary scale and overtime hours limit) in terms of improving the working conditions. In contrast, Firm E, Firm G and Firm I have side-stepped complying with Accord codes by changing buyers. This approach has eventually led to a downgrading of the working conditions, with incidences of downsizing, delayed salary payments, labour protests and recruitment of part-time and flexible employees.

Measurable standards improvement

The data analysis shows that 13 out of the 18 studied firms have implemented most of the measurable standards or the tangible dimensions included in the codes of compliance, irrespective of their size and amount of resources. These firms comply with BSCI, Accord or buyers’ private labour codes, in which the measurable dimensions include complying with national wage rates, overtime limit, fire safety measures (such as fire marking, fire exit, fire drills, fire extinguishers and sprinklers), spaciousness (i.e. using 60% of the floor space while leaving the rest clear for ease of movement, avoiding blocking the pathways), ventilation (i.e. exhaust fans and windows), hygiene requirements (toilet, dining and pure drinking water) and medical and child care facilities. In recent years, Accord has put emphasis on building safety measures that include consideration of the number of commercial occupants renting the building, the strength of construction materials (rods, pillars, concrete etc.), the location of machinery, generators, boilers and inventory, the distribution of loads and the accessibility of gates and exits (Accord 25 February, 2016).

Since 2012, the pressure from BSCI and Accord has stimulated four of the firms, Firm A, Firm B, Firm C and Firm D, to undertake a number of steps to improve the level of social compliance of their factories. After achieving “orange level” in their first Accord inspection, these firms were pressurised by their key buyers to implement the changes advised by the auditors. As

a consequence, all four firms have undertaken a number of actions to improve their status in relation to wages and working hours, health and safety, hygiene and workers' facilities. For instance, having joined BSCI in the year 2012 to comply with buyers' demands, Firm A has improved their fire and electrical safety status, achieving 64% compliance level in their first BSCI audit and orange level in their first Accord audit. Further recommendations involved improving workers' facilities, ventilation, spaciousness and building safety. Thus, in late 2013 the factory rented two more floors to accommodate day care, proper dining, increased number of toilets and medical facilities. Since early 2014, they have reduced their overtime work limit to the legally approved two hours per day. With all these changes during 2013–2014, their BSCI compliance improved to 91% and Accord compliance to “yellow level”.

While the above Firms (A–D) have upgraded abruptly in order to respond to the pressures from Accord and BSCI, the rest of the firms in this group (e.g. Firm K, Firm J, Firm L and Firm M) have been undergoing incremental improvement in terms of code compliance since their inception. They have been improving their compliance status continually in order to accommodate the demands from their key buyers. For instance, having started as a buying agent, in the year 2001, Firm L established a garment production factory that was fully compliant with the National Labour Law. They undertook this step because their subcontractor factories showed reluctance to comply with the labour codes of their client buyers. As a result, their relationship with the buyers started to get affected. Hence, Firm L has responded to the buyers' demands by constructing their own factory that was built in compliance with buyers' labour standards. Once again, in the year 2003, they updated their compliance status according to the preferences of their newly included buyers, Kohls and JC Penny. In the year 2008, they joined BSCI as a pre-condition to receiving orders from Tesco, their newly added buyer. Tesco urged them to follow a neutral labour code instead of following that of a particular buyer. Finally, they have undergone another round of social upgrading as their key buyers have joined Accord, requiring them to implement the Accord codes. Similarly, Firm K has gradually improved the compliance level in order to respond to the increasing pressure from their key buyers, Auto Bon Prix and Red Cat, and Firm J has done likewise in order to respond to Kappahl and K–Mart.

Firm N, Firm O and Firm P have been serving reputed buyers over a long period of time; for instance, Firm N is a supplier of Tommy Hilfiger and Next; Firm O serves Nike, Puma and Gap, and Firm P supplies H&M. These three firms have undergone continual upgrading in order

to accommodate the requirements of these buyers' labour codes. The CEO of Firm N said that although their first garment production plant was built following the National Labour Law, they had to improve a number of health and safety and hygiene issues in order to comply with the labour codes of Tommy Hilfiger when they started supplying this new buyer in 2008. Afterwards, in 2013, pressure from Accord and their buyers (Tommy Hilfiger and Next) made them update the fire safety arrangements, increase space in the dining hall and introduce a childcare facility for the workers. However, with some of the suggested changes requiring structural adjustments, Firm N decided to move outside Dhaka city and construct a factory in full compliance with Accord codes. The interviewees from Firm P and Firm O also remarked that they had continually upgraded in accordance with buyers' labour codes, yet they had to recently undergo a number of changes to further improve working conditions, especially building safety status, to comply with Accord codes.

Therefore, among the 13 firms, six have constructed a complete new factory building in order to comply with the building safety requirements of Accord. Given that the implementation of the advised changes seemed difficult in a rental and/or shared setting, Firm B, Firm D, Firm J, Firm K, Firm L, Firm M all decided to construct buildings from the scratch. For instance, Firm B started their factory in a rental building that was shared with two other garment factories. The Accord inspectors suggested avoiding a shared arrangement, increasing the number of toilets and windows, widening the fire exit and accommodating the generator in an isolated room on the ground floor. Being in a shared rental setting, Firm B found it difficult to implement these changes, most of which required structural alterations. Thus, they decided to construct their own factory building in line with Accord's code on fire and building safety. Similarly, Firm D has also constructed their new factory building in an industrial area. Although their previous building was owned by them, it was shared by other garment manufacturers. Thus, they decided to construct a flat, one floor factory building, which Accord regarded as safer than a multi-storey structure. Firm K also found it difficult to implement Accord's building safety codes in their first two factory buildings that are located in Dhaka city. Thus, they decided to construct a new one in the Gazipur industrial area in order to accommodate Accord's advice. They relocated production activities for their Western buyers to the new factory, while using the old buildings to manufacture garments for a number of new buyers from China and South Korea. These new buyers had limited concern

about the poor compliance status of the old factories. Hence, Firm K found it to be strategically sensible to utilise their old factories for the purpose of serving these new buyers.

The owners of two other firms, Firm A and Firm C, stated that, although they were using a rented building shared with other garment manufacturers, they would not be able to afford to move to an independent building as suggested by Accord. Given that they have limited resources, spending too much on compliance could put the survival of the firms in jeopardy. In this respect, the Director of Firm C stated:

“Constructing own building requires massive investment and is also time consuming. Even moving to an independent rented building involves enormous switching cost. Commercial buildings are often more than six storied, renting which independently would involve huge deposit and would result in wastage of spaces. As a result, we are unable to comply with the building safety requirements of Accord. Should the pressure for these compliances increases, we may have to shut down the business as a whole”.

The findings, therefore, show that all 13 firms had implemented the tangible dimensions of social upgrading. While 11 of the firms have been able to comply with almost all the measurable aspects of Accord codes, the remaining two (Firm A and Firm C) are still in a vulnerable situation, given that they are unable to move to an independent building due to their resource limitations.

Enabling rights improvement

Out of the 13 firms discussed in the previous section, nine (Firms J–R, seven mid-sized and two large firms) have paid relatively more attention to establishing and enabling the rights of the workers along with complying with the measurable dimensions of social upgrading. These firms are mainly the medium and large size ones. In contrast, four of the small firms (Firms A–D) were far from implementing more sophisticated rights of workers, such as freedom of association, gender equality and career/skills development.

The analysis reveals that Firms J–R have concentrated on developing workers’ skills, especially since 2013, as they started undergoing significant changes to comply with Accord codes. In this respect, the interviewees said:

“The cost of maintaining the compliance status has significantly increased over last one year. The only way to compensate this cost is to increase sales and productive

efficiency, which can be achieved in two ways: purchasing advanced machineries and enhancing workers' productive skills. Hence, on the one hand, we are building a new factory equipped with all state-of-the-art machineries, advanced software for production scheduling and updated technologies for saving the utility cost. On the other hand, we are investing heavily to make our workers capable of using those advanced systems. We believe that both the dimensions [capital and labour] are important, interdependent and should be upgraded in parallel. Improving labour productivity necessitates a motivated workforce. Thus we have designed our incentive system and promotion mechanism in a way that can stimulate workers to work hard and learn new skills." (CEO, Firm N)

"Labours are now our most expensive resource with us having to pay them increased salary and overtime payment, make arrangements for their childcare, medical and even recreation. When we are spending so much on them, we also expect a better service in return which, however, is unlikely to occur until we develop them. I believe that in the current changing scenario, only those firms will survive in the long-run who are now investing on skills and productivity enhancement; otherwise maintaining this high compliance cost will simply be unsustainable."(CEO, Firm M)

Therefore, these nine firms have been undertaking different measures to improve their workers' skills (a detailed discussion on the skill development methods adopted will be presented in section 3.2). These measures can also enhance the career prospects and bargaining power of the employees in future. The owners/managers of Firms J–R also mentioned a number of initiatives that they have taken to increase the level of job satisfaction of the workers and to reduce the rate of labour turnover. All these firms have allowed the formation of a workers' committee that maintains liaison with the management. Firm N, Firm O and Firm P have also employed a dedicated manager to deal with workers' problems and complaints, discover the reasons for leaving employment and report workers' issues to the management. In the words of the General Manger of Firm P:

"We cannot ignore the fact that having highly satisfied workers is a pre-cursor to having a reduced labour turnover rate. After making so much investment for the development of the workers, losing them would simply lead to waste of our efforts and money. I believe that when a worker leaves the job, he/she take his valuable skills with him/her ... For instance, just recently one of our efficient operator who has been working here for past 10 years wanted to leave job being face with an ongoing conflict with her supervisor. We identified the problem and transferred her to a different division to stop her from leaving us."

Workers' skill development remained one of the key focuses for the two large firms, Firms Q and R. The Managing Director of Firm Q has said that they had been providing workers with mandatory on-the-job and off-the-job training on advanced methods, new skills, new product manufacturing and machine handling, defect detection and quality assurance. Currently, the firm had focused on developing workers for multi-skilling through encouraging team work and job rotation. The Managing Director stated that developing workers' multiple skills allowed increased flexibility in production scheduling. Development of multi-skilled workers is a contingency strategy to recover fast from labour turnover. The CEO of Firm R also pointed out their systematic training on multi-tasking, production of diversified products and use of a variety of machinery. He claimed that their recent training initiatives have enhanced workers' skills and level of flexibility, by means of which they could control the losses incurred due to worker migration. The promotions and incentives systems in both the firm were determined based on skills and performance in order to enhance the level of motivation of the labour force.

Although Firms J–R have developed formal mechanisms to allow workers to discuss their issues, all the firms discourage their labour force from joining the trade union. The interviewed managers of these firms have stated that they encourage the workers to discuss issues and complaints individually or collectively with management during the monthly meeting organised by the workers' committee. The Deputy General Manager of Firm J said:

“We neither want the trade union leaders and local thugs to get easy access in our factory building nor do we want them to exploit our innocent workers for their own political benefits. If we allow our workers to join the trade union, then the union leaders will easily enter our compound, give us threats and agitate our workers. We can solve the workers' problems in a peaceful way, through discussion and mutual agreement. Hence, last year [in 2013] we have introduced the workers' committee with whom management has regular meeting. A number of demands of workers had already been implemented since then”.

Even the two large firms discourage their workers from joining the trade union. The Compliance Manager of Firm Q revealed that they perform rigorous screening before recruiting workers to confirm whether the potential candidate has a previous record of participation in union activities, especially in workers' protests, links with local thugs or a record of violent activities. Both Firms Q and R have developed workers' participation committees in order to internally

represent their problems to the management and solve problems before the build-up of agitation. In the words of the CFO of Firm R:

“We prefer not to encourage our workers to join unions considering their and our internal security. We know that a number of Bangladeshi factories are facing immense challenge in tackling their workers who are influenced by trade unions. These factories have experienced work delays, vandalism and even factory closure in recent years. Therefore, one of our key focuses is to maintain constant liaison with workers. We want to stop agitation when it starts to build up and remove it from the roots. We believe that with having a healthy relationship with workers they are not even interested to join the union because they also realise that unions will only exploit them for their own political agenda.”

Similarly, gender discrimination is still an issue in all the seven mid-sized firms (Firms J–P), with females mostly occupying the lower-level positions and not being promoted to supervisory or managerial positions. However, both the large firms claim them as equal opportunity employers with Firm Q having 55% male and 45% female workers and Firm R having 60% male and 40% female workers.

Therefore, the findings show that these nine firms (Firms J–R) have been concentrating on enabling the rights of the workers since 2013 in order to increase their labour productivity, increase the level of workers’ satisfaction and reduce labour turnover rate. These firms have proactively undertaken these measures in order to compensate for the rising maintenance cost of compliance. Nevertheless, a number of other enabling rights, such as freedom of association and gender discrimination, are still not addressed in some firms, especially the mid-sized ones.

In contrast, four of the small firms (Firms A–D) have paid insufficient attention to developing the level of skills of their labour force. The interviewees from Firms A–D stated that their workers are usually not given a formal job description and that workers’ promotion was mainly informal. The workers were given on-the-job training by their supervisors or senior colleagues in all four factories. None of them were found to be adopting measures for formal training for workers’ skill development. The workers were thus left to learn on their own from colleagues. The owners/managers of these four firms also said that they discourage workers from joining labour associations to prevent union leaders getting easy access to the factory and interfering in factory operations by misusing their political links or through violent activities. At the same time, they do not offer their workers any formal mechanisms to liaise with management

and express their complaints or opinions. The analysis further shows that the gender ratio of employees at the worker, supervisor and management levels in these factories is not balanced, with females mostly given opportunities as operators and helpers (on average 90% of operators/helpers are female) and not being promoted to supervisory level (100% occupied by males in all the factories). Therefore, these four firms are close to complying with most of the measurable dimensions of social upgrading, while according limited attention to establishing the enabling rights of the workers.

Social constraint alleviation

The data analysis shows that the two large firms, Firm Q and Firm R, have paid a relatively higher degree of attention towards the overall well-being of workers and their families. In addition to complying with the buyers' codes they have proactively undertaken a number of initiatives based on workers' needs and priorities. The workers' challenges (both at work and in their personal lives) were identified through dialogue and then solved or eased by addressing the root causes. Both the firms have a dedicated department for workers' welfare that is responsible for maintaining regular dialogue with the workers, constructing the possible solutions to their problems and then communicating those to the management. Examples of such initiatives taken by Firm Q are given in the Compliance Manager's own words:

“During the 2010–2012 periods, we have started two primary schools with facilities for after school care for our workers' children in addition to providing them with the mandatory nursery facility [mainly for non-school age children]. We found that many of our female workers find it really difficult to pursue the job as soon as their children reach the school age, with them having to drop and pick-up their children to and from school. Some of them chose to continue work without putting their children at school, which we believe would constrain the way for their future generations to get out of the poverty cycle as well...We have interviewed a number of female workers having children at school age, which enabled us to identify their problem. Hence, we decided to make the school facility available to them at the same compound where they work.”

“We have found that a number of workers switch job when their spouse finds job in a distant place, with them having to move with their spouse. In such situation, we often recruit the spouse in our factory. In fact, there are incidences that we have employed the entire family including husband, wife and other young adults in the same family [son, daughter or sibling]. Almost 30% our workers have their relatives working here. We believe that when the entire family gets to work in a decent place with a decent

salary, only then the family as a whole can make a way out of poverty. It is also beneficial for our company as because when workers' entire family is involved in the same factory they remain more committed and satisfied. This is how we have reduced our turnover rate significantly."

The Compliance Manager of Firm Q also provided information about their Parenting Resource Centre in which free advice on child rearing is provided to workers who have new-born babies. The centre holds awareness campaigns in the community and on campus. During the maternity period, care workers make home visits to workers and also to other female members of the community. Other examples of such initiatives include installing an air cooler on the floor area; setting up a provident fund, profit sharing scheme, and health and education loans; subsidised medical check-ups for workers' families; free lunch; and transportation facilities for workers and other staff. A number of initiatives have also been taken to improve bonding between workers and management and establish a relationship of care. These initiatives include a monthly joint meeting, and an annual picnic and sports day. In addition, frequent floor visits are made by the Managing Director and other representatives from management to facilitate informal dialogue with the labour. Examples of other recently taken actions include construction of an in-campus mosque to allow ease of saying prayers and a flood rehabilitation fund to assist workers to recover from the damage and trauma caused by flooding.

Similarly, the Compliance Manager of Firm R stated that they have always aimed to achieve a labour turnover rate below the industry average. Consequently, they have taken a number of measures beyond the mandatory compliance requirements in order to increase the level of job satisfaction of the employees – for instance, profit sharing with workers, free transportation and lunch facilities, mosque with Imam [priest], appraisal system, bonuses and rewards for good performance, cash gifts for workers' new-born babies and a provident fund. As the Compliance Manager further exemplified:

"We identified that our young female workers were getting harassed by the eve teasers on several occasions. Their security was found to be seriously at stake, especially while returning home during evening. Some of them even left the job due to family pressure and were also forced to get married. The situation was neither good for our workers' future nor for our company. Thereof, we decided to provide female workers with transportation facility to ensure their security. This could be seen as discrimination in

Western societies as we could not afford to provide our male workers with the same facility but we think this makes sense in our culture”.

“The workers’ welfare team has reported that a number of our workers leave their families in village considering the high cost of city living. These workers also tend to have high level of absenteeism and drop-out as they frequently go to villages to visit their families. While living without family could affect workers’ own physical and mental wellbeing, their high absenteeism and drop-out rate would also affect our productive efficiency. In order to address this issue, we have, therefore, introduced a vocational training centre in partnership with an NGO whereby the spouses, young children and/or siblings of our workers are provided with free occupational training such as, carpentry, painting, sewing and crafting. We have also created a fund to support workers’ family members with interest free loan facilities if they wish to pursue any business using their learned skills. A little portion of workers’ salary is added to the loan fund, while the rest is contributed by the company. We believe this initiative provides the workers with an opportunity to keep their families with them.”

The analysis, therefore, shows that the both Firm Q and Firm R have undertaken a number of initiatives to alleviate the constraints faced by workers and their families. Nevertheless, the analysis also shows that, in the process of complying with Accord codes, these firms had to cut down on a number of facilities that were available to the workers previously and were prioritised by them. For instance, four small firms (Firm A, Firm C, Firm L, Firm J) had to stop providing such facilities to compensate for the increased cost of compliance. The owner of Firm A stated that until January 2014 they had provided a free nutritious lunch to their workers, but they had stopped doing so in order to balance the increasing cost of satisfying the mandatory compliance requirements. In the owner’s words:

“I introduced the free lunch in 2010 because I knew that workers often did not eat proper nutritious food at home. I wanted to keep them healthy. It is also beneficial for me, because if they are healthy then they can work more efficiently. If they can rest one hour more at home instead of cooking lunch, then they can come to work on time and with a fresh mind...but I could not manage the cost and I had to allocate resources based on priority.”

This comment indicates that the lunch provision service was stopped not because of the management’s lack of care, but because they had to prioritise complying with Accord codes over

workers' needs. In the case of Firm C, the dining hall was enlarged at the expense of the prayer room adjacent to it.

Similarly, a number of mid-sized firms had to replace such initiatives with alternative arrangements that were less attractive and less convenient for the workers. For instance, Firm L had to stop providing a transportation facility to the workers for a nominal allowance to help generate the sizable saving required to cover the cost of maintaining the mandatory compliance requirement. The CEO of Firm L remarked:

“We understand that the amount of allowance is not sufficient considering the rising transportation cost in the surrounding area. This step of ours created a great degree of dissatisfaction among the workers, with many even leaving the job due to their inability to bear the travel expense. We had to bear this loss; but we were helpless. The maintenance of these additional facilities had simply become unsustainable for us with the increased compliance cost.”

For the same reason, Firm J had to replace free lunch provision with a food allowance that seemed cheaper. The workers had to bring food from home or buy from an outside café, which often was neither nutritious nor hygienic. The CEO reported that the frequency of incidences of diarrhoea and typhoid among the workers had increased since the alternative arrangement was implemented.

6.2 Strategies to pursue economic upgrading

The data analysis shows that majority of the large and medium sized firms (10 out of 18) have undertaken economic upgrading initiatives proactively to expand the business. All the 10 firms have established vertically integrated factories (including dyeing, washing, weaving fabrics and manufacturing apparel) in order to gain more control on quality and lead time. The interviewees further commented that having a “composite” (i.e. vertically integrated) unit improves the bargaining power over the buyers allowing them to negotiate for a good price for their products. These firms have also focused on workers' skill development by taking initiatives such as, on-the-job and off-the training, recruitment of industrial engineers and consultants for training and production planning, performance based incentive package and systematic HR activities. The two large firms have also taken initiatives to establish independent design unit. They

have launched their own brand to be sold in the local and international market via their flagship retail stores. Having own brand has not only strengthened their position in the domestic market but has also helped them prove their high level of efficiency and stability to the buyers in the export market. The rest eight firms are small sized who have pursued limited changes as a reaction to buyers' pressure. Four out of the eight small firms have undertaken minimal initiatives for economic upgrading due to different constraints including financial, personal or relational. The rest four small firms have invested mainly for technocratic dimensions including capacity increase and machinery updating. The discussion about the strategies undertaken by suppliers firms for economic upgrading is as follows. Table 6.4, 6.5 and 6.6 summarise the economic upgrading initiatives undertaken by small, mid-sized and large firms and the key reason/s underlying those initiatives. Appendix B includes the tables (Table I–XXVI) that present in-depth, year-wise data on economic upgrading initiatives taken by all the firms.

Limited/no change and downgrading

The data analysis shows that four of the eight small garment manufacturers: Firm G, Firm H, Firm E and Firm F have undertaken a limited degree of change in terms of upgrading their machinery, technological systems, products, production process and functional activities. All four firms started their factories with a capacity of 2–4 production lines, which have since undergone limited expansion. For instance, Firm F started their factory in 2007 with two production lines producing garments for a Chinese wholesaler. In 2009, they added two more lines as they started supplying to a new Turkish producer, and since then, they have not increased their production capacity. Similarly, Firm H started in 1991 with three production lines for producing plain white polo-shirts and t-shirts. They have not increased the capacity since then, with the exception of replacing a number of old machines with new ones in the year 1998 and then adding a unit for the production of collars and cuffs for polo shirts in the year 2000. Firm E and Firm G also started with four production lines and had not undergone any upgrading of machinery, product or technological advancement since inception.

Examples of downgrading are also evident within the cases. The analysis shows that Firm G and Firm E have experienced pressure for social compliance from Accord and also directly from their buyers. The owners of both the firms stated that they lacked the resources to make the changes recommended by Accord/the buyers, even knowing that complying with these requirements was

necessary to continue their relationship with their existing buyers. Thus, instead of complying with the Accord codes, both the firms decided to change their buyers and/or markets to ones that were less demanding in terms of social and product standards. For instance, Firm G had experienced pressure for social compliance from their two key buyers, Inditex and Third Stage. With Firm G having failed to implement the required changes, these two buyers eventually shifted to other Bangladeshi garment producers. As a consequence, Firm G started producing for a Mexican buyer, who had lower demands regarding product quality and labour standards. This shift towards new buyers caused decreased profitability, with the new Mexican buyer being unable to offer good prices or pay on time. The shrinking profit led Firm G to cut down on employees and machinery, and eventually caused shutdown of the factory. Afterwards, in a limited space and with only few workers, they started producing jerseys (for the Bangladeshi cricket team and for sale as merchandise) based on a two year contract with the Bangladesh Cricket Board. Similarly, Firm E responded to Accord's pressure by starting to produce garments for Polish, Romanian and Chilean buyers instead of producing for the previous Western European buyers. The owners said that these new buyers were not part of Accord and thus had limited requirements for social compliance. During the transition period they have seen declines in sales, causing them to cut down on machinery and employees.

The owners of Firm F and Firm H, on the other hand, said that being suppliers of Asian buyers they neither experienced pressure for social compliance from Accord nor from their buyers. The owners further claimed that the product standard requirements of their buyers were relatively less challenging compared to the ones demanded by typical European or American retailers. The owners stated that their current machinery and technological arrangements were well aligned with the required standards of their buyers. Thus, both these owners showed a lack of willingness to invest in technological upgrading:

“I am satisfied with my current business and do not want to expand it any more. Given that my buyers are satisfied, I do not feel the urge to invest for the increase of capacity or update of machineries. I believe that I am earning enough to meet the demands of my family and am saving a good amount for my future generations. I believe investing further will increase the risk of my business, which seems unwise to me considering the current market scenario.” (Managing Director, Firm F)

“I have hesitations to expand my business due to my personal reasons. All my sons have settled abroad and are unlikely to come back. I cannot think of a bigger business which could be difficult for me to control considering my old age. Thus, as long as my current settings meet the requirements of my existing buyers, I prefer not to invest for any upgrading.” (Chairman, Firm H Mills)

The analysis, therefore, shows that these four firms have made limited/no change in terms of improving their technological systems, machinery, products and production process. Examples of downgrading were even found in the cases of Firm G and Firm E, who changed to less demanding buyers/markets in response to the pressure for social compliance from their previous European buyers and/or Accord. In contrast, Firm F and Firm H have not pursued upgrading because they believed that their current arrangements were aligned with the product standard requirements of their buyers. The unwillingness of the owners of these two firms was also responsible for their limited efforts to pursue economic upgrading.

Output-oriented (capacity) upgrading

The data analysis shows that, notwithstanding their size and quantity of resources, most of the firms have undertaken measures to increase production output, especially after experiencing heightening pressure for social compliance from buyers or Accord. The analysis shows that all 13 firms started with 2–4 production lines. They increased their capacity by purchasing updated machinery, adding production lines and, more recently, by replacing manual machines with ones with an auto-trimmer. Due to the pressure from buyers/Accord for social compliance, most of these firms had to undergo changes for the improvement of working conditions. The implementation of the changes involved a fixed investment and also a monthly maintenance cost. The owners of all the 13 firms reported on two key strategies that they have adopted to compensate for this increased monthly expense: first, enhancing sales through adding new customers; and second, enhancing the level of production efficiency. For instance, Firm A had to rent two additional floors to integrate Accord’s advice on increasing the spaciousness. The owner said that they have added two more production lines and have started a new unit for embroidery and appliqué in order to make optimum use of the increased space. They have also installed CAD/CAM, which has allowed them to implement more complex designs on the garments. The owner further claimed that the increased capacity and the new machinery have allowed them to add two new customers and also produce higher value-added garments, resulting in increased sales and income. By early 2014, they had

replaced 80% of their manual thread cutting machines with automatic ones in order to reduce reliance on helpers. This initiative allowed them to achieve a degree of control over the increased cost per labour unit and also enhance the overall production efficiency. Similar to Firm A, Firm C also rented one more floor to comply with the requirements of Accord and then ended up adding two more production lines in order to utilise the excess space. They also replaced the manual machines with automatic ones in order to reduce reliance on labour. Both Firm A and Firm C started their factories as OEM service providers and have not upgraded their functional status since then.

Similar measures were undertaken by Firm B in their new factory building, which also was constructed to accommodate the advice of Accord. Given that they had more space, the new factory could accommodate six production lines compared to two in the old factory. The new factory included automatic trimmer machines, CAD/CAM machines and CCTV cameras throughout. The new factory also became an OEM service provider by developing linkages with local raw material suppliers. The owners of the firm remarked that they have upgraded from CMT to OEM service provider in order to reduce the cost of raw materials and serve existing and new buyers in a more cost efficient manner:

“A number of our existing buyers had promised that if we could develop our own supplier system and increase our capacity, then they would increase their order volumes. Previously [in the old factory] we had to source raw materials from buyer assigned suppliers, who were mostly Chinese or Korean. As a result, we had to undertake a huge cost for importing raw materials from abroad. However, the backward linkage industry in Bangladesh has now developed well. The quality of Bangladeshi textiles and garment accessories are world class. Thus we decided to develop linkage with local raw material producers and create our own suppliers network to serve our buyers in a more cost efficient manner. With increased production volume finding a cost efficient means of raw material sourcing was even more necessary. The buyers also showed interest because this would allow them to purchase garments from us at even lower price.” (Managing Director, Firm B Composite Ltd.)

A similar strategy was undertaken by Firm D, which established a new factory building to accommodate Accord’s recommendations. The owner remarked that the new building included six production lines, all with automatic machines, and also separate sections for embroidery and appliqué. Similar to Firm B, they also shifted from a CMT service provider to an OEM one as they started their new factory operations. The owner, in this respect, commented:

“Without own local supplier network it is difficult to control the entire order processing, such as, cost and quality of raw material and more importantly, the on time delivery. Often we had to wait ages to release our raw materials from Chittagong port. Moreover, we have had to deal with a number of fraud Chinese suppliers before. Overall, we now feel that we have better control on our supply side and thus we are more efficient.”

These four small factories (Firms A–D) have also started a new daily work allocation system in which workers are provided with a daily target to be finished within the regular eight hours of work. The target is designed systematically to ensure on-time delivery and also to avoid overtime work hours that had recently become costly with the increased national wage rate.

The new work allocation system, together with other initiatives for increasing output, has allowed these three firms to create new customers, while also compensating for the increased maintenance cost of compliance through increased sales. The analysis further shows that the pressure for compliance has caused these four firms to either rent additional floors or construct a whole new building, followed by initiatives for capacity and efficiency enhancement. Therefore, the economic upgrading initiatives pursued by these firms were primarily output-oriented and were mostly driven by the need to comply with the social codes of Accord.

The interviewees from most of these firms also stated that promises from new and existing buyers for increased orders have driven them to increase capacity. For instance, in the year 1989, Firm J started their garment manufacturing factory with two production lines in a rented setup. Within two years, they had moved to their own building, adding more production capacity as they needed to accommodate orders from a number of potential buyers (such as Kappahl from Sweden, K-Mart from Australia and Yoshi from Japan). Similarly, Firm K started its first garment production factory in the year 1984 with five production lines. Having increased orders from existing customers, they established their second garment production factory to accommodate more production lines. By the year 2000, they had two long-term buyers, Auto Bonprix and Red Cat – with Auto Bonprix occupying the full capacity of the first factory and Red Cat occupying 60 per cent of the second factory.

Firm N, Firm O and Firm P also eventually increased their production capacity in order to accommodate and/or attract more orders from existing buyers. For instance, in the year 2010, the share of production capacity of Firm N occupied by Tommy Hilfiger (THF) was 45%, which has

increased to 70% in the year 2013 as the firm added three more production lines to their initial four to accommodate increased orders from THF. Similarly, Firm P doubled its production capacity in the year 2010 by adding three more floors to their previous building in order to accommodate the increased orders promised by their key customer, H&M.

The two large firms have also proactively increased their capacity to attract new buyers. For instance, having started with five production lines in 1985 in a rented building, Firm Q established a large-scale garment factory with 220 production lines on their own 200 acre campus in the year 2005. This capacity enhancement was undertaken to attract high fashion buyers, whom they approached by promoting their high capacity, technologically sophisticated and fully compliant factory. Their efforts enabled them to include a number of highly reputed branded retailers as their customers, such as ZARA, Macy's, Tommy Hilfiger, CK, Topman, Dorothy Perkins and River Island. Similarly, Firm R started with 2 production lines, adding 10 more lines within two years from inception. Their garment production operations experienced major capacity increases from 2007 to 2009 with the establishment of two "green" factories with a combined 130 production lines. In 2010, they established another green factory with 90 production lines, fully equipped with advanced high-tech machinery and other facilities. The Chief Financial Officer (CFO) of Firm R stated that their initiatives for capacity enhancement were influenced by their urge to include new buyers who are prominent in the high fashion market and are well disposed to offer a decent price for quality goods.

Therefore, in the majority of the cases, output-oriented upgrading involved enhancement of production lines, modernisation of the machinery and/or adoption of specific work allocation systems. This particular form of economic upgrading was pursued by firms of all sizes. The small firms mainly did so in order to accommodate the recommendations for social compliance by Accord/buyers; the medium firms were influenced by increased or new orders from existing or potential customers; and finally, the large firms intended to attract new buyers.

Establishment of composite factory

Ten garment manufacturing firms (Firms I–R) have established their own vertically integrated systems including dyeing, washing, accessories, embroidery and/or printing units. All these firms are either mid-sized or large firms. The owners/managers of these firms report that having in-house facilities for production of raw materials allows them to achieve superior control

on quality, price and delivery time. Given that getting repeat orders from buyers depends on their ability to maintain quality, price and delivery time, all these firms found it critical to establish vertically integrated plants to facilitate in-house production of the raw materials:

“We could easily source everything from our network of local suppliers; however, we wanted greater control on price, quality and more importantly on delivery time. We have learned from our previous experience that suppliers often cannot maintain their delivery promise creating delay in our production process and affecting the ultimate lead time. On-time delivery is the most important factor shaping our relationship with our long-term buyers. Therefore, we did not want to lose our goodwill to them [buyers] and decided to build a composite factory gradually.” (Managing Director, Firm J Fashion)

“Work scheduling has now become easier with better internal coordination. As soon as we finalise an order from the buyer we can instruct our backward linkage units to produce necessary items. The production planning division can now tightly schedule each value adding activity in our functional units. Overall, having own backward linkage system has saved the time previously wasted in searching, negotiating and dealing with external suppliers and also in dealing unplanned issues such as, bureaucracy at the port and political unrest. We can now detect defect early and can solve those at the source, whereas, previously we had to completely reject the defected goods supplied by the suppliers.”(General Manager, Firm K Group of Industries)

For this reason, Firm J established a dyeing plant, embroidery unit, imaging unit and washing plant under the same roof during the period 2000–2010. Similarly, from 2000 to 2006, Firm K established dyeing and washing plants in the Gazipur industrial area and introduced embroidery and imaging units within the two garment production factories. The owners of both Firm J and Firm K stated that their relational continuity with key customers has been the key driver behind developing vertically integrated plants. The long-term relationship has given them the certainty that they needed to gradually develop the in-house system for raw material production. At the same time, having composite units has allowed them to offer buyers an even faster and better one-stop service which has, in turn, aided the continuity of their relationship with key buyers.

While Firm J and Firm K focused primarily on the processing of fabric, Firm L, Firm I and Firm M concentrated on producing accessories, such as sateen labels, zippers, buttons and internal linings. The Chairman of Firm I remarked:

“Accessories could be the most costly items in a finished garment. Producing accessories require customisation as buyers want to put their names or logos ambushed on such items. Buyers are often sensitive regarding the quality and the accuracy of design and placement of such items. Previously we had to import these items from buyer nominated suppliers which were highly costly and time consuming. While the local industry for fabric production, dyeing and washing is well-established, suppliers of accessories are still scarce. Therefore, we decided to focus on this part of the backward linkage.”

The above comment shows that Firm I has invested in accessory plants in order to avoid the high cost they would otherwise have incurred should they have had to purchase them from outside sources. Having accessory plants in-house has also allowed them to offer customised service to their buyers. Similarly, Firm M has made significant investment in their appliqué and embroidery plant located in Chittagong Export Processing Zone (CEPZ). They produce patches of embroidered logos and appliqué designs and also embroidery and ambush logos directly on the garment. After meeting the requirements of their own garment production unit they also provide embroidery and appliqué services to other garment producers in the CEPZ area. They are currently the nominated accessory supplier of Tommy Hilfiger, Lacoste, Nike and several other reputable brands. Similarly, Firm L has established units for sateen and woven label production and currently supplies those to other local garment firms. The Managing Director of Firm L stated that the production of labels, especially woven ones, requires heavy investment in machinery, attention to detail and even customised arrangements for individual buyers. As a consequence, many garment firms prefer sourcing labels from external suppliers to avoid such a high degree of commitment towards an individual customer. However, the MD stated that he felt comfortable making such a commitment to satisfy buyers’ customised demands, having a long-term relationship with most of them. These initiatives have not only allowed them to offer a faster service to the buyers; they can also generate additional income by supplying labels to other local garment manufacturers.

Firms N, O and P have also made significant investment for developing in-house system for raw material production. All the three firms have developed a vertically integrated system including knitting, dyeing and washing fabric, accessories production and embroidery and imaging units. In fact, Firm N started their business with a textile mill in 1989. During 1989–2007, Firm N Group built denim production plant (in 2001), washing plant (in 2003), dyeing plant (in 2005) and finally they started their garment production plant (in 2008).

Similar to the mid-sized firms, both the large firms (Firms Q and R) have also invested heavily for the establishment of a complete vertically integrated system. For instance, Firm Q has established its own vertically integrated textile and accessories production plants to reduce the cost of production in the long run:

“We wanted to produce raw materials in our own plants instead of importing those from abroad. Given that the labour cost in Bangladesh is lower than that in our neighbouring countries, the cost of production of the raw material is also lower here. Thus we decided to reduce cost of production in the long run, although we had to make heavy initial investments.”(Managing Director, Firm Q)

Similarly, during the first six years, Firm R relied on raw materials sourced from overseas (70%) and local (30%) suppliers. In the year 2000, the firm established a textile production plant and then eventually started denim (2003), washing (2003), dyeing (2004) and accessories (2004) production plants. Thus, it took four years for the firm to become a fully composite garment manufacturer. The CFO said that their relational continuity with C&A has been one of the key factors driving their success in the establishment of a fully composite factory. Given that Bangladeshi exporters having in-house raw material production facilities were entitled to GSP incentives in the European market during the 2000s, C&A also reinforced Firm R in the development of a composite factory. Continual orders, on time payment and guidance by C&A have provided the certainty to Firm R which was necessary for this. C&A also promised to increase orders by 40% if Firm R was able to develop an in-house raw material production facility.

Overall, all the ten firms have focused on developing a composite firm in order to produce the majority of raw materials in-house. This initiative was proactively driven by the firms with an intention to have greater control over the quality, price and the delivery time of the raw materials. The relational continuity with the same buyers over a long period of time gave the firms the assurance to make such heavy and relationship-specific investments that were needed to offer customised service to the buyers.

Workers’ skill development

The findings show that the seven medium sized (Firms J–P) and two large sized firms (Firms Q and R) have undertaken steps for developing workers’ skills in order to increase labour

productivity. They did so in addition to increasing the production capacity and developing a composite factory. The interview data show that their investment in workers' skill development was primarily inspired by the urge to make optimum utilisation of their existing workers' capabilities. With the recent increase in the cost per labour unit, all the firms showed reservations regarding recruiting workers. Thus, the interviewees supported the idea of developing the level of efficiency of the current workers in order to avoid recruiting new employees to carry out the added tasks. In this respect, the Head of Production and Planning Division of Firm O said:

“In current high labour cost scenario, we could not recruit anymore workers. Thus we had to make efforts to develop our existing workers and stimulate them to perform in their optimum capacity. Therefore, the investment that we had made for their skill development would show its return in the long run. Although most firms have made no such efforts as yet, we believe that there is no second way to survive in this industry in the long-run”.

The development in workers' skill levels was achieved by these firm by designing appropriate training and incentive systems. In their early years, all the nine firms have focused on learning about the basic production and quality control techniques. Now they emphasise increasing labour productivity, stimulating group work, and reducing mistakes and wastage of time. Human resource activities, including recruitment, training and incentive systems, were also adjusted to support the achievement of these new goals. The firms have recruited experienced managers from overseas and also from local reputable garment manufacturing firms. These experienced managers provided strategic direction and training to the mid-level managers and workers. For instance, recently Firm N created separate human resource and industrial engineering divisions whereby they have employed 50 Sri Lankan HR managers and industrial engineers who work in combination to train the workers. The workers are given training on increasing production efficiency, group work, defect detection and internal coordination. On a number of occasions these firms have received training from their key customers as well. For instance, Firm N and Firm P have received quality control training from Tommy Hilfiger and H&M, respectively (Tommy Hilfiger accounts for 70% of the production capacity of Firm N and H&M occupies 85% of the capacity of Firm P). Firm N and Firm O have also hired overseas consultancy firms to facilitate training for the employees and the workers. Instead of recruiting overseas experts or hiring consultancy firms, Firm O has preferred to develop its existing employees. Thus, sponsoring top

and mid-level managers to attend overseas trainings has been one of the prominent methods used by Firm O. These managers transfer their learning to the lower-level employees and workers at a later stage.

All the nine firms have designed their incentive systems to encourage higher productivity and reduce mistakes. For instance, Firm N has introduced a bonus for producing pieces above the set daily target number. They hold a competition and give rewards to individual workers and to production lines for producing the highest number of pieces in a month. They have also started a new penalty system based on number of mistakes per production line. The Chief Executive Officer stated that the new line-based reward and penalty system would motivate workers to coordinate better with their co-workers on the same production line, facilitating faster production, earlier defect detection and reduction in time wasted in gossiping. Firm P has also introduced a monthly appraisal and bonus system based on a number of achievements, such as highest number of pieces produced, perfect attendance and perfect record on meeting production targets.

Both the large firms (Firm Q and Firm R) have also made continuous investments in workers' skill development since their inception. The key measures adopted by both the firms to develop skills at the management and worker levels included sponsoring overseas training for the employees; arranging on-the-job and off-the-job training for the workers; receiving training from external consultancy firms and machinery suppliers; and recruiting experienced overseas and local experts. For instance, Firm Q has hired a Chinese industrial engineering consultancy firm to conduct research on the firm's production efficiency and provide strategic direction for the improvement of the production process. Firm Q has also recruited experienced employees from India, Pakistan, UK, Spain and Malaysia in key managerial positions in order to facilitate knowledge transfer at the middle management level. Similarly, Firm R has hired "Time Studies", a US-based industrial analyst and consultancy firm, for guidance and training on reducing Standard Minute Variance (SMV), increasing on time delivery rate (OTDR) and reducing return to supplier rate (RTS). They have linkages with overseas software vendors who provide them with training on using advanced production planning software "Fast React" for toll planning and GFT software for root cause analysis of issues such as defects and delays. Further to this, they have recruited Sri Lankan industrial engineers and have created a separate industrial engineering division for internal planning and continuous training of workers and staff. Recently, they have hired Brandix (a Sri Lankan garment producing firm that recently established a wholly owned garment manufacturing

plant in Bangladesh and that provides a process review consultancy service to the Bangladeshi garment industry) for process review to set guidelines on increasing productivity in all of their vertically integrated factories.

The analysis, therefore, shows that all the nine mid-sized and large firms have pursued output oriented upgrading, have created composite factories and have also adopted measures to develop workers' soft skills. Unlike the small firms, these nine firms have focused on both capital and labour dimensions of economic upgrading. The investment in workers' skill development was stimulated by their intention to enhance the productive capacity of the existing workers, taking note of the recently increased cost of labour that prevented these firms from taking on new recruits.

Design and brand development

The data analysis shows that the two large firms, Firm Q and Firm R, started as simple assemblers and pursued gradual upgrading, such as increasing production capacity, establishing vertically integrated raw material production units, developing workers' skills and, finally, designing and developing their own brands for sale in local as well as international markets.

Whereas the small and mid-sized firms have not focused on the design function, these two firms had developed this capability over the period. In the case of Firm Q, until almost 20 years from inception they relied on designs provided by their buyers. After gaining OEM status during 1995–1996, their goal was to connect with high-fashion buyers in order to develop their knowledge and skills in garment design. The MD mentioned that they were able to attract high-fashion buyers by drawing upon their recognised position, reflected in their enormous capacity and comprehensive system for production of raw materials in-house. In 2007, they became an ODM service provider with the establishment of their in-house design studio in collaboration with Zara. Having accumulated enough knowledge on design from the collaboration, the firm started their autonomous design studio in 2009. In the words of the Head of Design:

“We always preferred to have in-house design studio here in Bangladesh and so did our buyers, as Bangladeshi designers are much cheaper than Western designers...with proper nurturing they have the potential to become world class.”

Therefore, success in the design function was an outcome of their co-designing arrangement with some buyers that facilitated tacit knowledge transfer. The MD also pointed out

the importance of their proactive efforts in developing internal skills in this function. The internal efforts involved recruitment of local designers as well as high calibre designers from foreign universities and design firms, including having an ex-Zara designer currently heading their R&D division. They have created partnerships with foreign universities such as NIFT, India; London School of Fashion; Nottingham Trent University, UK; Parson's, USA etc. for training support and also have accepted internees from these universities for knowledge sharing. Recently, they have established a joint venture project in the USA with PVH to produce wrinkle free fabric (Cortex-2000; Cotra DP 3.5+). The product was also jointly developed in Firm Q's in-house design studio.

Similarly, Firm R became an ODM service provider in 2011, almost 17 years after the birth of the firm. They have started an in-house design studio in collaboration with a US-based textile design firm. The US-based firm aided them with design and market knowledge on the Western fashion industry. Further to this, they linked with an Egyptian media firm for training on Computer Aided Design (CAD) and Computer Aided Manufacturing (CAM). They recruited skilled designers from India and Sri Lanka to accelerate the process of learning. The CFO stated:

“We were already informally contributing to buyers' design by suggesting them about appropriate fabrics, accessories to be used for a particular fashion etc. We wanted to formalise it by starting our own design studio so that they [the buyers] also take us seriously... we did not have the knowledge to do it ourselves. Therefore, we connected with our US partner to learn designing, the usage of software and more importantly how the western fashion trend works.”

In 2013, they started providing design services independently of the US-based firm. The design studio has been involved in continuous interaction with customers, with a lot of co-designing still going on. In such a collaborative arrangement, Firm R mainly provides their input in terms of suggesting the appropriate design, type and suppliers of raw materials to be used.

After becoming ODM service providers, both the firms initiated the development and launch of their own brands to be sold in local and international markets through their flagship retail stores. In the year 2010, Firm Q launched their brand “Yellow”, which was initially sold only in the local market, and two years later, in the year 2012, it was also sold in Pakistan through flagship retail stores. The Divisional Manager of Yellow said:

“Our brand is trendy, casual and targeted to young generation...we have 25 years experience of producing buyers’ brands, now we want to utilise that knowledge for our own brand adding Bangladeshi flavour to it...as we learned how to manage own brand, we decided to take our brand to next level by selling it overseas”

In explaining the reason for choosing Pakistan as their first international market, the MD stated:

“Pakistan is our laboratory where we are testing the potential of Yellow being an international brand and also developing our knowledge on international brand management. We need this knowledge and experience before taking Yellow to other markets”.

Driven by the same reason (i.e. market knowledge and low psychic distance), they are in the process of establishing retail outlets in India and Malaysia to sell Yellow. They are also in the process of forming linkages with wholesalers to sell Yellow in some other markets, such as Africa, South America and South Korea. The MD further reported that they were also negotiating for the purchasing of a Thailand-based clothing brand.

Firm R became an OBM with the launch of their brand “Youth” in 2013. The brand mainly produces formal shirts for the young generation, which are sold in the local market. The shirts are produced using raw materials produced in-house and are designed in their own design unit. Since late 2014, Firm R has been selling their brand Youth in the Indian market through their own retail stores. Firm R recently established their first joint venture in Myanmar with Brandix, a Sri Lankan lingerie manufacturer, for the design and production of lingerie. The CFO said that they will also export the lingerie to South Asian countries under their own brand name.

Therefore, both the firms have undergone gradual upgrading in terms of increasing production capacity, building in-house raw material production systems, advancing workers’ level of skills, and finally developing design and brand management capabilities. The upgrading initiatives were mostly proactively undertaken by the firms in order to attract high-fashion customers. These actions were spurred by the firm owners’ high levels of inspiration to offer global-standard services to the foreign customers and also to establish a strong presence in the local market through selling their own brands. Such high degrees of economic upgrading initiatives

were further stimulated by the transfer of tacit knowledge from customers that has been an outcome of the collaborative activities.

6.3 Key findings and discussion

The analysis of data presented in this chapter shows that suppliers' upgrading strategies can vary through a spectrum of reactive to proactive approaches. The studied cases have shown varying degree of reactivity vis-à-vis proactivity in terms of strategising their upgrading initiatives (Figure 6.1 and Figure 6.2). The size and the state of resources of the supply firms have impacted their approaches towards upgrading. For instance, a reactive approach has mostly been observed among the small firms, while a proactive approach has mainly been undertaken by medium and large firms. In the case of social upgrading, the pressure for compliance has led a group of small suppliers to change their market focus, with two of them even downgrading the working conditions. Another group of small suppliers have complied only with the measurable/tangible dimensions of code compliance in order to maintain relationships with existing buyers. In contrast, the medium and large sized firms focused more on enabling workers' rights for enhancing the level of employee satisfaction and labour productivity and for reducing the rate of labour turnover. A similar finding is also observed in the case of economic upgrading. The small firms have mostly concentrated on increasing output capacity as a reaction to the increased orders from buyers. In contrast, the large and medium sized firms focused on building composite units proactively to achieve a stronger presence in the market. The large firms have also focused on other high-value-added activities, such as designing and branding for the purpose of attracting high-fashion buyers and having a strong presence in the domestic market. More detailed analysis and discussion on the relational factors influencing upgrading strategies are presented in the next chapter.

The analysis further shows that, notwithstanding their size and resources, some firms have undertaken a number of unilateral initiatives that are not part of compliance. Given the heightened pressure for social compliance causing added load on working capital, the firms had to decide whether to continue these additional facilities or not. To earn a sizable profit to cover the additional cost of compliance, the small firms decided to discontinue offering such facilities. The medium sized firms replaced these facilities with less suitable yet seemingly lower cost ones, for example free lunch and transportation were replaced with nominal allowances. The large, resourceful firms

could still maintain such facilities in addition to complying with the ones suggested in the labour codes.

Figure 6. 1: Social upgrading strategies of the studied firms

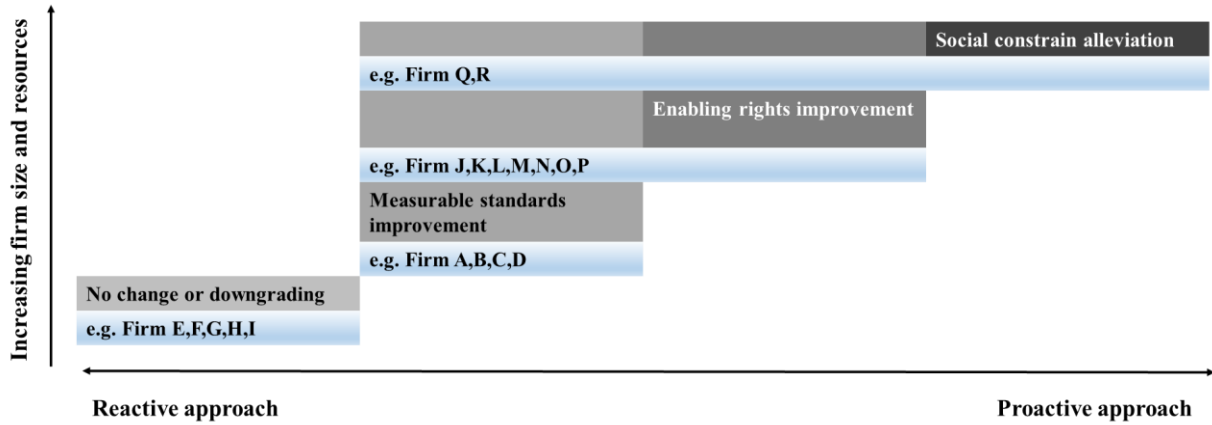
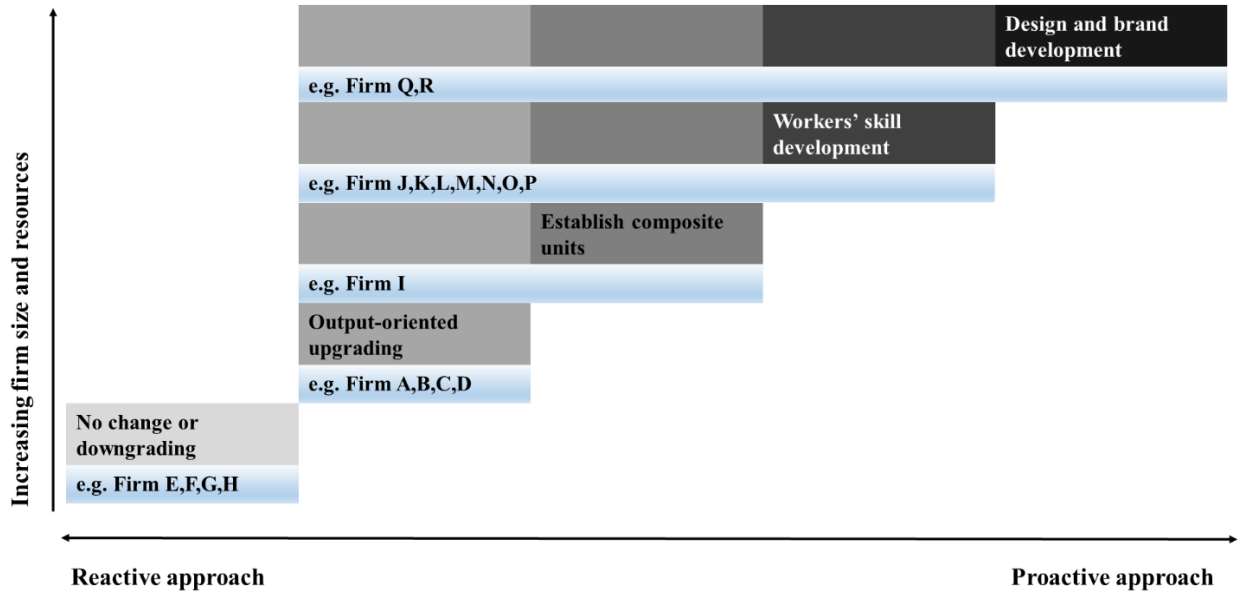


Figure 6. 2: Economic upgrading strategies of the studied firm



The findings of this chapter contributes to the IB literature by pointing out the suppliers' role as fabricators of their firm-level strategies, which is largely neglected in IB studies (cf. Johns et al. 2015). IB studies have traditionally regarded MNEs as the key decision makers shaping the behaviour of other actors in their global production network (Cairns and Sliwa 2008). Within this thinking, suppliers are of secondary importance and are often perceived as mere takers of MNEs' decisions (Marchi et al. 2014). Nevertheless, this chapter placed central attention on suppliers as the key decision makers in their firm-level upgrading activities. The findings highlight that suppliers undertake their strategies for upgrading considering their firm size and state of resources, even when the decision is a reactive response to external pressure. For instance, after experiencing pressure from their Western buyers, Firm G and Firm E decided to shift their market focus to Asian retailers and wholesalers instead of improving their compliance status. Although the strategy was a reaction to a particular external pressure, they did so out of the realisation that their current state of resources is not adequate to support further investment in compliance.

The findings presented in this chapter have also advanced the understanding of GVC literatures. The GVC studies are fundamentally interested in the structure of value chain and the form of governance. This body of literature has been criticised for its overall lack of focus on the role of the firm as a strategy maker (Gui 2010; Marchi et al. 2014). Subsequently, in the GVC literature, upgrading is seen as a consequence of the structure of value chain or the form of governance adopted by the lead firm (Humphrey and Schmitz 2002). This chapter, however, highlights that upgrading is an outcome of suppliers' strategic decisions undertaken within the boundaries of certain firm-level and relational factors. In general, the studies on upgrading in the GVC literature consider "industry" as the unit of analysis, with a few exceptional studies focusing on the firms, for example, Morrison et al. (2008) and Kadarusman and Nadvi (2012). Morrison et al. (2008) stress that the "industrialist" GVC studies do not explicitly explore the nature of firms' capabilities and are, rather, interested in investments undertaken in the production process. In contrast, firm-focused GVC studies examine upgrading as an outcome of firm-level capabilities developed through in-house efforts (Morrison et al. 2008) or acquired from other local actors (Kadarusman and Nadvi 2012). Although these GVC studies integrate the role of the firm in the analysis of upgrading, the focus on strategies is implicit and much attention is still accorded to the structure of GVC. These studies focus on how firms develop "capabilities" in a specific form of relationship without addressing how these firms may deploy (proactively or reactively) their

existing capabilities to realise specific upgrading strategies or may even systematically develop capabilities to implement a particular upgrading strategy in future. Thus, the strategic behaviour of suppliers within the boundaries of their relationship with buyers and their own firm-level resources is not the exclusive focus in these GVC studies. To this end, the findings in this chapter contribute to the GVC studies by bringing the attention to the strategic behaviour of the firms, which still is a black box in this landscape (Johns et al. 2015). This too is done within the boundaries of a specific relational setting which has previously not been addressed in the GVC governance framework.

Table 6. 1: State of social upgrading: small firms

Topic/firm	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F	Firm G	Firm H
Key upgrading initiatives	Complied with amended national wage rate Improved fire and electrical safety Improved hygiene, speciousness, ventilation Introduced childcare, medical and dining facility	Constructed new fully compliant building Complied with amended national wage rate Introduced childcare, medical and dining facility	Complied with amended national wage rate Rented one more floor to meet space requirement Improved the fire and electrical safety	Construction of new fully compliant building Complied with amended national wage rate Introduced childcare, medical and dining facility	Downsized fulltime workers and increased reliance on part-time Not implemented the audit advises Changed to less demanding buyers	Complied with amended national wage rate Social compliance is of limited concern No significant social upgrading	The factory shut down and workers get no compensation Started production for local market in small scale whereby compliance is not an issue at all	Complied with amended national wage rate DOL inspection during the start of the garment and few basic upgrading made Faced no Accord inspection
Measurable standards								
Type of employment	Mostly fulltime	Mostly fulltime	Mostly fulltime	All full-time	Mostly part-time	Mostly part-time and temporary workers	Part-time and temporary (based on seasonal order)	Combination of full-time and part-time (mostly garment workers are temporary, recruited based on order)
Wage level	Complied with amended national wage rate	Complied with amended national wage rate	Complied with amended national wage rate	Complied with amended national wage rate	Complied with amended national wage rate	Complied with amended national wage rate	Lower than national minimum (decided by the amount of task)	Complied with amended national wage rate
Health and Safety	Rented one more floor to meet space requirement Improved fire and electrical safety Added exhaust fans for ventilations Advised to install sprinkler	Full compliance with fire and electrical safety requirements Advised to install sprinkler	Rented additional floor to meet space requirement Improved fire notices Advised to build external fire exit, install sprinkler	Full compliance with fire and electrical safety requirements Improved fire marking, fire drill, wide fire exits	Comply with fire exit and notice requirements Advised to install sprinkler, build more windows, fans and increase floor space	Basic fire safety in compliance with National law	Not a concern in case of selling to local customers	Improved fire safety Increased lighting in the factory floor
Workers' facilities	Provide childcare and first aid facility Maternity benefits	Provide childcare and first aid facility Maternity benefits	First aid facility Maternity benefits No childcare facility	Medical unit and recruitment of two medical officers Childcare facility Maternity benefits	First aid facility Maternity benefits No childcare facility No dining space	First aid facility Maternity benefits No childcare facility No dining space	Not a concern in case of selling to local customers	First aid facility Maternity benefits No childcare facility No dining space
Hygiene	Added one more toilet Provide pure drinking water Recently upgraded dining space	Comply with worker-toilet ratio Provide pure drinking water Separate dining hall	One more toilet recommended Advised to provide more space in the dining	New factory layout is designed in accordance with worker-space, worker-toilet facility ratio	Not enough toilet No separate dining space	Not enough toilet No separate dining space No pure drinking water	Not a concern in case of selling to local customers	Started providing pure drinking water

Working hour	8 hours/day; 2 hours/day overtime (if necessary)	8 hours/day; 2 hours/day overtime (if necessary)	8 hours/day; 4-6 hours/day overtime in peak seasons	8 hours/day; Overtime is limited to 2 hrs daily	8 hours/day; overtime rarely practiced	Seasonal production; no overtime	Overtime not needed	8 hours/day; no overtime practiced
Building safety	Advised to move to independent building Advised to shift the storage to the top floor	The new building meets all compliance requirement	Advised to move to independent building Advised to shift the storage to the top floor	New factory is one floor flat layout to ensure building and fire safety	Advised to move to independent building	Not a concern	Not a concern in case of selling to local customers	Not a concern as they sell to Asian buyers
Enabling rights								
Workers union participation	Workers are discouraged from joining union	Workers are discouraged from joining union	Workers are discouraged from joining union	Workers are discouraged from joining union	Workers are threatened not to join union	Workers are discouraged from joining union	Not a concern in case of selling to local customers	Not a concern; not part of industrial area; so workers are disjointed
System of complaining	Regular meeting with management to discuss issues	Regular meeting with management to discuss issues	No formal mechanism to discuss issues	Workers' welfare committee to be created	No formal mechanism to discuss issues	No formal mechanism to discuss issues	No formal mechanism to discuss issues	No formal system
Gender ratio	Workers: Females as helpers and operators (90%); males in cutting and quality control team (10%) Supervisors: Male (100%) Management: Male (60%); Female (40%)	Workers: Female (80%; as helpers and operators), male (10% in cutting and quality control team and 10% in production) Supervisors: Male (100%) Management: Male (100%)	Workers: Female (90% as helpers and operators), male (in cutting and quality control team, 10%) Supervisors: Male (100%) Management: Male (100%)	Female (80%) workers; Male are mostly staff	Workers: Female (75% as helpers and operators), male (cutting 10%; production 15%) Supervisors: Male (100%) Management: Male (90%); female (10%)	Both male and female workers (no specific data)	All male workers and staffs	All male (intentionally avoided female in garment to avoid providing childcare facility)
Opportunities for developing skills	Limited; mostly self-motivated learning	Limited; mostly self-motivated learning	Limited; mostly self-motivated learning	Limited; mostly self-motivated learning	Limited; mostly self-motivated learning	Limited; mostly self-motivated learning	On-the-job training as needed	Limited; mostly self-motivated learning
Promotion	Informal; based on seniority	Informal; based on seniority	Informal; based on seniority	Informal; based on seniority	Informal; based on seniority	Informal; based on seniority	Informal; based on seniority	Informal; based on seniority
Facilities beyond compliance (provided/ discontinued)	Discontinue free lunch facility	No additional facility	Prayer room will be converted into dining space	Prayer room and prayer time Stopped giving free clothes to workers and their immediate family members during Eid	No additional facility	No additional facility	No additional facility	Financial help to worker in times of medical or other family needs Nutritious food two-three days a month
Key reason for upgrading/downgrading	Mainly to comply with pressure from buyers and Accord	Mainly to comply with pressure from buyers and Accord	Mainly to comply with pressure from buyers and Accord	Mainly to comply with pressure from buyers and Accord	Failure to comply with labour standards of key buyer	Minimal pressure for compliance from buyers Experienced DOL inspection twice and passed, so there was no need of upgrading	Failure to comply with labour standards of key buyer Failure to control labour unrest Shift to local market where compliance issue does not exist	Buyers asked for compliance certificate (from DOL for compliance with National Labour Law) at initial stage

Table 6. 2: State of social upgrading: medium-sized firms

Topic/firm	Firm I	Firm J	Firm K	Firm L	Firm M	Firm N	Firm O	Firm P
Key upgrading initiatives	Achieved BSCI audit certificate with 56% compliance level No significant changes done Changed to buyers who are less demanding about compliance	Construction of a new fully compliant factory building Fire safety, hygiene and electrical safety in improved is old buildings Introduced full medical, childcare and dining facility Recruitment of separate compliance manager	Construction of a fully compliant factory The old two factories get “yellow” level Fire safety, hygiene and electrical safety is improved in old buildings Introduced first aid, dining and childcare facility	Compliance with BSCI code (96% in first inspection) Compliance with Accord code (yellow level) Fire safety, hygiene and electrical safety in improved in old buildings Introduced full medical, childcare and dining facility	Compliance with Accord code (yellow level) Improve health and safety in embroidery unit Introduced medical and childcare facilities in embroidery unit	Compliance with THF code of conduct Start the process for compliance with Accord codes Construction of a new compliant building outside the city Enhanced opportunities offered to workers and staff at all level for skill development	Compliance with buyers code (88% compliance level) Passed Accord inspection with “Yellow” level Fire safety, hygiene and electrical safety in improved Introduced full medical, childcare and dining facility Enhanced opportunities offered to workers and staff at all level for skill development	Compliance with key buyer’s code Passed Accord inspection with “Yellow” level Fire safety, hygiene and electrical safety in improved Introduced full medical, childcare and dining facility Enhanced opportunities offered to workers and staff at all level for skill development
Measurable standards								
Type of employment	Combination of full-time and part-time	All fulltime	No data	Mainly full-time	All fulltime	Mostly fulltime	Combination of full-time and part-time	Mostly full-time
Wage level	Complied with revised national minimum wage	Complied with revised national minimum wage	Complied with revised national minimum wage	Complied with revised national minimum wage	According to BEPZA wage level (higher than national average)	Complied with revised national minimum wage	Complied with revised national minimum wage	Complied with revised national minimum wage
Health and Safety	Improved fire exit and fire notices, fire training Installed exhaust fans	Advanced fire safety measures with installation of sprinkler in new building (old buildings on the process) Constructed new fire exists, widened stair cases Construction of new building to increase speciousness and ventilation	The old factories just included external fire exit for fire safety and no other changes Pure drinking water supplied The new factory complies fully with the health and safety requirement of Accord	Increased space in factory area Improved fire and electrical safety Widened the stair cases of the old buildings	Follows health and safety policy of buyers Regular fire drill and first aid training Health & safety awareness program by the support of various health groups.	Implemented all health and safety requirement of Accord Improved fire and electrical safety	Construction of external fire exit in all the factory buildings Change of inventory position for fire safety Increased frequency of fire drilling Change of several electrical elements for further safety	Improved fire and electrical safety Increased space through Construction of two additional floors Redesigned the machine setup for improving the load balance
Workers’ facilities	First aid facility No medical officer	Full medical facility Child care facility	Medical facility with doctor Childcare centre	Updated medical and childcare facilities	Medical and childcare facility	Medical and childcare facility	Improved medical and childcare facility	Medical facility with doctor Childcare facility

Hygiene	No new facilities	Increased toilet facility Pure drinking water Proper dining facility	Made a separate dining room The old factory started providing pure drinking water The new factory has automatic air cooler and purifier for heat and pollution control	Introduced pure drinking water Increased space in dining	Pure drinking water Dining room Toilet facility according worker ratio	Provide pure drinking water Increase space in dining hall	Started providing pure drinking water in the premise Included dining hall in all the factory buildings	Pure drinking water Improved toilet facility Separate dining space
Working hour	Overtime hour reduced to 2 hours/day	Mostly regular working hour; up to 2 hours overtime, if highly necessary	Overtime hours have reduced to 2-4 hours/week	Overtime limit reduced to 2 hours a day	Overtime up to 2 hrs, if only highly necessary	8 hours plus 2 hours overtime only if highly necessary	8 hours plus 2 hours overtime only if highly necessary	8 hours plus 2 hours overtime only if highly necessary
Building safety	Shared renal arrangement in which making changes is difficult	Difficulty in increasing the load strength of the oldest building	The old buildings improved electrical safety The new factory is built using advanced engineering method for good strength The two storey flat structure of the new building is efficient for distribution load evenly	Builds a new ground floor flat building for superior health and safety Distributed the load of machines in multiple buildings for added safety Improved the load taking capacity of the old buildings	One floor flat building to ensure building safety Segregated sub-station to avoid accidents from fire Electrical safety audited and updated every year proactively	New building constructed according to Accord codes New building includes advanced safety and hygiene measures such as automatic sprinklers, air cooler, trunk lines and added building strength	Increased building strength to support the extension	Hired engineering consultancy firm to enhance building safety Actions advised by the consultants are in progress
Enabling rights								
Workers union participation	Workers are restricted from joining trade union	Workers are discouraged from joining union	Workers are strongly discouraged from joining union	Workers are warned not to join the union; sponsor industrial police check post to protect the area	Workers are strongly discouraged from joining union	Workers are strongly discouraged from joining union	Workers are strongly discouraged from joining union	Workers are strongly discouraged from joining union

System of complaining	No formal mechanism	Creation of workers' welfare committee for regular communication with management Recruitment of separate labour liaison manager	Recruitment of ex-army personnel to control labour agitation No formal system developed in new factory yet	Created an internal workers' union with elected leader The owner liaison with workers on regular basis	A separate HR team is created for maintaining liaison with workers	Use the workers' committee for deepening the management-worker relationship Separate HR division to liaison with workers Research team to identify workers' problems	Recruitment of labour Liaison officer for handling labour issues and complains Research team to identify workers' problems	Separate HR division to maintain liaison with workers Workers welfare committee created to liaison with workers Recruited co-ordination manager to deal labour related issues
Gender ratio	Female (70% as workers); males (10% as supervisor, heavy machine operators and management staffs)	Mostly female workers (80%); supervisors and staffs (20%) are males	No data; as the new factory is still recruiting	Both male and female workers; Supervisors and staff are all men	Mostly female workers and male staff	Female (80%); Male (20%, mainly supervisors and staff)	Mostly female worker; mostly male at managerial level	Mostly female worker; mostly male at managerial level
Opportunities for developing skills	Limited; mostly self-motivated learning	Limited opportunities for workers Opportunities provided at the supervisory or managerial level	Limited opportunities for workers Opportunities provided at the supervisory or managerial level	Opportunity for high performing workers to develop further skills in multiple tasks through training	Limited opportunities for workers Opportunities provided at the supervisory or managerial level	Opportunities for skill development for workers and staff at all level	Opportunities for skill development for workers and staff at all level Few promising workers and supervisors are getting trained for multitasking to support the planned change of layout	Opportunities for skill development for workers and staff at all level
Promotion	Informal; managerial positions are occupied by relatives	Introduced formal mechanism for promotion based on performance; yearly review of works' skill developed	Informal; skill based	Informal; Performance based (pieces produced)	Based on performance and educational ability	Based on performance	Based on performance	Based on performance

Facilities beyond compliance (provided/ discontinued)	Reduced festive bonus	Free lunch is replaced by a nominal lunch allowance	Stopped providing any financial help to the workers in times of their needs	Cooked lunch is replaced with lunch allowance which is less costly Stopped providing breakfast to save cost Transportation facility was replaced with a nominal transport allowance	Transportation for workers	No additional facilities	No additional facilities	No additional facilities
Key reason for upgrading/downgrading	To avoid the high cost of compliance	Pressure from Accord and the existing buyers To attract new buyers	Pressure from Accord and the existing buyers	Pressure from Accord and the buyers To attract new buyers	Pressure from key buyers	Pressure from Accord and the buyers	Pressure from key buyers and Accord	Pressure from key buyers and Accord

Table 6. 3: State of social upgrading: large firms

Topic/firm	Firm Q	Firm R
Key upgrading initiatives	Firm Q designed own code in accordance with ILO, National Labour Law and few potential buyers codes Continuous amendment of Firm Q's compliance code according to buyers' preference and now with emergence of accord Continuous update of compliance requirements Recruitment of compliance manager and external consultants Worker centred compliance and HR activities Fulfilling workers' need that are not covered by compliance and adapting compliance code according to contextual needs	Construction of three green factories according to BSCI and ILO code Achieved 98% compliance level from BSCI Passed M&S, H&M and Next compliance audit with green level Changed the mission of company to "Human Spirit" Construction of the first green corporate office in Bangladesh that is energy and recourse efficient, greenery themed architecture. Focus on workers' motivation and welfare Achieved Green level for the three new factories from Accord inspection
Measurable standards		
Type of employment	All full-time	Mostly full-time
Wage level	Beyond national average	More than national average in three new factories
Health and Safety	Continuous improvement of health and safety condition to comply with global trend	Most updated fire safety, sprinkler facility
Workers' facilities	Separate medical unit serving the workers and staffs within the entire campus. The unit has sufficient doctors and nurses with all primary care facilities Separate childcare unit with pre-school education facility	Well-equipped medical unit with doctors Childcare facility where educational activities are also offered Free medicine for workers and their children Organise health camp whereby free primary care is given to workers and their immediate family members
Hygiene	Dining hall Pure drinking water Sufficient toilet facility Air cooler in the factory areas for increased comfort and ventilation	Dining hall with nutritious lunch Pure drinking water Air cooler in the factory floor for comfort and ventilation Exhaust pipe with high suction capacity for controlling heat and fume in the factory floor Started special care team for superior factory floor cleanliness
Working hour	Overtime up-to 2 hrs/day	Overtime restricted to 2 hrs/week/worker
Building safety	Buildings are constructed according to Bangladesh National Building Safety code Updated electrical safety measures Use of energy efficient electrical equipment	The new buildings are constructed according to building safety codes
Enabling rights		
Workers union participation	Not encouraged for internal security reasons	Depends on workers willingness but proactively not encouraged
System of complaining	Workers' participatory committee (WPC) having elected representatives to liaison with management Increased interaction with WPC Continuous dialogue between mid-management and workers to identify problems in lives and works and solve elements those are not in compliance. Research team to identify issue in workers' life and career	Workers' participation committee Workers' liaison team for searching and solving workers' problems Continuous dialogue with workers and management through formal meetings and informal visits to factory floor. Focus on increased liaison with workers
Gender ratio	Male 60% and female 40% (equal opportunity employer)	Workers - female (65%); Male (35%) HQ Staff- Female (30%); Male (70%)

Opportunities for developing skills	Opportunities for skill development for workers and staff at all level Develop workers for multi skills for increased flexibility and as a contingency against worker migration	Opportunities for skill development for workers and staff at all level Systematic on-the-job and off-the-job training by IE and HR division Continuous training for internal development of workers and staff Workers receive training on multi-tasking, production of multiple products, use of different machines for increased flexibility and thus reduce loss from migration
Promotion	Based on skill level, new skilled learned and applied	Based on skill level, new skilled learned and applied
Facilities beyond compliance (provided/discontinued)	Opened 14 primary school in the community whereby for children of workers and community can get free education (60% workers children and 40% community) Provident fund, annual leave, maternity benefits, health and education loan Free treatment for workers in the medical unit; subsidised treatment facility for workers' family Free transportation for workers and staffs Introduced Parenting resource centre (based on research results on problems of workers who have new born) which provides free advice on child bearing, holds awareness campaigns in the community and in campus, home visits by care workers etc. Provide job to workers family members to increase their commitment and family income (30% workers have relatives working in Firm Q)	Cooked lunch Pre-school educational facility in the childcare unit by qualified teachers Other financial and non-financial support in time of workers need Provide interest free loan to workers to ensure their high morale and better life Gift for new born baby Free transport facility
Key reason for upgrading/downgrading	Pressure from existing and potential buyers To attract new buyers Owners' believe that workers needs vary significantly from compliance requirement and this deserve attention to keep workers satisfied	To pass C&A audit to continue the relationship with them To attract value conscious buyers who offer good price for compliance To increase workers' productivity by workers' proactive actions rather than pushing them for output increase To reduce migration rate which result in loss of investment on workers

Table 6. 4: State of economic upgrading: small firms

Topic/firm	Firm A	Firm B	Firm C	Firm D	Firm E	Firm F	Firm G	Firm H
Key upgrading initiatives	Capacity increase Productivity increase	Moved to newly constructed own independent building Capacity increase Productivity increase	Capacity increase	Moving to newly constructed own independent building Capacity increase Productivity increase	Changed to less demanding customers Reduced capacity	No change since inception	Shut down of the garment factory Started producing jersey for Bangladesh Cricket Board	Capacity increase New product line added
Capital								
Type of upgrading	Process and product	Process	Process	Process	Downgrading	No change	Downgrading	Process and product
Functional activities	OEM	CMT to OEM	OEM	CMT to OEM	CMT	CMT	CMT	OEM
Level of automation	Moderate All automated trimmer machines to replace helpers	Moderate 80% manual machines replaced by automated trimmer machine	Moderate Planning to purchase automated trimmer machines	Moderate All automated trimmer machine in new factory	Low No plans to update machines	Low No plans to update machines	Very Low Basic sewing machines	Moderate 75% machines are automatic
Technological advancement	Moderate CAD machine Appliqué and graphic printing machine CCTV camera in factory floor	Moderate CAD and CAM machine CCTV camera on factory floor	Low No initiative	Moderate CAD and CAM Machine, CCTV in new factory	Low No initiative	Low No initiative	Low No initiative	Low No initiative
Level of value addition in product	Transformed from low to medium value added	Low value added	Low value-added	Transformed from low to medium value added	Low value added	Low value added	Low value added	Low value added
Labour								
Productivity rate	35% (previously 28%)	35% (previously 28%)	30%	Current: 5000pcs/month; 32% productivity rate Targeted in new factory: 12000 pcs/month; 60-70%	29%	2000-3000 pcs/month (depends on season)	No data	1500pcs/day
Defect rate	7% (previously 12%)	7% (previously 12%)	8%	8-9%	9%	9%	No data	8%
Skill development mechanism	Informal on-the-job training by colleagues and supervisors Self-motivated learning	Informal on-the-job training by colleagues and supervisors Self-motivated learning	Informal on-the-job training by seniors Self-motivated learning	Informal on-the-job training by colleagues and supervisors Self-learning	On-the-job training by colleagues and supervisors Self-motivated learning	On-the-job training by colleagues and supervisors Self-motivated learning	Informal; on-the-job training Self-motivated learning	Informal; on-the-job training Self-learning
Incentive system	Basic salary Overtime payment Festive bonus	Basic salary Overtime payment Festive bonus	Basic salary Overtime payment Festive bonus	Basic salary Overtime payment Festive bonus	Basic salary No overtime payment	Basic salary Overtime payment	Basic salary No overtime payment	Basic salary Overtime payment Festive bonus Attendance bonus

Work allocation	Daily production target given Overtime allowed up to 2 hours/day	Daily production target given Overtime allowed up to 2 hours/day	Planning to introduce daily target system Overtime practised up to 4-6 hours/day	Daily work allocation system to be introduced in new factory Minimal overtime	Daily work allocation system	No target given to the workers Overtime practiced	Seasonal work Overtime not needed	No target given to the workers Overtime not needed
Job rotation	Not practised	Not practised	Not practised	Not practised	Not practised	Not practised	Not practised	Not practised
Worker's skill nature and focus	Specialised and repetitive Production in large volume On time delivery	Specialised and repetitive Production in large volume On time delivery	Specialised and repetitive Production in large volume On time delivery	Specialised and repetitive Production in large volume On time delivery	Specialised and repetitive On time delivery	Specialised and repetitive Production in large volume On time delivery	Specialised and repetitive On time delivery Accuracy	Specialised and repetitive Production in large volume On time delivery
Key reason/s for upgrading/downgrading	To accommodate the social compliance initiatives Earn sizable profit to compensate the cost of compliance	To accommodate the social compliance initiatives Earn sizable profit to compensate the cost of compliance	To accommodate the social compliance initiatives Earn sizable profit to compensate the cost of compliance	To accommodate the social compliance initiatives Earn sizable profit to compensate the cost of compliance	Failure to accommodate the compliance recommendations	Unplanned and discontinuous orders The owners' unwillingness to upgrade	Delayed payment by the buyers Buyers unable to offer decent price Failure to pay salary and bill Labour unrest at factory	Promise from existing and potential buyers

Table 6. 5: State of economic upgrading: medium-sized firms

Topic/firm	Firm I	Firm J	Firm K	Firm L	Firm M	Firm N	Firm O	Firm P	
Key upgrading initiatives	Developed vertically integrated units for raw material production Capacity increase Productivity increase New product lines	Developed vertically integrated units for raw material production New factory building with advanced machines Capacity increase Productivity increase New product lines	Developed vertically integrated units for raw material production New factory building with advanced machines Capacity increase Productivity increase New product lines	Developed vertically integrated units for raw material production New factory building with advanced machines Capacity increase Productivity increase	Developed vertically integrated units for raw material production Capacity increase Productivity increase	Developed vertically integrated units for raw material production New factory building with advanced machines Capacity increase Productivity increase	Developed vertically integrated units for raw material production Expanded factory building with advanced machines Capacity increase Productivity increase	Developed vertically integrated units for raw material production Expanded factory building with advanced machines Capacity increase Productivity increase	Developed vertically integrated units for raw material production Expanded factory building with advanced machines Capacity increase Productivity increase
Capital									
Type of upgrading	Product, process and functional	Product, process and functional	Product, process and functional	Product, process and functional	Process and functional	Process and functional	Process and functional	Process and functional	
Functional activities	OEM	OEM (planning to become ODM)	OEM	OEM	OEM	OEM	OEM	OEM	
Level of automation	High All automated machines	High All automated machines	High All automated machines in new plant 60% Automated machines in Old plants	High All automated machines in both old and new factories	High All automated machines	High All automated machines	High; All automated machines	High All automated machines	
Technological advancement	Moderate CAD and CAM Machine, CCTV Advanced machines in raw material production plants	High Advance software for production scheduling, detecting delays, deadlines and reminders Overlock sewing machines for implementing complex designs High speed industrial sportswear sewing machines Trial runs of computerized design software	High The new factory includes updated machinery, trunk line system CCTV all throughout Advanced machines in raw material production plants Separate production planning division (PPD)	High MAE software for production scheduling and work allocation Plans to change the floor layout from bundle production system to unit production system which is less labour intensive	High Advanced machines in all raw material production units Own BPO network and electrical substation	High Trunk Line system Computerised system for production scheduling and delay detection	High Use of advanced software to track production of raw material to finished garment Trunk line system for energy efficiency. CCTV in the floor area	High Use of advanced software to track production of raw material to finished garment Trunk line system for energy efficiency.	
Level of value addition in product	Transformed from low to medium value added	Transformed from low to medium value added	Transformed from low to medium value added	Transformed from low to medium value added	Medium value added	Medium-high value added	Medium-high value added	Medium-high value added	

Labour								
Productivity rate	28–30%	42% (60% targeted)	Old factories: 33–35% New factories: 56% (65% targeted)	38–43%	3.5 million pcs/month (projected)	60–63%; 70–75% (targeted)	67%	69%
Defect rate	7%	5–6%	No data					
Skill development mechanism	Primarily on-the-job training Most managerial, marketing and merchandising activities are controlled by the owner himself Owner makes overseas visits for search of buyers	On-the-job and off-the-job training of the supervisors and senior operators Special training for promising workers Recruit overseas designers and industrial engineers Recruit experienced workers only Formal HR division	On-the-job training for workers Senior managers are given with overseas training Recruitment of three Turkish industrial engineers for training the supervisors and managers in the new factory on productivity increase	On-the-job training for workers Hires “Time Study”, a consultant on industrial engineering for productivity increase Recruitment of IEs from Bangladesh Sponsored few senior managers to attend courses on operations management, factory layout planning	On-the-job training Focus more on internal development and retention to avoid inefficiency resulting from labour migration Redundant inefficient workers to control the increased labour cost	Incentives to increase workers motivation Formal and regular training for workers of all level Formation of separate HR department and recruitment of 30 Sri Lankan HR managers Recruitment of 50 IEs from Sri Lanka and formation of IE department HR works combined with IEs to train workers	Separate production planning division to train workers Participation in national and international trade fairs for gaining external knowledge Overseas training for promising managers Separate department for industrial engineers for layout change, training and liaison with planning dept. Recruitment of industrial engineers from Sri Lanka and India Off-the-job training to operation managers and supervisors for the new layout system	Separate HR division On-the-job and off-the-job training for the workers Incentive system suited to increase labour productivities Overseas training for managers Hired external consultancy firm for training the workers Recruitment of industrial engineers from Sweden
Incentive system	Festive bonus; attendance bonus	Festive bonus; attendance bonus Provident fund Performance bonus (based on pieces produced daily) Reward for the monthly best performer	Festive bonus; attendance bonus Performance bonus (for individual and team work)	Festive bonus; attendance bonus Weekly award for maximum production pieces Performance bonus and competition reward (for both team + individual)	Festive bonus; attendance bonus Provident fund Yearly holidays Annual award for good achievement Yearly amusement program Monthly award for best performing worker	Festive bonus; attendance bonus Performance bonus (piece based) Competition and reward based on highest pieces produced in a month Penalty for mistakes Provident fund Group performance award	Festive bonus; attendance bonus Yearend performance bonus Provident fund Yearly holidays Annual award for good achievement Yearly amusement program	Festive bonus; attendance bonus Performance based incentive (based on line and individual performance) Provident fund Annual picnic Paid holiday leave

Work allocation	Daily target based Overtime practiced for 2-4 hours/week	Through formal scheduling mechanism and use of software	Through formal scheduling mechanism and use of software	Through formal scheduling mechanism and use of software	Through formal scheduling mechanism and use of software	Through formal scheduling mechanism and use of software	Through formal scheduling mechanism and use of software	Through formal scheduling mechanism and use of software
Job rotation	Not practised	Not practiced	Not practiced	The unit production system in new factory will practice job rotation	Not practised	Not practised	Practiced on experimental basis	Not practised
Worker's skill nature and focus	Specialised and repetitive Volume production On-time delivery Accuracy and identical production Marketing (done by owner only)	Specialised and repetitive Increase productivity Reduce waste of work hour in inefficient activities Understanding and producing complex designed apparel	Specialised and repetitive Increase productivity Operation of advanced machines and systematic scheduling	Worker learn multi-skills due to job rotation Productivity increase On time delivery	Specialised and repetitive Productivity increase	Specialised and repetitive Reducing time waste and defects Productivity increase Reduce wastage Working as a team (targeted)	Currently focusing on multi-tasking Reducing time waste and defects, Learning new skills at all level	Specialised and repetitive Reducing time waste and defects Productivity increase Reduce wastage and defects
Key reason/s for upgrading/ downgrading	Developed composite units to better manage the lead time and reduce uncertainty	To gain control on quality and price from in-house raw material production Promise of increased orders from existing buyers Earn sizable profit to cover the cost of compliance	Increased order from existing buyers Promise from the potential buyers To enhance control on price and delivery time Earn sizable profit to cover the cost of compliance	Promise from potential buyers To meet buyers' product standard Earn sizable profit to cover the cost of compliance	Promised from potential and existing buyers Earn sizable profit to cover the cost of compliance To meet gap/opportunities in the market	Increase commitment for THK (THF occupy 70% of production capacity) To capture 90% of THK sourcing from Bangladesh To meet gap/opportunities in the market To reduce reliance on manual labour	Promise from existing buyers for more order Earn sizable profit to cover the cost of compliance To reduce reliance on manual labour	Promise from existing buyers for more order Earn sizable profit to cover the cost of compliance To reduce reliance on manual labour To reflect commitment to key buyer

Table 6. 6: State of economic upgrading: large firms

Topic/firm	Firm Q	Firm R
Key upgrading initiatives	<p>Developed vertically integrated raw material production plants</p> <p>Increased production capacity to one of the highest in South Asia</p> <p>Improved labour productivity level up to global standard</p> <p>Developed own design unit and got involved in co-designing with key buyers</p> <p>Launched own brand in the local market</p> <p>Export or sell (in own shop) own brand in neighbouring countries</p> <p>Invested for joint venture projects in USA for production of wrinkle free fabric</p> <p>Plan to purchase established brands in neighbouring countries</p> <p>Plan to start exporting Yellow in Africa, South America and Korea</p>	<p>Developed vertically integrated raw material production plants</p> <p>Increased production capacity to one of the highest in country</p> <p>Improved labour productivity level up to global standard</p> <p>Developed own design unit and got involved in co-designing with key buyers</p> <p>Launch (work-in-progress) own brand in the local market and sell through own retail outlets</p> <p>Invested for joint venture projects in Myanmar for production of lingerie</p>
Capital		
Type of upgrading	Product, process, functional and chain upgrading	Product, process, functional and chain upgrading
Functional activities	OEM to ODM to OBM	
Level of automation	<p>High</p> <p>All auto-trimmer machines in garments plant</p> <p>The accessories plants include sophisticated machines to implement complex labels, ambush and embroideries</p> <p>Continuous updating of machines according to global standard</p> <p>Participation in international trade fair and machine fair for increasing knowledge on machinery and new technology</p>	<p>High</p> <p>All auto-trimmer machines in garments plant</p> <p>The raw material plants include sophisticated machines</p> <p>Continuous updating of machines according to global standard</p> <p>The new FDI project includes high-tech machines to comply with low margin of error in lingerie production</p>
Technological advancement	<p>High</p> <p>CAD, CAM software for implementing complex designs</p> <p>Production planning software</p> <p>Computerised quality check for fabrics and garments</p> <p>Establish support infrastructure (power generation plant from waste heat recovery, private microwave link and Main Frame based ERP with 640 terminals)</p> <p>Use of advanced designing software</p> <p>Extensive use of ICT for continuous communication with the buyers for co-designing</p> <p>Building of helipads in the campus to allow CEO and buyers directly fly from airport using private helicopters</p> <p>In campus motel and restaurant, gym for guests to invite continuous co-ordination and strong relationship with buyers</p>	<p>High</p> <p>Installation of CAD, CAM, embroidery and appliqué machines in all the new factories</p> <p>Use of software for systematic production planning</p> <p>Use advanced production planning software “Fast React” for toll planning</p> <p>Use GFT software for industrial engineering planning (root cause analysis for defects, delay detection)</p> <p>Use of ICT to improve communication and co-ordination with the design studio and the buyers</p> <p>Use of advanced design software for making and implementing complex designs</p> <p>Use of computer-aided lingerie design software for accuracy in implementation</p> <p>Hired Brandix (a Sri Lankan garment firm) for process review and suggest measures for productivity increase in factories</p> <p>Training from hired consultants on reducing Standard Minute Variance (SMV), increasing on time delivery rate (OTDR) and reducing return to supplier rate (RTS).</p> <p>Separate industrial engineering division for production planning, quality assurance and productivity increase</p>
Level of value addition in product	High value added	High value added
Labour		
Productivity rate	<p>Fabric: 28 Million Linear Meters</p> <p>Apparel: Woven: 50 million pcs/month; Knit: 145 million pcs/month</p>	<p>2.7 million sewed pcs/month; 70%-75%</p> <p>Printing capacity: 1 million pcs/month</p>

	Productivity rate: 68–70%	Embroidery capacity: 180 million stitch/day
Defect rate	4–5%	3–4%
Skill development mechanism	<p>Recruitment of experienced expats in key managerial positions for knowledge transfer and at mid manager level for training workers and staffs</p> <p>Separate HQ with dynamic corporate culture and individual functional divisions e.g. marketing, HR, Merchandising, Industrial Engineering etc.</p> <p>Separate training and development unit for workers and staffs</p> <p>Local and overseas training for promising staffs</p> <p>Recruitment of ex-Zara designer as Head of Design unit</p> <p>Recruitment of design graduates reputed foreign and local universities</p> <p>Accept international Internees from reputed fashion design schools.</p> <p>Allow access to researchers to encourage knowledge sharing</p> <p>Host textile and fashion related conferences and fashion shows to share knowledge and build network</p> <p>Develop the campus as a centre of knowledge and exchange</p>	<p>Both on-the-job and off-the-job training for workers and staffs</p> <p>BGMEA and overseas training for staffs</p> <p>IE, HR and Brandix (consultant) work together to increase worker's motivation for productivity increase such as, skilled based evaluation and incentive system</p> <p>Internal training and development programme for workers and staffs</p> <p>Separate workers training and development division to arrange regular training on sewing different product ranges, using different machines and identifying defects at early stage etc.</p>
Incentive system	<p>Festive bonus; attendance bonus</p> <p>Introduced skill based incentive to encourage learning of new skills</p> <p>Performance based incentive (both individual and group)</p>	<p>Skill based evaluation and incentive (based on no. of new skills learned)</p> <p>Performance based incentive (based on pieces per production line/hour)</p>
Work allocation	Through formal scheduling mechanism and use of software	Through formal scheduling mechanism and use of software
Job rotation	Practiced in some divisions	Practiced in some divisions
Worker's skill nature and focus	<p>100% quality assurance</p> <p>Early defect detection</p> <p>Reducing lead time</p> <p>Increasing co-ordination with vertically integrated factories and buyers</p> <p>Keeping pace with the changing fashion</p> <p>Ensure appropriate speed and time to market</p> <p>Learning multiple skills and career development</p>	<p>Quality assurance; reducing minute variance between pieces for increasing productivity; ensuring on time delivery</p> <p>Self-motivation to increase own and group productivity and learn new skills.</p>
Key reason/s for upgrading/downgrading	<p>To become competitive in global scale.</p> <p>To differentiate from typical garment factories</p> <p>To attract high-fashion buyers</p>	<p>Special GSP incentive in Europe for factories in Bangladesh that has own backward linkage</p> <p>To attract value conscious buyers</p> <p>Promised for orders from existing and potential buyers</p> <p>To ensure better control on Standard Minute Variance (SMV) and cost</p> <p>To achieve more bargaining power over buyers and ask for more profit margin</p>

Chapter 7: The drivers of upgrading – Findings

This chapter identifies the conditions that drive economic and social upgrading within the tacit promissory contracting context. The previous chapter identified two firm-level factors (i.e. size and state of resources) that have influenced the upgrading strategies of the studied firms. This chapter seeks to identify the factors originating from the specific relational setting with the buyers which have potentially driven the upgrading initiatives by the suppliers.

Further to this, this chapter aims to compare the drivers of social upgrading vis-à-vis those of economic upgrading. Although it was not explicitly highlighted in Chapter 6, the data analysis has indicated that suppliers are more eager to pursue economic upgrading proactively in comparison to undertaking initiatives for social upgrading. In the case of social upgrading, the majority of the firms have adopted a reactive strategy, which is an outcome of the pressure for compliance from buyers or independent auditing bodies. These firms have complied with the mandatory dimensions as a “ticket” to enter the value chains of new customers or to maintain the relationship with existing ones. In contrast, in the case of economic upgrading, most suppliers have undertaken a proactive approach in order to enhance bargaining power and competitiveness. While only four of the firms have expanded their capacity to incorporate buyers’ increased orders, the rest of them have unilaterally taken steps to establish composite factories, develop workers’ skills, offer design services and even launch their own brands nationally and internationally. To this end, the proposition that “suppliers are more eager to unilaterally pursue economic upgrading compared to social upgrading” will be further explored in this chapter in a more structured manner through the adoption of the fsQCA technique.

The structure of the chapter is as follows. The first two sections present the drivers of social and economic upgrading, respectively. The necessary and sufficient conditions/drivers are identified in the cases of both social and economic upgrading. The configuration of conditions that could be responsible for the instances of social and economic upgrading are also derived. The final section summarises the key findings and points out the contribution of the respective findings for the IB and GVC literatures.

7.1 Drivers of social upgrading

The data analysis has identified nine causal conditions that have driven social upgrading (the outcome) in the studied firms: i) pressure for social compliance (pfsc); ii) maintaining

relationship with existing buyers (mreb); iii) attracting new buyers (anb); iv) planning and projection from buyers (ppb); v) promise from potential buyers (pfpb); vi) promise from existing buyers (peb); vii) relational continuity with buyers (rc); viii) workers' needs and preferences (wp); and ix) suppliers' internal motivation (sim).

Table 7. 1: Results of fuzzy set analysis: Conditions of social upgrading

Conditions	Mean	Consistency (of fuzzy score)	Raw Coverage (of fuzzy score)
Individual conditions in the set of social upgrading			
Pressure for social compliance (pfsc)	6.2	0.92	0.98
Maintaining relationship with existing buyers (mreb)	7.2	0.76	0.97
Attracting new buyers (anb)	4.7	0.98	0.77
Planning and projection from buyers (ppb)	4.2	0.98	0.73
Promise from potential buyers (pfpb)	2.6	0.85	0.32
Promise from existing buyers (peb)	5.5	0.91	0.87
Relational continuity with buyers (rc)	4.6	0.99	0.77
Workers' needs and preferences (wp)	2.3	1.0	0.31
Suppliers' internal motivation (sim)	4.2	0.98	0.63
Intermediate solution – Configuration of conditions in the set of social upgrading			
i) Pressure for social compliance OR ii) Maintaining relationship with existing buyers (fspfsc*fmreb)		0.92	0.95
Solution		0.92	0.95
Parsimonious solution – Configuration of conditions in the set of social upgrading			
Pressure for social compliance (fspfsc)		0.92	0.98
Solution		0.92	0.98

The findings show that all the cases have experienced varying degree of pressure for compliance, either from buyers or independent auditing bodies, such as Accord or Alliance. The mean response score for this factor is 6.27 (Table 7.1), which is the second highest among the nine causal conditions of economic upgrading identified in this study. The level of consistency of this causal condition is 0.92 (Table 7.2), which is very close to 1 and well above the level of 0.75 recommended by Ragin (2008). The level of consistency indicates that the probability of cases

experiencing pressure for social compliance (causal condition) also displaying social upgrading (the outcome) is 0.92. The level of coverage of this factor is 0.98 (Table 7.1), showing that there is high possibility that pressure for social compliance, as a causal condition, will account for the instances of social upgrading. The interviewees stated that the buyers have imposed compliance with their private codes and/or with National Labour Act as pre-condition of sale. Further to this, since 2013, pressure for compliance with Accord's codes has also been immense. The analysis shows that 50 per cent of the studied firms (mainly the medium and the large ones) have pursued social upgrading gradually to respond to the pressures from key buyers for compliance with private codes. The rest of the firms have very recently taken hasty actions mainly to comply with the pressure from Accord. For example, Firms J–R have improved their compliance status eventually since their inception in order to comply with their buyers' requirements. In contrast, in the cases of Firm A, Firm B, Firm C, Firm D and Firm I, the social upgrading has occurred mainly since 2013, after the formation of Accord.

Maintaining relationships with existing customers has been one of the key drivers of social upgrading in 89 per cent of the cases. The interviewees from these firms commented that they complied with the buyers' private codes of conduct and those of independent agencies (i.e. Accord, Alliance or BSCI) in the expectation of receiving repeat orders from their existing buyers:

“Buyers are not obligated to place repeat orders because we have no legal contract with them. Hence, there has to be some sense of bonding and commitment between us. Thus our sincerity towards the relationship could be reflected in our investments to comply with their codes of conduct. Such effort from our side has been a key reason underpinning our long-term relationship with them.” (Chairman, Firm O)

“While many firms have only recently started to improve their compliance status, mainly after the formation of Accord, our efforts to do so has started long before, back in the year 2000. It's not that we have improved the compliance status only due to buyers' pressure. Even though buyers' pressure has contributed much, the improvement was also an outcome of our realisation that without investing in compliance we will not be able to retain our buyers for long-term.” (Chairman, Firm J)

As a result, the mean response score of this driver is the highest (7.2) among the nine drivers and the level of consistency is also significant at 0.76. The level of coverage is 0.97 indicating that this causal condition very strongly accounts for the instances of social upgrading.

The analysis shows that attracting new buyers has been a key factor driving social upgrading in nine cases. The level of consistency of this causal condition is 0.98, which shows that there is very high probability that the cases intending to attract new buyers have also pursued social upgrading. The level of coverage is also strong at the 0.77 level. Therefore, there is high likelihood that attracting a new buyer, as a causal condition, will account for the instances of social upgrading. To exemplify, in the case of Firm Q, they developed their own code of conduct following those of a number of potential buyers whom they wanted to approach in the near future and then they also implemented those codes in their newly constructed factories. Therefore, attracting these new buyers has been one of the key reasons for Firm Q to undertake social upgrading initiatives in their new factories constructed during the period of 2005–2006.

Promises regarding increased orders from existing buyers form another driver behind social upgrading, with this factor having a mean response score of 5.5. The analysis shows that 67 per cent of the firms responded that they have undertaken a number of social upgrading initiatives after receiving verbal promises from their existing buyers regarding increasing order volumes, which depends on their ability to improve social compliance status. This causal condition has high levels of consistency and coverage, with the values being 0.91 and 0.86, respectively. The example of Firm N shows that, in the year 2013, they invested in the construction of a new factory building in order to comply with the Accord fire and building safety code. The investment was spurred by a promise from their long-term key buyer Tommy Hilfiger regarding occupying 70 per cent of Firm N's capacity instead of the previous 35 per cent. Tommy Hilfiger promised to source 90 per cent of their total order volume in Bangladesh from Firm N if they could achieve a green level in the Accord audit. The descriptive statistics in fsQCA show that 56 per cent of the firms have also stated that promises on future orders from potential buyers have driven a number of their social upgrading initiatives. For instance, in the case of Firm Q, significant investments for social upgrading have been made to comply with the preconditions of potential buyers such as ZARA, Macy's, Tommy Hilfiger, CK, Topman, Dorothy Perkins and River Island. Similarly, Firm R did so in order to pass audits by M&S, H&M and Next who promised to source from the firm once it complied with their codes. The Managing Director of Firm Q stated:

“Even before the beginning of the construction of the new factory buildings in Gazipur, I have met individually with our potential buyers. Zara, Macy’s, Tommy Hilfiger, CK, Topman, Dorothy Perkins and River Island were definitely in my target buyers list. These buyers stated about what they expected to see in my project in terms of compliance, machineries and so on. I always kept their requirements in my mind - from the point of setting the foundation stone till the end.”

The analysis shows that 50 per cent of the cases have always received informal planning and projection information from their key buyers regarding the annual order quantity. The interviewees from these firms stated that these projections provide them with a degree of certainty, thus enhancing their level of comfort in investing for social upgrading. As the Chairman of Firm P put it:

“At the beginning of the year, we receive a projection from our key buyers regarding their annual purchase volume including the planned schedule for shipment...Although this plan is always subject to change, this helps us to derive how much of our capacity will be occupied throughout the different seasons and make a projection of profit. This certainty provides us with a peace of mind. Thus we feel less hesitant to invest for complying with the labour codes of those respective buyers as because we know that they are committed.”

The mean response score for “planning and projection from buyers” as a causal condition is 4.3. Although the level of consistency of this causal condition is significant (0.98), the level of coverage is moderate (0.73). Therefore, this causal condition has a moderate level ability to account for the instances of social upgrading.

The findings show that relational continuity with the buyers is a causal condition accounting for the instances of social upgrading. The causal condition has a fairly good coverage level (0.77). The level of consistency is 0.99, which indicates that the cases that had relational continuity with the buyers have also remained successful in social upgrading. Subsequently, respondents from 44 per cent of the firms have commented that relational continuity with buyers has provided them with greater degree of certainty regarding the future of business, which, in turn, has made them more comfortable in investing for social upgrading. Suppliers that had a relationship with the buyer for a period of over 10 years showed relatively more pro-activeness in terms of their social upgrading initiatives.

“Suppliers’ internal motivation” has been identified as a causal condition for social upgrading in 33 per cent of the cases. The level of consistency of this condition is high (0.98), which shows that the cases that have had internal motivation for workers’ welfare have also displayed evidence of a higher level of social upgrading. However, the level of coverage of this causal condition is low (0.63), showing that this condition has a relatively lower degree of strength in accounting for the instances of social upgrading. The cases that had higher degree of internal motivation for workers’ welfare have not only implemented the tangible dimensions of the codes, but have also taken initiatives to establish more sophisticated workers’ rights, such as career development, freedom of speech and freedom of association. The driver for social upgrading in these firms have mainly been their solidary responsibility towards workers rather than any sort of pressure from external agents.

Finally, only two firms have undertaken social upgrading initiatives based on workers’ need and preference. For instance, Firm R has introduced a free bus for workers and have taken steps to assist workers’ family members in training and income generation. These initiatives were designed based on consultation with the workers and were not part of compliance requirements. Similarly, Firm Q has offered free school for workers’ children, another initiative that was introduced based on workers’ needs. Both the firms score high in terms of their social upgrading success. As a result, this causal condition has a consistency level of 1, while the level of coverage is the lowest (0.31) among the nine drivers. The low coverage level indicates that the strength of this causal condition in accounting for the instances of social upgrading is very low.

In sum, five causal conditions have been identified that have significant levels of consistency (close to 1 and above the 0.75 cut off point), strong degree of coverage (above 0.75) (Ragin 2008) and, finally, high to moderate level mean response score (above 4). These five factors are: i) pressure for social compliance; ii) maintaining relationship with buyers; iii) attracting new buyers; iv) promise from existing buyers; and v) relational continuity. The analysis of necessary and sufficient conditions by drawing an XY plot shows that the causal conditions that are necessary (but not sufficient) for social upgrading to occur are: i) pressure for social compliance and ii) maintaining relationship with existing buyers. The XY plots for these two drivers (Figure 7.1 and Figure 7.2) show that 80 per cent of the cases plot on or below the main diagonal line, indicating that the fuzzy membership score in the cause is more than that in the outcome. This means that the outcome (in this case social upgrading) is a subset of the causal conditions in question. The causal

conditions that are sufficient for instances of social upgrading are: i) attracting new buyers, ii) promises for increased orders from existing buyers and iii) relational continuity with buyers. The XY plots for these three drivers (Figures 7.3, 7.4 and 7.5) show that 80 per cent of the cases plot on or above the main diagonal line indicating that the fuzzy membership score in cause is less than that in the outcome. This means that the causal conditions in question are subsets of the outcome (Ragin 2008). The results indicate that the individual presence of any of the three sufficient conditions (i.e. i) attracting new buyers, ii) promises for increased orders from existing buyers and iii) relational continuity) in any case will display social upgrading. In contrast, the individual presence of any of the two necessary conditions (i.e. i) pressure for social compliance; ii) maintaining relationship with buyers) in any of the cases cannot result in social upgrading.

Truth table analysis has been conducted to identify the configuration of causal conditions that could be responsible for social upgrading (Table 7.1). The standard analysis offers three types of solutions: complex, parsimonious and intermediate. The intermediate solution has been considered for analysis based on Ragin (2008), who suggests “intermediate solutions are usually the most interpretable”. The intermediate solution shows that the configuration of i) pressure for social compliance OR ii) maintaining relationship with existing buyers (i.e. $f_{spfsc} * f_{smreb}$) has a high level of consistency (0.95) and coverage (0.92). Therefore, the cases that have experienced the presence of this configuration of conditions have also displayed social upgrading as an outcome. According to Ragin (2008), “the parsimonious solutions show which conditions are essential to distinguishing between positive and negative cases”. In this case, the parsimonious solution shows that pressure for social compliance (f_{spfsc}) is the essential condition that distinguishes between positive and negative cases.

Figure 7. 1: XY Plot: Pressure for social compliance (fspfsc)

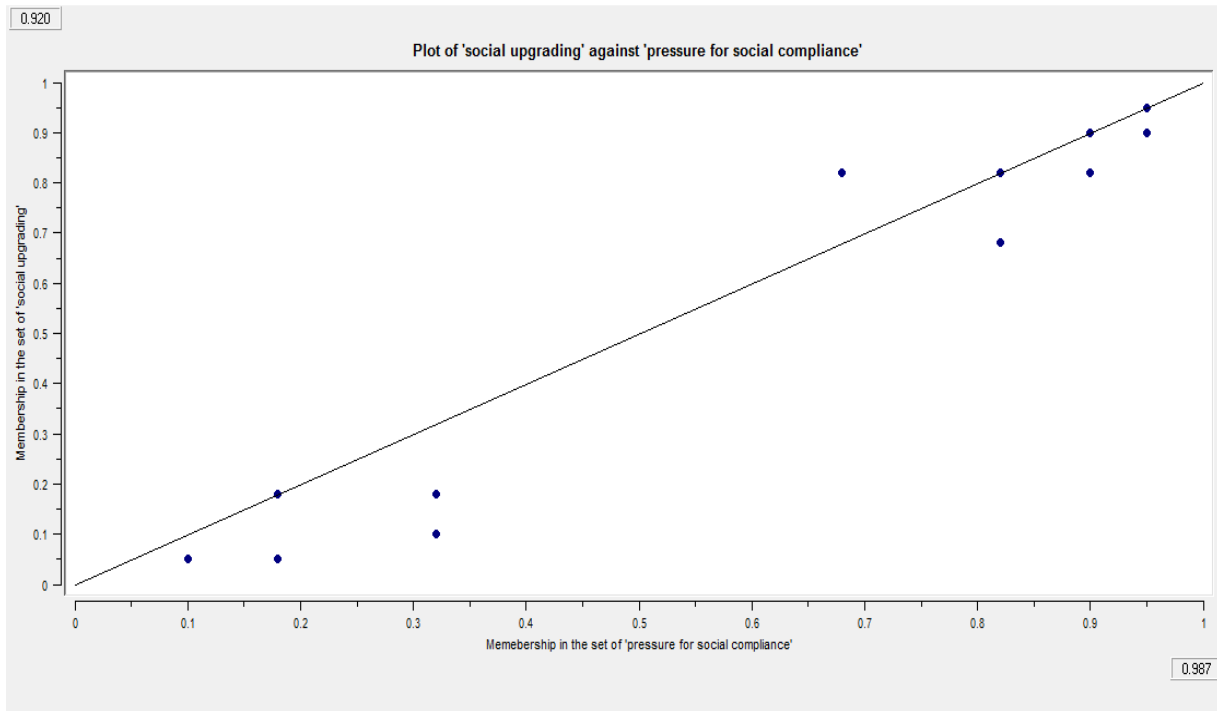


Figure 7. 2: XY Plot: Maintaining relationship with existing buyers (fsmreb)

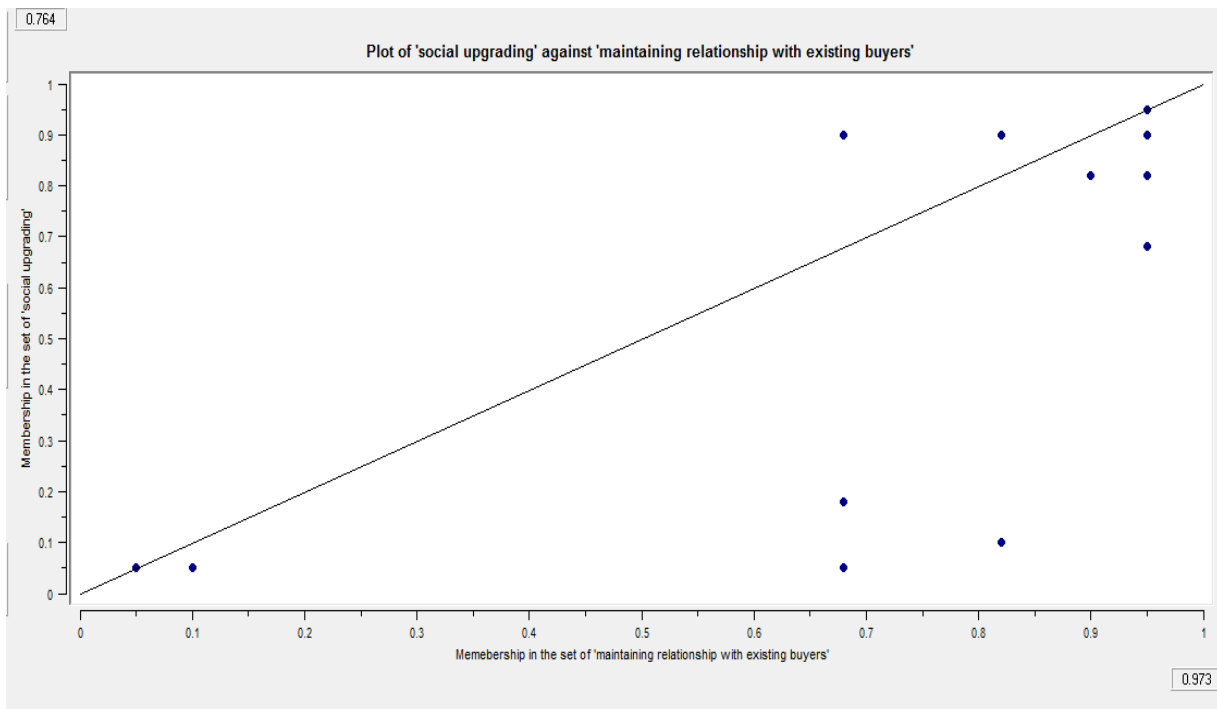


Figure 7. 3: XY Plot: Attracting new buyers (fsanb)

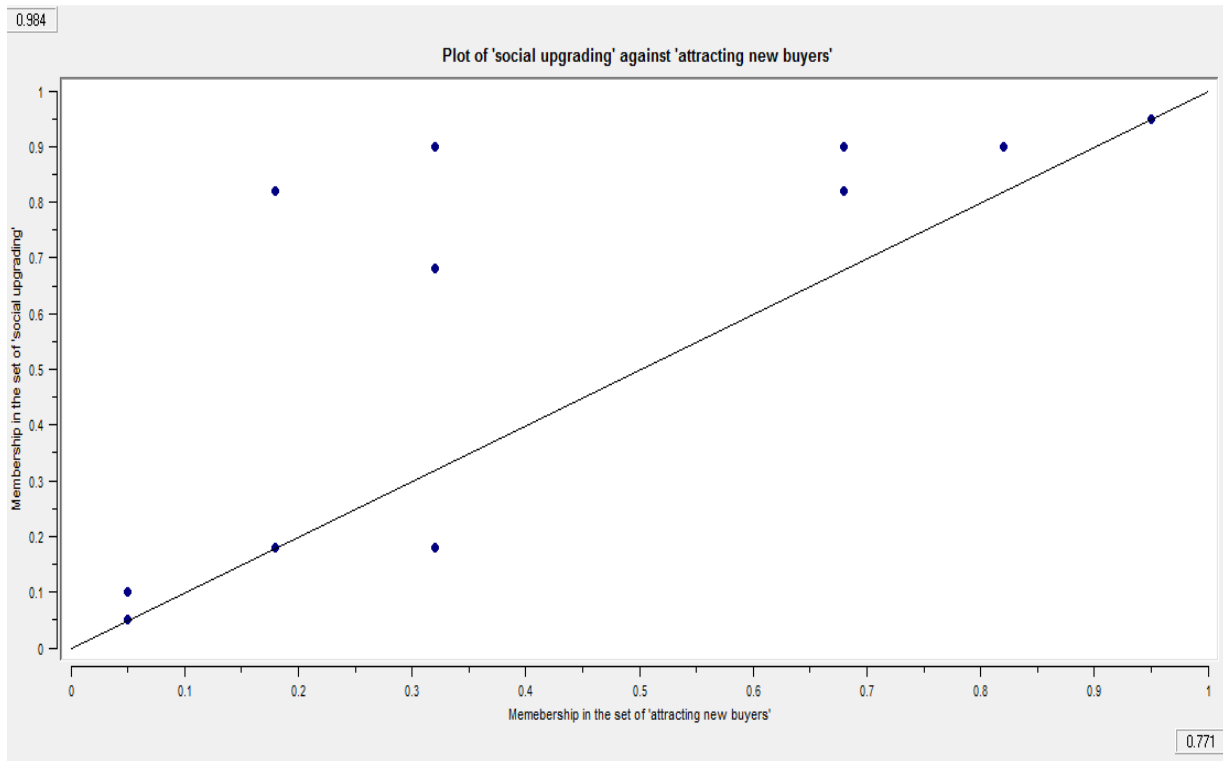


Figure 7. 4: XY Plot: Promise from existing buyers (fspeb)

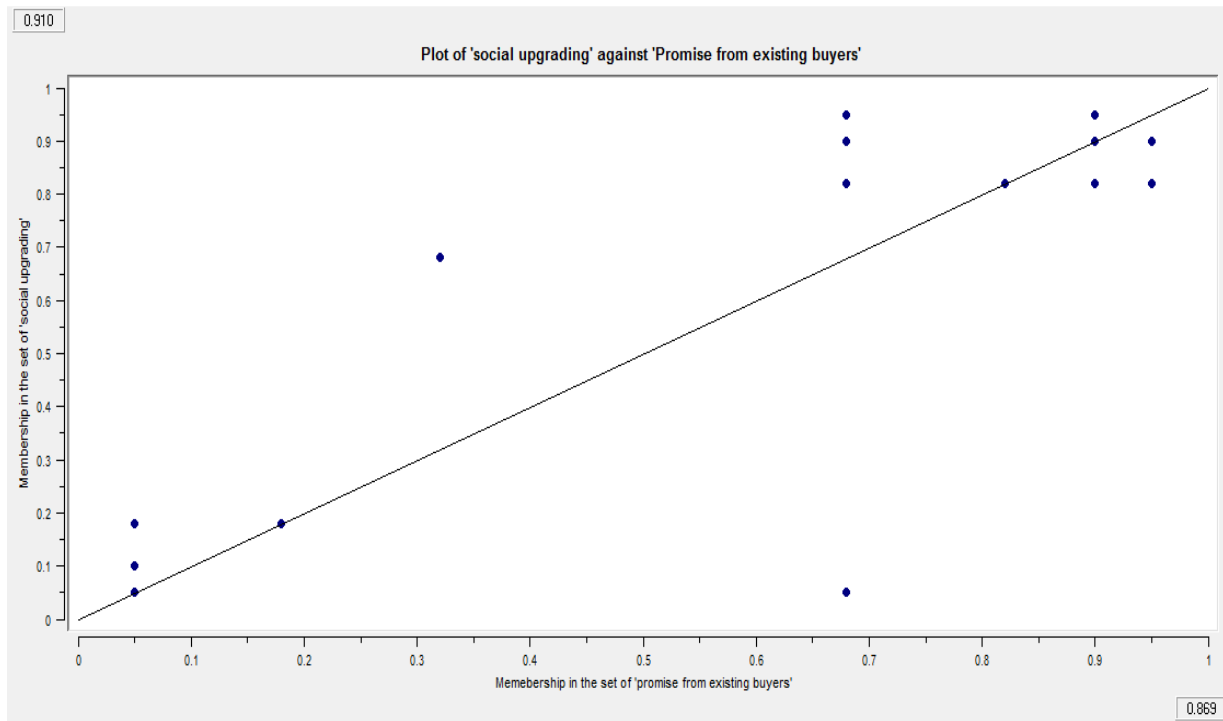
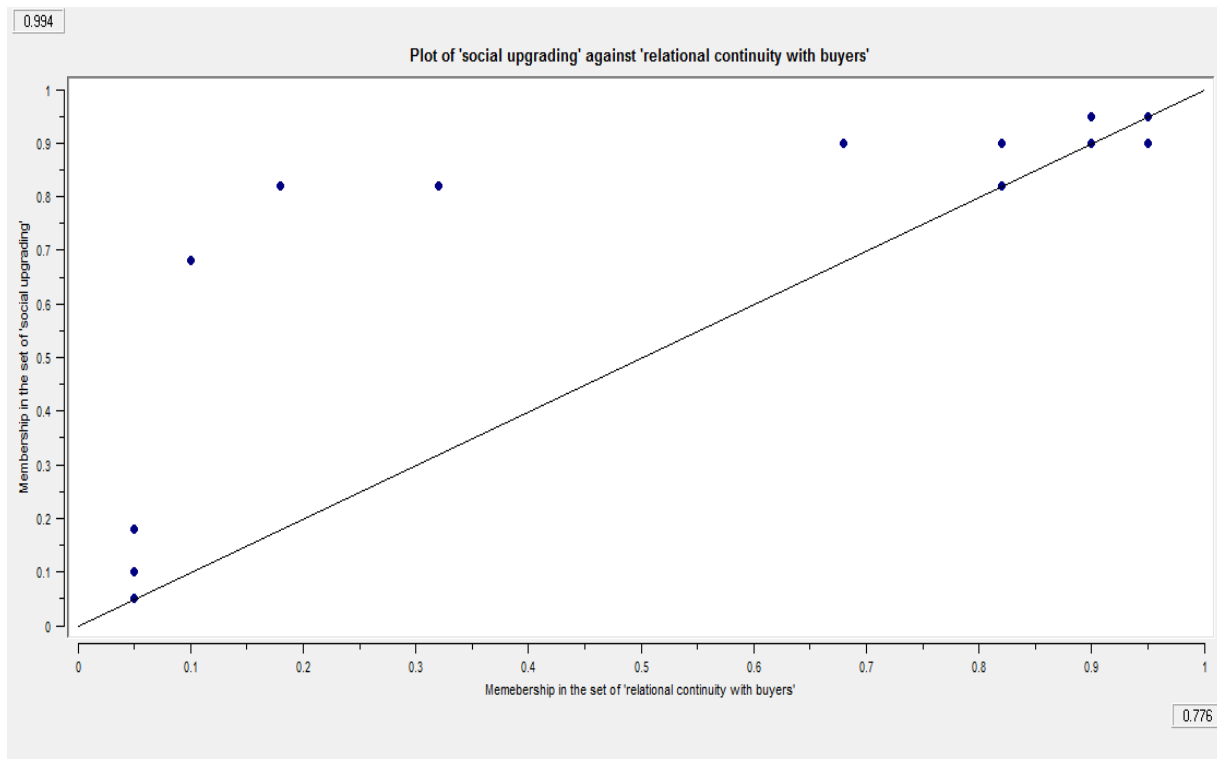


Figure 7. 5: XY Plot: Relational continuity with buyers (fsrc)



7.2 Drivers of economic upgrading

The data analysis has identified nine causal conditions that have contributed to the economic upgrading in the studied firms. These are: i) pressure for social compliance (pfsc); ii) maintaining relationship with existing buyers (mreb); iii) attracting new buyers (anb); iv) planning and projection from buyers (ppb); v) promise from potential buyers (pfpb); vi) promise from existing buyers (pfeb); vii) relational continuity with buyers (rc); viii) tacit knowledge transfer from buyers (tkt) and ix) suppliers' internal motivation (sim).

In 77 per cent of the cases, pressure for social compliance has been a key driver for economic upgrading, having a mean response value of 6.2 (Table 7.2). The level of consistency of this causal condition is 0.88, which shows that there is high probability that the cases having presence of this causal condition will display economic upgrading. The level of coverage of this condition is 0.94, indicating that pressure for social compliance, as a causal condition, has high level of strength to account for the instances of economic upgrading. The interviewees from the positive cases said that the pressure from Accord for social compliance has led them to improve health and safety conditions, including making structural changes to accommodate new

arrangements for fire and building safety, dining, childcare, toilet and other facilities. Compliance with these requirements involved a high level of both fixed cost and maintenance cost. As the interviewees commented:

“We had to rent two more floors as we were recommended by ACCORD to increase the space in the working units. According to the new rule, upto 60% of the floor space can only be used while leaving the rest 40% empty to allow more room for workers to move in case of fire or other emergencies. As a result, we had to split our working units into three floors. Moreover, we had to increase space in the dining hall to include table and chair. We had to dedicate a space for child care...The cost of maintaining these new arrangements were huge including the rent of two additional floors.”
(Managing Director, Firm A)

“We had to construct a complete new factory because it was impossible to accommodate the new requirements in our old factory, which had limited space. Therefore, we had to undergo a large amount of fixed cost including the purchase of the land, construction of the new building and getting the lines for utility services. We also have to undertake the monthly maintenance cost of the new facilities such as, salaries of the carers in child care centre and the medical officer, elevated electricity bills to comply with the new increased lighting and ventilation requirements and most importantly, the cost of increased salaries of the workers.” (Managing Director, Firm B)

The data analysis shows that the payment of these new costs required the firms to increase their income by undertaking a range of technological upgrading initiatives. For instance, the increased cost of labour was compensated by replacing the manual thread cutting machines with automatic trimmer machines – a strategy that would support reducing reliance on helpers. All the interviewed firms have adopted this strategy to reduce their labour costs and increase production efficiency. Firm B, Firm K and Firm D have built new factories to accommodate the compliance requirements of Accord. For instance, the owner of Firm K has said that they were advised to improve the strength of the building, which required inclusion of additional pillars and removal of a number of internal walls. They were also recommended to construct two fire stairs inside the building because their current external fire escape stairs were not regarded as sufficient by the Accord auditors. The owner said that integrating these changes in an old building was difficult, which led them to start construction of a new, compliant factory using advanced engineering methods to ensure a higher degree of building strength. The two storey new building has an open

plan to facilitate improved distribution of load, better ventilation and greater mobility of the workers. The owner remarked that although compliance with Accord code was the main driver behind the construction of the new building, they had equipped it with state-of-the art machinery and advanced technological systems (such as trunk line system, CCTV cameras throughout) that were required to achieve high degree of production efficiency. The new factory includes an automatic air purifier for heat and pollution control in the working areas. The owner claimed that the advanced technology and the comfortable working environment had contributed to a 20 per cent higher hourly labour productivity rate in the new factory compared to those in the old factories. Thus, pressure for social compliance has contributed to significant economic upgrading in eight firms and moderate degrees of change in seven firms.

In 89 per cent of the cases, initiatives for economic upgrading were undertaken in order to fulfil the demands of the existing buyers. For instance, Firm P has regularly updated its machinery to meet the product standard requirements of H&M, which occupies 70 per cent of their production capacity. The Chairman of Firm P said:

“Previously, we used to source our raw materials from our network local suppliers and also import some from China. As a result, we had less control on lead time because delays may happen at any point i.e. fabric production, dying, washing or transportation. We had delayed shipments on a number of occasions. H&M is very sensitive about timely delivery and thereof, they took this problem quite seriously while demanding a permanent solution to this...We decided to produce at least 70 percent of the raw materials in house to have better control and to show our commitment towards H&M...Now we are one of the largest composite factories in Bangladesh”.

The findings, therefore, show that the studied firms have made idiosyncratic investments to fulfil the preferences of the buyers in the expectation of maintaining relationships. As a result, maintaining relationships with existing buyers, as a causal condition of economic upgrading, has the highest mean response value (7.2), a significant consistency level (0.75) and very strong coverage level (0.94). The results, therefore, show that maintaining relationships with existing buyers, as a causal condition, strongly accounts for the outcome (i.e. economic upgrading).

Table 7.2: Results of fuzzy set analysis: Conditions of economic upgrading

Conditions	Mean	Consistency (of fuzzy score)	Raw Coverage (of fuzzy score)
Individual conditions in the set of economic upgrading			
Pressure for social compliance (pfsc)	6.2	0.88	0.94
Maintaining relationship with existing buyers (mreb)	7.2	0.75	0.95
Attracting new buyers (anb)	5.0	0.96	0.80
Planning and projection from buyers (ppb)	4.8	0.93	0.73
Promise from potential buyers (pfpb)	3.8	0.72	0.42
Promise from existing buyers (peb)	6.3	0.77	0.85
Relational continuity with buyers (rc)	5.2	0.77	0.85
Tacit knowledge transfer (tkt)	1.8	1.0	0.24
Suppliers' internal motivation (sim)	6.4	0.87	0.97
Intermediate solution – Configuration of conditions in the set of economic upgrading			
<u>Configuration 1:</u>		0.93	0.88
i) Pressure for social compliance OR			
ii) Maintaining relationship with existing buyers OR			
iii) Suppliers' internal motivation (fspfsc*fsmreb*fssim)			
<u>Configuration 2:</u>		1.0	0.76
i) Maintaining relationship with existing buyers OR			
ii) Attracting new buyers OR			
iii) Suppliers' internal motivation (fsmreb*fsanb*fssim)			
<u>Configuration 3:</u>		0.93	0.80
i) Maintaining relationship with existing buyers OR			
ii) Promise from existing buyers OR			
iii) Suppliers' internal motivation (fsmreb*fspeb*fssim)			
Solution		0.91	0.93
Parsimonious solution – Configuration of conditions in the set of economic upgrading			
Suppliers' internal motivation (fssim)		0.88	0.98
Solution		0.88	0.98

In 72 per cent of the cases, economic upgrading initiatives was influenced by informal promises by the existing buyers regarding increasing the order quantity. These firms were found

to be increasing the production capacity to accommodate the promised extra order volumes from the existing buyers. The firms have upgraded their machinery, introduced new ranges of products and even pursued functional upgrading to accommodate buyers' promises. For instance, Firm J increased their production capacity from initially 4 lines to 7 lines and finally to 12 lines, followed by the establishment of a whole new factory building with 7 production lines. This incremental investment for capacity increase was undertaken to accommodate the increased order quantity that was promised by their key buyers – Kappahl from Sweden and K-Mart from Australia. Similarly, Firm L has started designing the “Sanoma” range of their key buyer Kohls in coordination with a US-based fashion design firm. They started offering this service with a view of becoming the exclusive supplier of the Sanoma range in the South Asian region as promised by Kohls. To this end, this causal condition has a consistency level of 0.77, which is above the cut-off point (0.75), and a coverage level of 0.85, which also strongly indicates that the causal condition highly accounts for the outcome.

Economic upgrading initiatives have also been carried out to accommodate the promised orders by potential buyers in 33 per cent of the cases. For instance, in the year 2003, Firm L increased production capacity by 6 lines to accommodate the promised orders by their future buyers, Kohls and JC Penny from the USA. Afterwards, in 2006, they added 2 more production lines to accommodate two new buyers, Target from the USA and Max from Dubai. In the year 2008, the firm purchased machinery to start production of Tesco's childrenswear. Similarly, Firm G started as a buying agent in 2003, and after two years they established a four-line garment production unit based on the promise of Inditex and Third Stage (wholesaler) from the USA (previously clients of their buying house) to occupy 40% (combined) of their capacity. However, the fsQCA analysis shows that promises from potential buyers, as a causal condition, has a relatively low level of influence in driving economic upgrading, having a mean response score of 3.8. The level of consistency of this causal factor is not significant (0.72) and the coverage is also very weak (0.42).

The interviewees from 56 per cent of the cases revealed that they have proactively undertaken a number of economic upgrading initiatives in order to attract new buyers who prefer higher-value-added products and can offer a better price. As a result, attracting new buyers, as a causal condition, has a consistency level of 0.96 and a coverage level of 0.81. The results indicate that this causal factor strongly accounts for the instances of economic upgrading. Firm J, for

instance, underwent significant economic upgrading 10 years after inception in order to attract buyers who could offer a better price. By increasing the capacity and pursuing technological upgrading, they were set to approach a number of preferred buyers. By promoting the potential that their new facilities could offer, they received their first orders for producing a sportswear range for Koppahl (Sweden) and jackets and coats for JC Penny (USA). Similarly, the CFO of Firm R stated:

“During 2007–2009, we have started two separate fully compliant factories, Mirabella Dresses Ltd. and Dazzling Dresses Ltd. in the industrial area. The two factories combined had 23 lines increasing to 49 and then to 140 by the year 2010. Our target was to attract high fashion buyers and to produce new range of higher value added products, such as, fashion, party and formal wear items. C&A has been a key customer of ours since our inception in 1994 and we attribute much of our success to this continuous relationship. Nevertheless, we were struggling to maintain a healthy profit margin only by serving them as because they could not offer us a good price. Hence, we had to attract buyers that are less price sensitive and more value conscious. We knew that in order to attract such buyers, we need to upgrade our facilities. Thus we decided to build the two new factories with all the state- of-the-earth machineries and facilities. These initiatives allowed us to approach good buyers such as, M&S, G Star and Polo Ralph Lauren.”

The interviewees from 55 per cent of the cases responded that their relational continuity with the key buyers has been an important driver of economic upgrading. The relational continuity provides them with a stable flow of income and certainty regarding the future of the business. The interviewees from 50 per cent of the cases also reported that they have experienced such certainty as their key buyers provide them with a projection on annual orders at the beginning of the year. Overall, the certainty leads to a higher degree of confidence, which is found to be necessary for making investments in economic upgrading by the suppliers. Relational continuity (fsrc) and planning and projection from buyers (fsppb), as causal conditions, both have moderate level of coverage (0.74 and 0.73 respectively), but with a high level of consistency (0.93 and 0.87). This indicates that the cases that have experienced the presence of these two factors have also been successful in terms of economic upgrading, however, empirically, these two causal conditions do not strongly account for the instances of this outcome. To exemplify from the cases, the CFO of Firm R attributed much of the firm’s success in economic upgrading to their long-term relationship with C&A. The CFO stated that during the 2000s, a special GSP incentive was available to

European retailers sourcing from Bangladeshi factories that produce raw materials in-house. As a result, C&A encouraged Firm R to develop the in-house raw material production system and has cultivated the project through continual orders, on time payments, systematic planning on orders and guidance. C&A even promised to double their purchases from Firm R after the completion of the project. Thus, Firm R also felt obligated to show their commitment to C&A by taking step-by-step initiatives for building the vertically integrated units for raw material production.

The analysis shows that the interviewees from 78 per cent of the cases state that they have undertaken a number of economic upgrading initiatives out of internal motivation for expanding the business. Although all the cases reflected upon their internal motivation in pursuing economic upgrading, the medium and large firms identified this factor as the most significant driver of economic upgrading. Referring to their own brand, “Yellow”, and their recent FDI activities, the Managing Director of Firm Q pointed out:

“We always wanted to become competitive at a global scale. I regret to say that we [Bangladeshi garment industry] have four decades of history, yet no Bangladeshi garment firm has been successful in launching their own brand locally, let alone internationally. Our dream was always having our own brand that will be sold nationally and internationally and “Yellow” is the outcome of that dream... Already we are one of the largest vertically integrated textile and garment manufacturers in South Asia. Now our aim is to compete with South East Asian producers. I believe in order to become this big, an entrepreneur should have a vision. Of course, other factors such as, institutional support, good buyers, good employees all have contributed to our success. I would still tie the fame of our success to our vision and vigour for becoming the biggest.”

For this reason, suppliers’ internal motivation has both a high level of consistency (0.87) and coverage (0.97). The results, therefore, indicate that this causal factor very strongly accounts for the instances of economic upgrading.

The analysis further shows that the transfer of tacit knowledge from buyers has remained a key factor underpinning the economic upgrading in the two large firms, Firm Q and Firm R. As a result, this causal factor has a perfect consistency level (1.0), but a very low coverage level (0.24). This indicates that the cases that have experienced tacit knowledge transfer from buyers have also displayed a high level of success in economic upgrading. Nevertheless, empirically this condition does not account for the instances of economic upgrading. The data analysis shows that both Firm

Q and Firm R have had years of experience of co-designing with buyers, which facilitated learning from the buyers about designing and brand building. In the case of Firm Q, up to almost 20 years since inception, they relied on designs provided by their customers. After gaining OEM status, their goal was to connect with high-fashion buyers to develop their knowledge and skills in garment design. The MD of Firm Q stated that they became an ODM service provider in the year 2007 with the establishment of their in-house design studio in collaboration with Zara. In 2009, when they had accumulated enough knowledge on design from the collaboration, the firm started their autonomous design studio. In order to allow a further flow of tacit knowledge, they have recruited high calibre designers from foreign universities and an ex-Zara designer as the head of the design unit. They have created links with foreign universities such as NIFT, India; London School of Fashion; Nottingham Trent University, UK; Parson's, USA etc. for training support and have also accepted internees from these universities for knowledge sharing. Therefore, tacit knowledge transfer has been critical for the economic upgrading success of Firm Q and Firm R, while the other studied firms have not had the experience of co-designing. Their communication with the buyers has been limited to the exchange of codified information only, such as design specifications, product standards and code of conduct. Thus, there has mainly been a transfer of codified knowledge in the cases of all the other firms.

In sum, five causal conditions have a significant level of consistency (close to 1 and above 0.75 cut off point), strong degree of coverage (above 0.75) (Ragin 2008) and, finally, high to moderate level mean response score (above 4) (Table 7.2). These five factors are: i) pressure for social compliance; ii) maintaining relationship with buyers; iii) attracting new buyers; iv) promise from existing buyers; and v) suppliers' internal motivation. Analysis of the necessary and sufficient conditions by drawing an XY plot shows that the causal conditions that are necessary (but not sufficient) for economic upgrading to occur are: i) pressure for social compliance; ii) maintaining relationship with existing buyers; iii) suppliers' internal motivation; and iv) promises from existing buyers. The XY plots for these four causal conditions (Figures 7.6, 7.7, 7.8 and 7.9) show that 80 per cent of the cases plot on or below the main diagonal line, indicating that the fuzzy membership scores in these causes are more than that in the outcome. This means that the outcome (in this case social upgrading) is a subset of the causal conditions in question. The causal condition that is sufficient for instances of economic upgrading is attracting new buyers. The XY plot for this causal condition (Figure 7.10) shows that 80 per cent of the cases plot on or above the main

diagonal line, indicating that the fuzzy membership score in cause is less than that in the outcome. This means that the causal condition in question is a subset of the outcome (Ragin 2008). The results indicate that the individual presence of the sufficient condition (i.e. attracting new buyers) in any case will display economic upgrading. In contrast, the individual presence of any of the four necessary conditions – i.e. i) pressure for social compliance; ii) maintaining relationship with buyers; iii) suppliers’ internal motivation; and iv) promise from existing buyers – in any case cannot result in economic upgrading.

Truth table analysis has been conducted to identify the configuration of causal conditions that could be responsible for economic upgrading. The intermediate solution shows three configurations of conditions that can result in economic upgrading in firms, and these are presented in Table 7.2.

All the three configuration of conditions have a high level of consistency (above 0.93) and coverage (0.75). Therefore, the cases that have presence of these configurations of conditions will display economic upgrading as an outcome. The parsimonious solution (Table 7.2) shows that suppliers’ internal motivation is the essential condition that distinguishes between positive and negative cases.

Figure 7. 6: XY plot of “economic upgrading” against “pressure for social compliance”

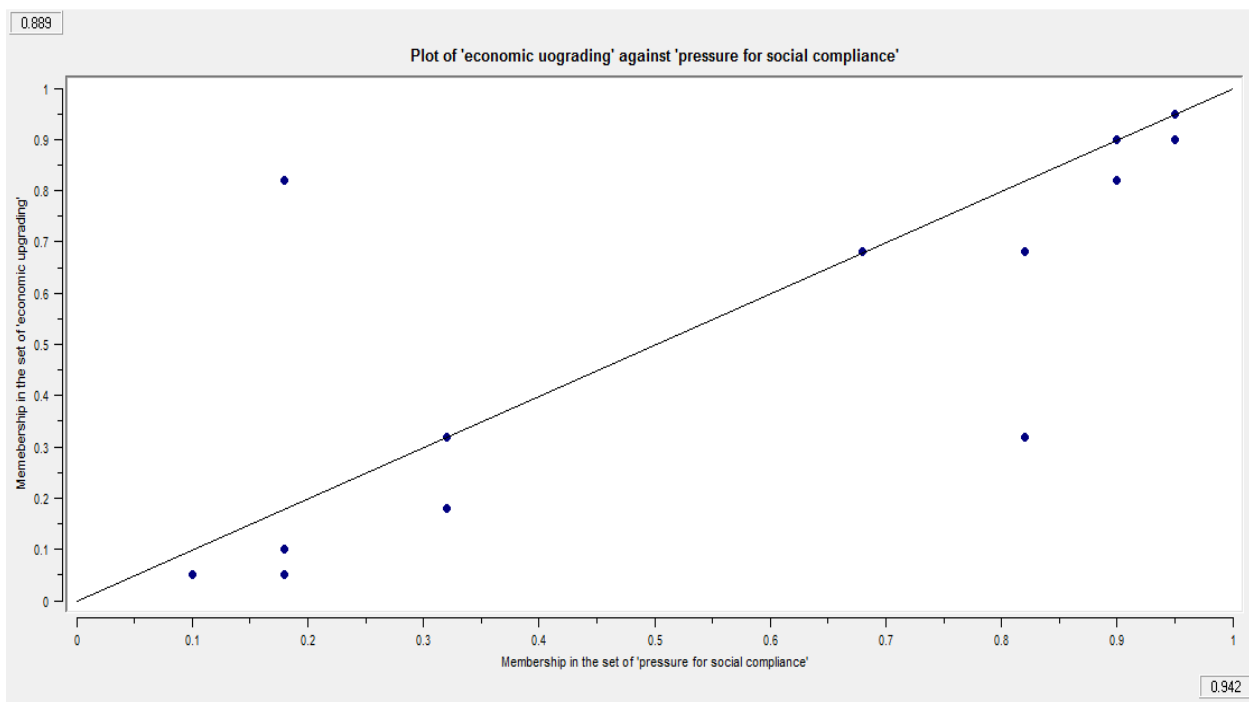


Figure 7. 7: XY plot of “economic upgrading” against “maintaining relationship with existing buyers”

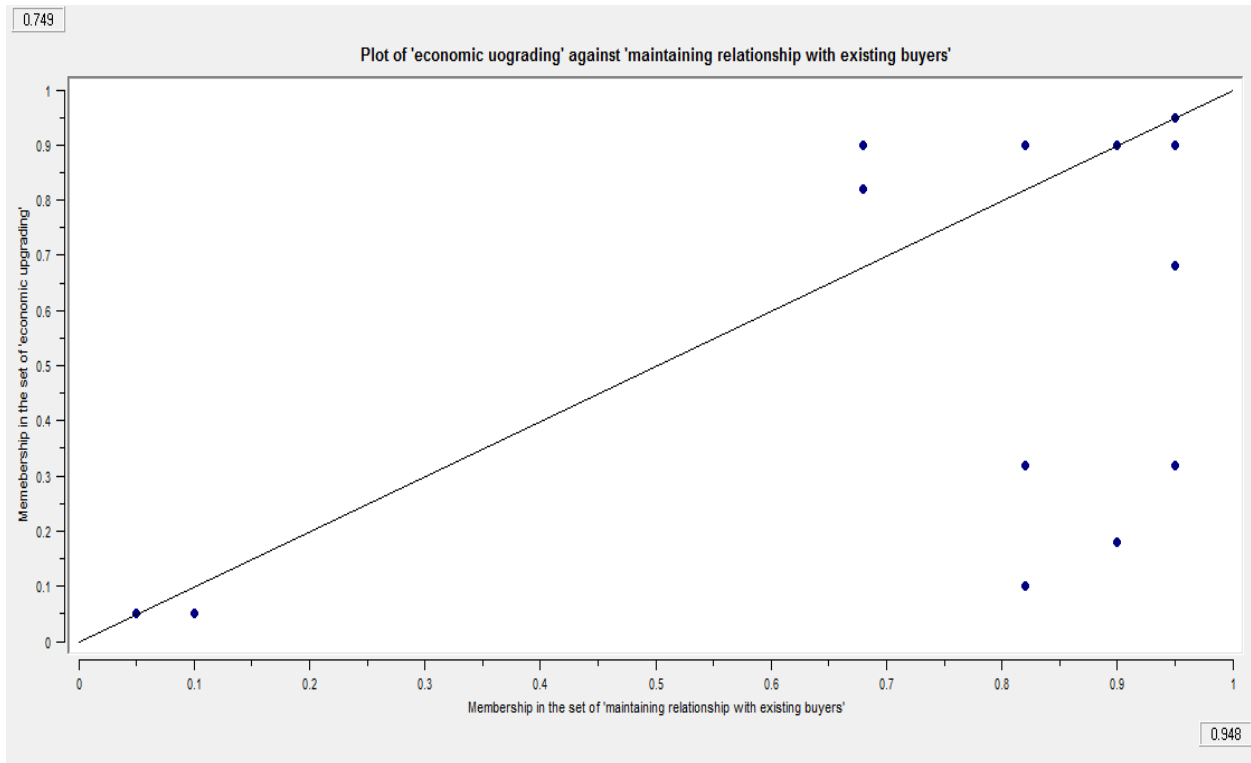


Figure 7. 8: XY plot of “economic upgrading” against “attracting new buyers”

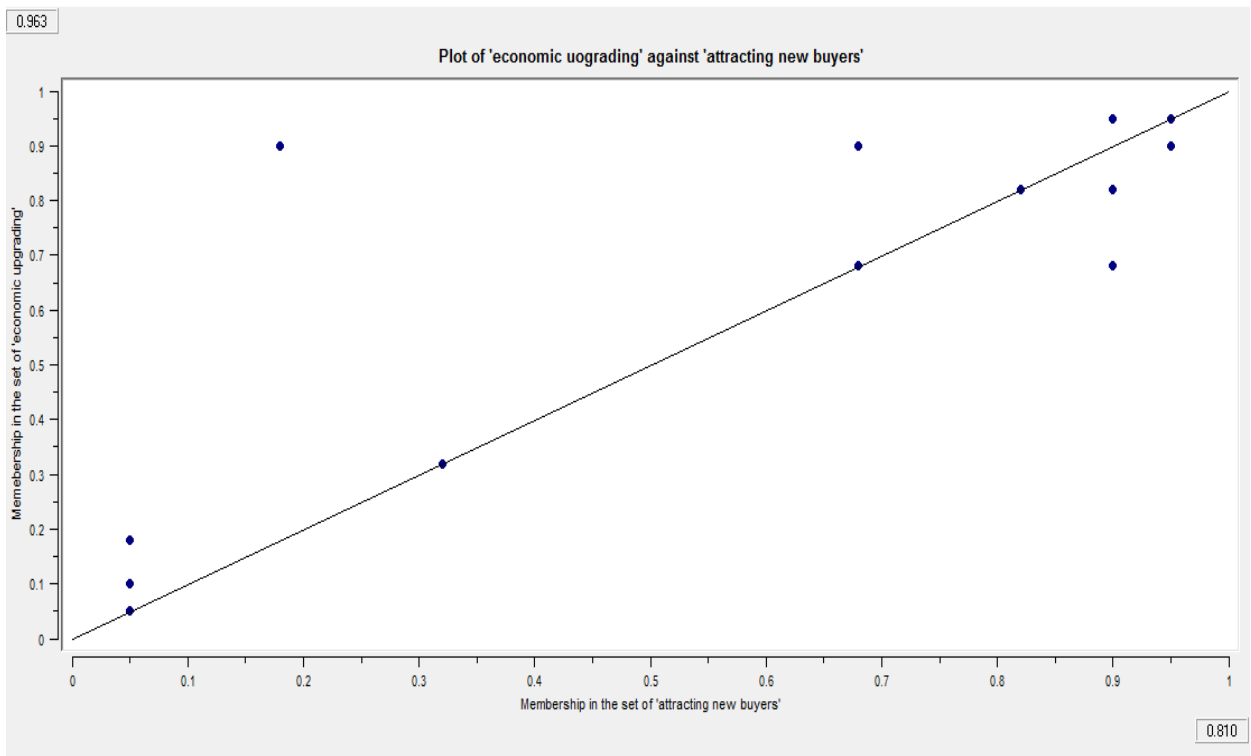


Figure 7. 9: XY plot of “economic upgrading” against “promise from existing buyers”

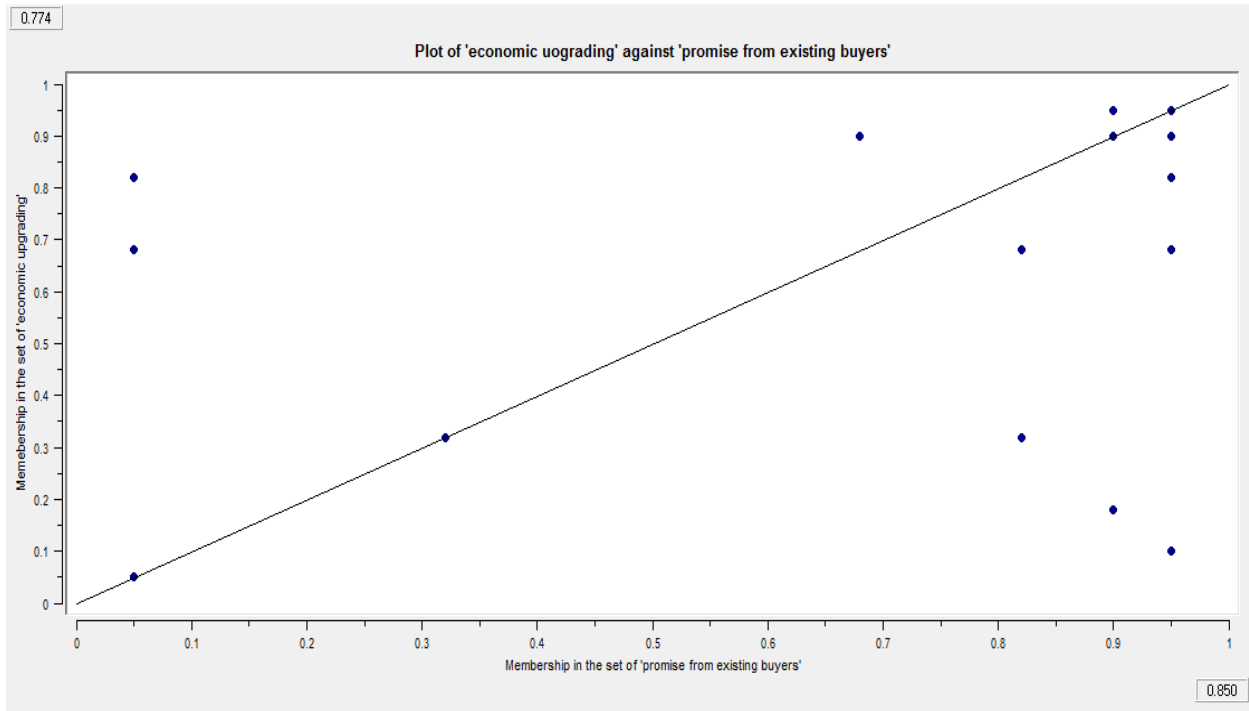
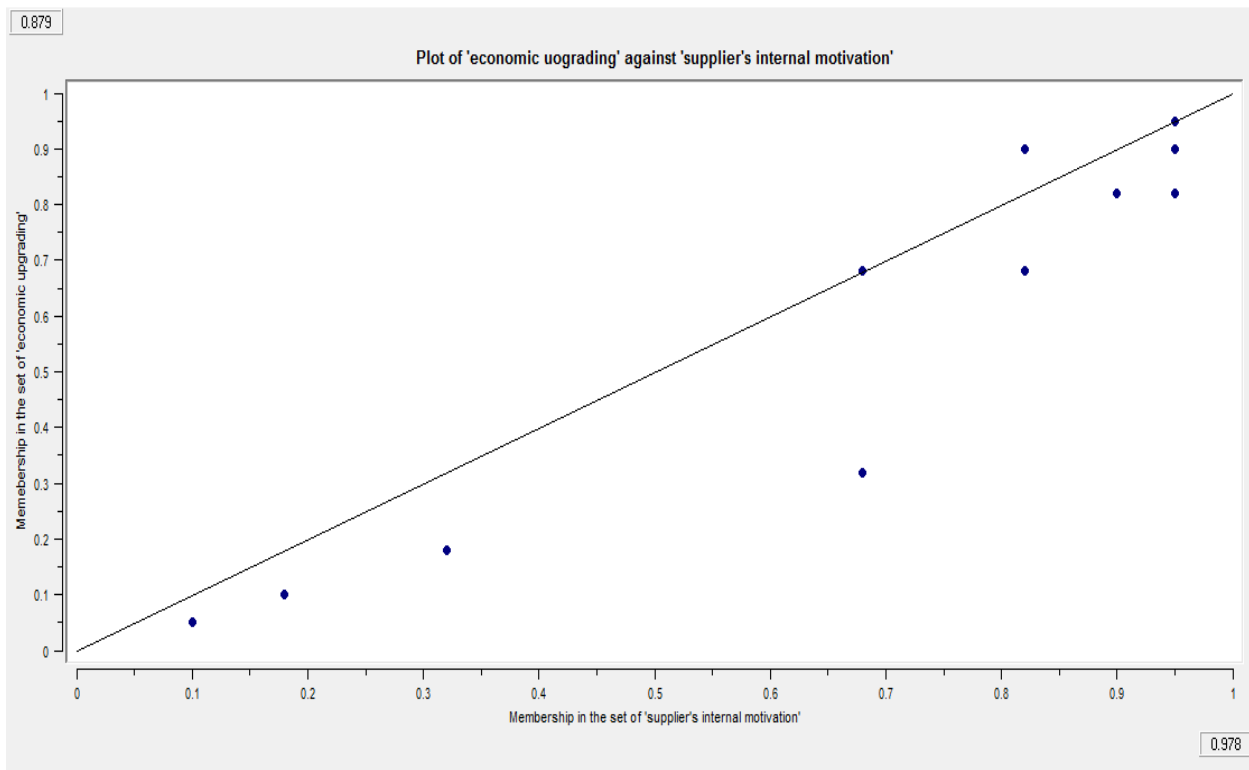


Figure 7. 10: XY plot of “economic upgrading” against “supplier”s internal motivation”



7.3 Findings and discussion

The data analysis reveals two key findings. First, suppliers are more eager to unilaterally pursue economic upgrading compared to social upgrading. This is because the parsimonious solution in the truth table analysis shows that, in the case of economic upgrading, suppliers' internal motivation has remained the essential causal condition to distinguish between positive and negative cases, while in case of social upgrading, the essential causal condition has been pressure for social compliance. This result indicates that most suppliers have pursued economic upgrading according to their own proactive motives in order to increase competitiveness, while the same suppliers have undertaken social upgrading initiatives due to pressure from buyers. Further to this, the analysis of necessary and sufficient conditions shows that four out of the five significant and strong causal conditions are same in both the cases of social and economic upgrading – i.e. i) pressure for social compliance; ii) maintaining relationship with existing buyers; iii) attracting new buyers; and iv) promises from existing buyers. Nevertheless, the differentiating conditions between economic and social upgrading are, respectively, “suppliers' internal motivation” (in the case of economic upgrading) and “relational continuity” (in the case of social upgrading). This result again indicates that, in the case of economic upgrading, suppliers are self-motivated. However, suppliers tend to pursue social upgrading as they experience pressure for compliance as well as a certain degree of assurance for future business resulting from relational continuity with key buyers. This result further reinforces the above finding.

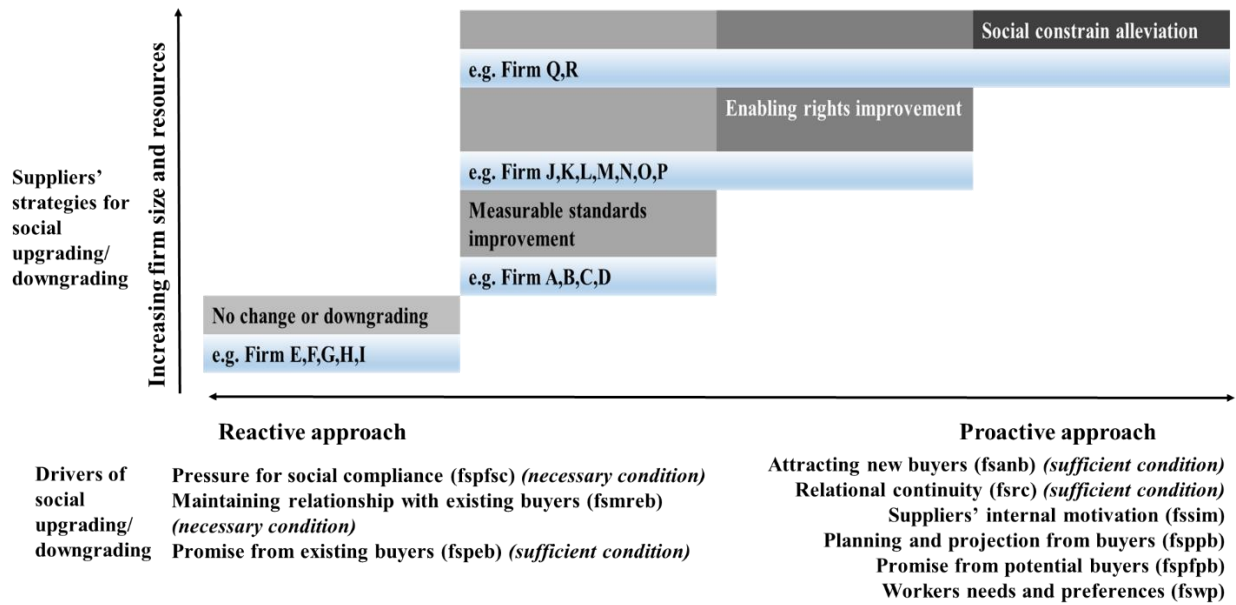
The second key finding of the chapter involves identification of the drivers (causal conditions) of social and economic upgrading (Figure 7.1 and Figure 7.2). The fuzzy set analysis reveals the causal conditions that are individually either necessary or sufficient for driving both the types of upgrading. The analysis also identifies different configurations of conditions that may lead towards social and economic upgrading. This finding, therefore, contributes towards the identification of the factors that can drive upgrading and originate from the tacit promissory contracting relational setting.

Overall, suppliers' role as strategy makers is pointed out here by exploring the relational factors they consider for strategizing regarding upgrading (cf. Johns et al. 2015). The findings of the chapter have contributed towards both the IB and GVC literatures by identifying the conditions that drive suppliers' strategies regarding social and economic upgrading in a specific relational context. Previous IB studies have arbitrarily identified a limited number of factors that could be

responsible for upgrading, such as non-market institutions (e.g. Corredoira and McDermott 2014), social ties with other members in the local and international network (e.g. McDermott and Corredoira 2010), knowledge transfer from buyers (e.g. Khan et al. 2015) and integration in the global production networks of MNEs (e.g. Li et al. 2016). Nevertheless, this study offers a comprehensive list of conditions that drive both social and economic upgrading along with identifying their relative level of importance.

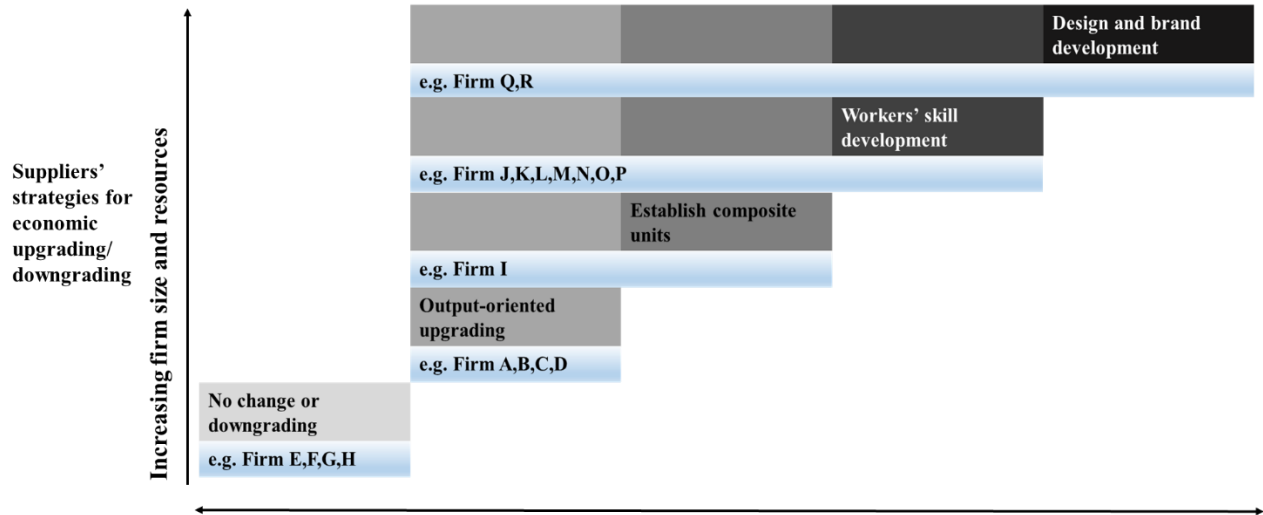
The findings presented in this chapter also contribute to the GVC literature. Previous studies in GVC analysis assume that upgrading is mainly influenced by the form of governance and the structure of the value chain (e.g. Gereffi 1999; Humphrey and Schmitz 2002). GVC analysis provides a useful framework for understanding the relational forms between lead firm and their suppliers (Gereffi et al. 2005) and thereby comparing the implications of those different forms of relational ties for upgrading (Humphrey and Schmitz 2002). However, such an analysis has not previously been undertaken at the firm level and thus the findings remain broad (cf. Morrison et al. 2008). As a result, the particular conditions within different relational forms that could drive upgrading initiatives have not previously been identified in the GVC literature. The identification of those relational factors/conditions necessitates a micro-level analysis of the supplier's strategy-making process at the firm-level, which this study has examined within the context of a specific form of relationship. The comprehensive list of conditions/drivers of social and economic upgrading presented in this chapter is thus new to GVC studies.

Figure 7. 11: Drivers of social upgrading



- Essential condition to distinguish positive and negative cases:
 - Pressure for social compliance (fspfsc)
- Configuration of conditions driving social upgrading:
 - Pressure for social compliance (fspfsc)* Maintaining relationship with existing buyers (fsmreb)

Figure 7. 12: Drivers of economic upgrading



- Drivers of economic upgrading/downgrading**
- | | |
|--|--|
| <p>Reactive approach</p> <ul style="list-style-type: none"> Pressure for social compliance (fspfsc) (<i>necessary condition</i>) Maintaining relationship with existing buyers (fsmreb) (<i>necessary condition</i>) Promise from existing buyers (fspcb) (<i>necessary condition</i>) | <p>Proactive approach</p> <ul style="list-style-type: none"> Attracting new buyers (fsanb) (<i>sufficient condition</i>) Suppliers' internal motivation (fssim) (<i>necessary condition</i>) Relational continuity (fsrc) Planning and projection from buyers (fsppb) Promise from potential buyers (fspfpb) Tacit knowledge transfer (fstkt) |
|--|--|
- Essential condition to distinguish positive and negative cases:
 - Suppliers' internal motivation (fssim)
 - Three configurations of conditions driving economic upgrading:
 - Pressure for social compliance (fspfsc)*Maintaining relationship with existing buyers (fsmreb)*Suppliers' internal motivation (fssim)
 - Maintaining relationship with existing buyers (fsmreb)* Attracting new buyers (fsanb)*Suppliers' internal motivation (fssim)
 - Maintaining relationship with existing buyers (fsmreb)* Promise from existing buyers (fspcb)*Suppliers' internal motivation (fssim)

Chapter 8: Implications of upgrading for workers – Findings

This chapter presents data in relation to the impact of suppliers' economic and social upgrading strategies on their workers. The data analysis in Chapter 6 has shown that the studied firms have undertaken the majority of social upgrading initiatives due to pressure for compliance by the buyers and independent agencies including Accord and BSCI. In order to manage the sizeable cost of compliance, the studied firms have pursued economic upgrading as well. The findings in Chapter 7 show that, while the economic upgrading initiatives were predominantly driven by suppliers' internal motivation, the activities undertaken for social upgrading were mostly externally motivated. Subsequently, the majority of the suppliers have implemented the codes prescribed by the buyers as necessary pre-conditions for maintaining relationships with them. Against this background, it is critical to explore the extent to which workers' needs, especially felt needs, could be integrated in such externally motivated social upgrading initiatives. The outcome of social and economic upgrading will, therefore, be evaluated through the social value creation lens proposed by Sinkovics et al. (2015). In so doing, the human rights (workers' economic, social and cultural rights) implications of upgrading initiatives for workers will be examined (cf. Wettstein 2012).

The chapter is divided into two sections. The first section discusses the impact of different upgrading initiatives on employees' work and personal lives. The second section summarises the key findings and highlights the contribution of the findings towards the IB and GVC literatures.

8.1 Impact of social and economic upgrading on workers

Wage level

The interviews with the workers of all the firms reveal that their basic salary has increased due to the recent rise in the national minimum wage. The daily working hours have also reduced in line with the new national overtime hours ceiling. As a consequence, management was less willing to allocate overtime as the hourly overtime payment has increased significantly. This resulted in a situation where, although workers could spend more time with their families, their cumulative monthly income has declined due to the decreased overtime hours. In the words of one machine operator:

“Until recently, my monthly take away income after 10–14 hours/week of overtime was TK10,450; whereas, with the new wage rate and overtime limit, my monthly income has come down to TK8,500. This change in income has affected our living standard, creating difficulties for us in paying our rent and our children’s school fees.” (Machine Operator, Firm A)

The reduced monthly income has affected the workers’ standard of living, making it challenging for many to keep their families with them. The inability to afford the high cost of living in Dhaka city has forced a number of workers either to send their families back to their villages or to accommodate themselves in smaller rented housing. The change in income also compelled a group of workers to get engaged in an additional part-time job in another garment factory. The double work shifts meant even less time for them with their family than they previously had.

Work hours

A further implication of increased compliance manifested itself as increased pressure regarding regular working hours was accompanied by a drop in workers’ monthly incomes. As a result of the new overtime limits, they were given set daily targets that often proved over-ambitious and impossible to achieve within regular working hours. In order to achieve the targets, workers would stay longer without receiving overtime. Furthermore, there have been complaints about abusive language by supervisors should they fail to meet the daily targets. On many occasions, workers had to sacrifice their lunch break to catch up with the pending workload. In some of the workers’ own words:

“We are not even allowed to go to the toilet as we have to meet the targets. If we cannot do so then our supervisors use abusive language and complain about us to the management. This new target-based system is impractical and inhumane. We work more but we get paid less.” (Machine Operator, Firm C)

“Although we work reduced hours, we produce the same quantity or even more. We often need to work beyond regular hours to finish the target, although we are not paid overtime payment for doing so...I believe this is unfair because targets are often set very high and finishing those would often mean that we would have to squeeze our lunch time to work more.” (Helper, a sister concern firm of Firm K)

The workers of Firm E, Firm L and Firm I confirmed the continual downsizing in their workplaces. The downsizing of workers has contributed to increased work pressure for the remaining ones. The workers stated that they were compelled to do a share of their redundant colleague's jobs, otherwise they were threatened with the sack by management.

Health and safety

The analysis shows that health and safety conditions have improved in 14 factories. The interviewed workers agreed that there have been gradual improvements in working conditions over the years, especially over the past two years. For instance, the workers of Firm A significantly valued some of the recent changes made by the factory, such as widening the main entrance of the building, the increase in the number of fans on the floor area and the provision of masks to prevent textile fumes from being inhaled. Similarly, the workers of Firm K, Firm N and Firm B have highly appreciated the high standard health and safety environment in their newly constructed factories. The improvements in fire safety arrangements along with the new improved medical facilities were also highly regarded by most workers.

Nevertheless, mixed responses were found with regard to the value of the newly introduced childcare, toilet and dining facilities among the workers. Most workers living in joint families prefer to leave their children with grandparents rather than bringing them to work. As a consequence, childcare facilities were hardly used by workers in all the studied firms, with the exceptions of Firm M and Firm K. With both Firm M and Firm K being located in Dhaka city, their workers stated that they found it difficult to keep their extended families with them due to the high living cost in city areas. Thus, they had no other choice but to bring their children to work, although they preferred not to do so. The workers in the remaining factories commented:

“We do not need a child care facility as none of us use that facility. Our mother-in-law will not let us bring our children to work. They believe that their grandchildren will be neglected in the child care centre, as because the concept of child care has never been well appreciated in our culture.” (Quality team worker, Firm J)

“Because there is hardly ever any child in the day care centre, the room is often used as resting room by the workers. The management encourages us to bring put our

children at day care centre and have fully equipped it with a child minder, toys and books and other necessary facilities. However, me and my colleagues are not comfortable to bring our children at work and doing so would make me more anxious.”
(Worker, Cutting Section, Firm D)

The dining and toilet facilities were changed to a Western-style layout with modern amenities (i.e. the previous arrangement of sitting on the floor was replaced by chairs and tables in the dining room and the traditional pan system toilets were replaced by commode toilet seats). However, mixed responses were received in respect of these changes. While some workers considered the changes to be more convenient, others found the opposite. The workers said:

“We never have dinner on a dining table at home. Thus, a spacious dining place with proper tables and chairs is not important for us...We rather feel uncomfortable sitting in such a formal manner as this is not what we have done since our childhood.”
(Worker, Firm C)

“I think the commode system toilets are less hygienic than pans because in the new system our body touches the toilet seat. I am not used to using such toilet and feel terribly uncomfortable.” (Worker, Firm K)

Job security

Workers also reported decreasing job security. The purchase of new machines for the purpose of improving the quality of garments has made the production process more efficient. This has also meant that less qualified workers have lost their jobs. The interviewed workers revealed that at least 15 helpers has lost their jobs since the acquisition of machines in Firm A, 23 in Firm C, 35 in Firm O and 43 in Firm P. Increasing CSR compliance pressures also meant that most factories had stopped recruiting unskilled workers (e.g. helpers and operators), thus excluding them from the job market. As a consequence of their reduced job security, their bargaining power over their employers has also decreased. One of the helpers in Firm D stated:

“The management has informed us about the new factory to be going fully operational from July 2014. They have also warned that many of us could be sacked, especially the helpers and the less skilled ones. They said that the helpers will not be required in

the new factory due to instalment of automatic thread cutting machines.” (Helper, Firm D)

“We are told to leave the job if we dare to complain to the management about the increased work load. In fact, after finding a large number of redundant garment workers roaming around from factory to factory in search of vacancies, I feel lucky that I still have a job despite the work load.” (Machine Operator, Firm B)

Therefore, the rising unemployment in the Bangladeshi garment sector resulting from factory closures has heightened the domination of employers over labour. The heavy investment in machinery has further fuelled this problem of unemployment. The bargaining power of management has increased more than ever before due to the huge number of redundant workers in the industry. A number of firms, such as Firm D, Firm K and Firm B, have constructed new factory buildings that have full compliance status. Such improvements have also affected the bargaining power of workers:

“Workers nowadays want to work in a compliant factory. Therefore, by virtue of their new compliant factory, the employers can now can get skilled workers very easily. As a result, if we fail to keep up with their expectations, we have to pay the cost by losing jobs. They can now make us redundant any minute to recruit someone more skilled.” (Worker, Firm B Composite)

The comment above shows that there has been reduced job security, especially for unskilled workers, as an outcome of compliance. The workers also reported an increase in the number of young male recruits in the past year – a trend that they have noted following the introduction of maternity benefits. This trend has reduced the job security of female workers who are married and of childbearing age.

Skills development

The workers in the 13 garment firms reported limited opportunities for personal and skills development. On-the-job training was only provided during the early days after recruitment of a worker. The development of further skills depended on workers’ willingness and ability to learn

from others and on their self-motivation. The workers commented that the management were usually reluctant with regard to formal and ongoing training for advanced and continual skills development, although workers' promotions and even survival in the job depended on their profile of new skills learned and productivity. One of the workers in Firm A commented:

“On the one hand, management has warned us that if we do not work efficiently, then we will be sacked right away. On the other hand, most of us don't know how we can improve our skills, how we can learn new skills...When I joined, one of our senior colleagues showed me the sewing task, i.e. handling the sewing machines, understanding the cut pieces and stitching them together. Until now I have been doing the same task every day... In essence, whatever new tasks we learn, we learn them on our own from our senior colleagues.” (Worker, Firm A)

In contrast, the workers of Firm N, Firm O, Firm P, Firm Q and Firm R confirmed a number of opportunities available to them for skill development. The workers stated that their rewards and promotions are associated with their ability to learn and apply new skills. One of the workers in Firm Q stated:

“All the workers in our factory are part of small groups, in which the team members are originally skilled to perform specialised tasks such as, cutting, sewing, labelling, quality check etc. Once in every month the entire team is off from work and attend training where they learn from the trainer and also from each other. Thus the teams take turns to attend training, which is scheduled in such a way that regular work on the floor is not affected...The management wants us to know different tasks so that we can make for absents or leave outs. Moreover, if a worker has worked in Firm Q, then he can find job anywhere in the industry because everyone knows that our workers are not only skilled but also multi-skilled.” (Floor Supervisor, Firm Q)

A worker from Firm R reported that every year a team of best performers (in terms of new skill learning and productivity) is taken for an overseas trip as a reward. For instance, in 2013 a team of best performers visited Nepal. One of the workers in Firm N stated that continual training has been provided to the workers to keep up with the expectations of their key customer, Tommy Hilfiger. The worker stated:

“THF has sensitive areas on their garments such as button placement, collar accuracy and most importantly stitch issues. Therefore, different workers receive training on different areas and they are specialised in that particular task...I am not worried about losing job as I know I will get job easily elsewhere with my work experience in Firm N.” (Worker, Firm N)

Therefore, the analysis shows that the workers suffer from reduced job security due to the few opportunities available to them for skills development. In contrast, in firms where opportunities for skills development are available, workers are better prepared to undertake multiple tasks in addition to developing specialised skills. The learned skills allow them not only to contribute to the firm, but also to gain bargaining power over the management, making them less vulnerable in the current situation.

Freedom of expression and association

The interviewed workers in all the firms reported that they were either indirectly or directly discouraged or threatened by the management with respect to joining the trade union. The workers, therefore, invariably showed a reluctance to unionise out of the fear of losing their jobs. In addition, many have doubted the effectiveness of the unions:

“We do not want to raise our voice through trade unions because we know that these trade union leaders will just exploit us to make an issue. They will protest and vandalise the factory. The local political leaders will encourage them. In the end, our issues will not be solved and we may actually lose our jobs.” (Worker, Firm C)

The analysis shows that a workers’ participatory committee (WPC) has been formed in nine of the factories during the past year. The WPC allows the workers to discuss their issues amongst themselves and convey those to the management via elected representatives. The WPC usually holds regular meetings where workers’ issues are solved internally. There were, however, mixed responses with regard to the effectiveness of such committees. While some workers regarded it to be *“a management dominated tool to suppress building up of labour agitation”*, *“not effective as because workers are scared to express”*, others reported it to be *“more helpful than joining unions”*, *“effective as because fast actions are often taken by the management”* and *“successful in solving even their minor concerns”*. The workers further commented:

“At least now we know where to take our issues, whom to report to; the process of reaching the management is clear to us. Previously [before the formation of WPC] we mostly used to keep problems to ourselves, while now we can report even minor issues via our representative without getting our individual names involved...I think trade unions usually deal with broad agenda. However, we have small day-to-day issues that are particular to this factory only. For instance, our ironing room used to get very hot during the afternoon time due to lack of cooling system and proper ventilation. A cooler and two exhaust fans were installed within one month after we reported this problem to the management during WPC meeting.” (Worker, Ironing Section, Firm K)

“We do not need unions to solve our regular issues such as, problems on the floor, problems related to bonus and leaves and so on. Such small issues will get drowned in big agenda of unions. Thus we believe forming the WPC was a helpful initiative.” (Worker, Cutting Section, Firm J)

Nevertheless, there was an absence of a WPC or any similar means in the remaining nine factories, which are mainly the small ones. The workers from these factories reported a number of instances where they have been exploited. The examples include verbal abuse by supervisors should they make mistakes or fail to fulfil the daily target; an absence of an employment contract; and sudden termination or transfer to a part-time position with no compensation. These instances were more common in Firm E, Firm F, Firm D and Firm I. One of the workers in Firm D said that the lack of a dialogic relationship with the management coerces the workers to leave such issues unreported and unsolved. She has also showed a lack of willingness to join the union and reported the prevalence of similar reluctance among her colleagues. The interviewed worker from Firm I showed a heightened stress level and job dissatisfaction, with a number of her issues being unresolved. One of the workers in Firm F stated:

“My supervisor [male] always says bad words about my physical features. He says that I am too skinny and hence less efficient. I feel ashamed in front of my other colleagues when he does that. I don't know how to deal this problem and where to take it. Now I have almost accepted that I will be bullied if I am not efficient and that's normal.” (Machine Operator, Firm F)

Therefore, the findings show that workers showed a general reluctance to join trades unions, doubting the effectiveness of such associations, especially in dealing with day-to-day

issues that are particular to individual factories. In some of the factories, the formation of WPCs has contributed to restoring their workers' rights to freedom of expression and freedom of association to a certain extent. However, in cases of the other firms, such initiatives have proved to be largely unsuccessful as a result of management's inappropriate approach to addressing workers' issues. As a consequence, the analysis shows that workers' minor yet important issues have gone unreported and unsolved due to an overall absence of a WPC or because of its ineffectiveness.

Equal opportunity

Although female workers form the majority of the workforce in all the firms, they have been more vulnerable to discrimination. For instance, females were not found in supervisory positions in the factories. Although Firm Q and Firm R offered a better picture in terms of representation of females in supervisory and managerial positions, most firms lag behind in this aspect. One of the female workers in Firm B even reported a variation in the salary package between male and female workers recruited in the same position, with the female worker receiving a 15% lower salary. The differential needs of female workers (such as their commitment towards children and household work, maternity issues and physical and mental health problems) were rarely addressed by the management. In some of the female workers' own words:

“Last month my one year old baby was sick for several days. As a result, I had to arrive late at work for couple of days, for which my salary was deducted. Sometimes my male colleagues arrive late for no good reason, however, they are rarely punished by the supervisor because they are his friends and they live in the same labour hostel.”
(Worker, Firm H)

“Due to some health complications, I had to go off work one month before my maternity leave had officially started. However, I was not excused for my physical inability, which I believe can happen to any expecting mother. Not only my extra leave days were unpaid but also an amount was deducted from my maternity bonus. When I re-joined, the management insulted me by drawing upon the inconvenience that I had caused to them.” (Worker, Firm I)

In contrast, the female workers of two firms, Firm Q and Firm R, reported that their differential needs are often taken care off. For instance, Firm R offers a transportation facility to

female workers in consideration of their security as they are more vulnerable compared to their male colleagues. Similarly, the workers of Firm R stated that the needs of the female workers are given priority when organising the weekly work shifts. Firm Q has been recognised as an equal opportunity employer by the BGMEA.

Therefore, the analysis shows that gender discrimination still remains an issue in most factories, with female workers being more vulnerable to abuse and exploitation. The differential needs or situations of female workers were considered with care only in two of the firms. In contrast, in most other firms, female workers have been penalised should they fail to perform at an expected level due to their other important family, social or personal commitments.

Workers' socially grounded needs

The analysis shows that a group of firms (e.g. Firm A, Firm C and Firm D) have stopped providing certain facilities that were prioritised by the workers over the ones prescribed by Accord. These facilities were stopped in order to compensate for the high investment made for Accord compliance. The workers showed dissatisfaction over such changes and reported a number of inconveniences that they have been experiencing following the changes. For instance, Firm D used to give free clothes to workers and their immediate family members during the Eid religious festival, which they have stopped since last year. Given that most workers are Muslims, they strongly preferred this benefit which used to reduce their financial burden during the festive period. The head of the labour management division commented:

“Our workers do not need a soap dispenser, toilet tissues and commode seats in the toilet; they were rather happy with a bar soap, a gamcha [traditional cloth serving the purpose of towels] and traditional pan system toilets...We have made a new factory with all modern amenities to provide a comforting and safe environment to the workers; however, we know how much they [workers] miss the free clothes and bonuses that we used to give during Eid times.” (Head of Labour Division, Firm D)

One of the workers of Firm C protested about management's decision to convert the prayer room into a formal dining place:

“We never have dinner on a dining table at home. Thus, a spacious dining place with proper tables and chairs is not important for us, definitely not when it compromises

our having a separate place for saying prayers. Now we have to say prayers in front of our male colleagues, which is a Gunaah [sin].”

Similarly, the workers of Firm A objected to the decision to stop providing a free lunch. They prioritised the lunch facility over other newly added facilities, some of which they hardly used, such as the childcare facility. In their own words:

“We do not need a child care facility as none of us use that facility. Our mother-in-law will not let us bring our children to work... We need lunch; if we are to cook lunch at home, then we have to wake up at 5:00am in the morning. We are too tired to do that after 8-10 hours of factory work followed by domestic work at home.” (Machine Operator, Firm A)

“Previously we used to get meat/fish, vegetable, lentil and rice as our free lunch; whereas now we can only afford to have potato curry and rice for lunch. This change has been a sudden pressure on our financial arrangements. The management claims that they have made so many changes for our good and those cost them a lot. Of course, we appreciate those changes; however, we would have never agreed to give away the lunch facility for those changes.” (Helper, Firm A)

While the above firms have stopped these additional facilities, another group of firms have made some adjustments in these arrangements in order to reduce their financial commitment towards these facilities. For instance, Firm L has adjusted the workers’ transportation facility for a nominal allowance. One of the workers highlighted that the allowance was not enough to cover the high transportation cost which burdened their financial situation. In addition, the worker showed concern about her security, with an increasing number of incidences of female garment workers being physically and verbally harassed on the roads by the “Eve teasers”. The workers of Firm J commented negatively regarding the replacement of the free lunch facility with a nominal lunch allowance. One of the workers said:

“Although I am getting allowance for lunch on a weekly basis, the amount is not sufficient. I used to get three/four varieties of food previously for lunch, while now I cannot afford to cook so many items at home. Even if I do, I prefer to leave those for my children and husband. In our society, women do not eat the best foods, although they cook for others in the family.” (Worker, Firm J)

Only two firms, Firm Q and Firm R, could afford to maintain the additional facilities that they have been offering to the workers over a long period. These two firms have been involved in a constant dialogue with the workers to identify their needs, priorities and problems and to design facilities to solve workers' issues and improve their overall living standards. As a consequence, a high level of satisfaction was found among the workers. In the workers' own words:

"I feel secured about my work and life because I know that am working in one of the best factories in the country...I received helps from the factory in times of my need. My husband was jobless after he recovered from tuberculosis. A number of factories refused to offer him a job. We were in serious financial crisis and we were about to go back to village. When I informed the supervisor about my decision to leave the job, he advised me to take my problem to WPC. I then discussed my problem with our apa [female workers' representative of WPC], who lobbied to the management for recruiting my husband. My husband was then recruited in the cutting section in this factory." (Worker, Firm Q)

"My 15 year old son was getting spoiled with no education and no job. I put him into this company's vocational training centre where he learned plumbing for free. Now he earns money for the family using his skills. I will always be grateful to the company and thus can never leave this job." (Floor Supervisor, Firm R)

The analysis, therefore, shows that the high maintenance cost of compliance has led a group of firms to withdraw or adjust the facilities that were prioritised by the workers over the prescribed initiatives. These changes have indeed created further challenges for workers, which has diminished the expected gains from the compliance initiatives. In contrast, the firms offering facilities suited to workers' socially grounded needs were in a better position in terms of having higher levels of worker satisfaction.

8.2 Key findings and discussion

The data presented in this chapter reveal two notable findings. First, the pressure for compliance has generated mixed results for workers (Figure 8.1). In the case of the small firms, compliance initiatives have brought improvements in health and safety conditions, although workers' overall monthly income and job security have reduced and their hourly workload has increased. No significant change was observed in the cases of a number of other dimensions, such as freedom of speech, equal opportunities and skills development. The small firms have progressed

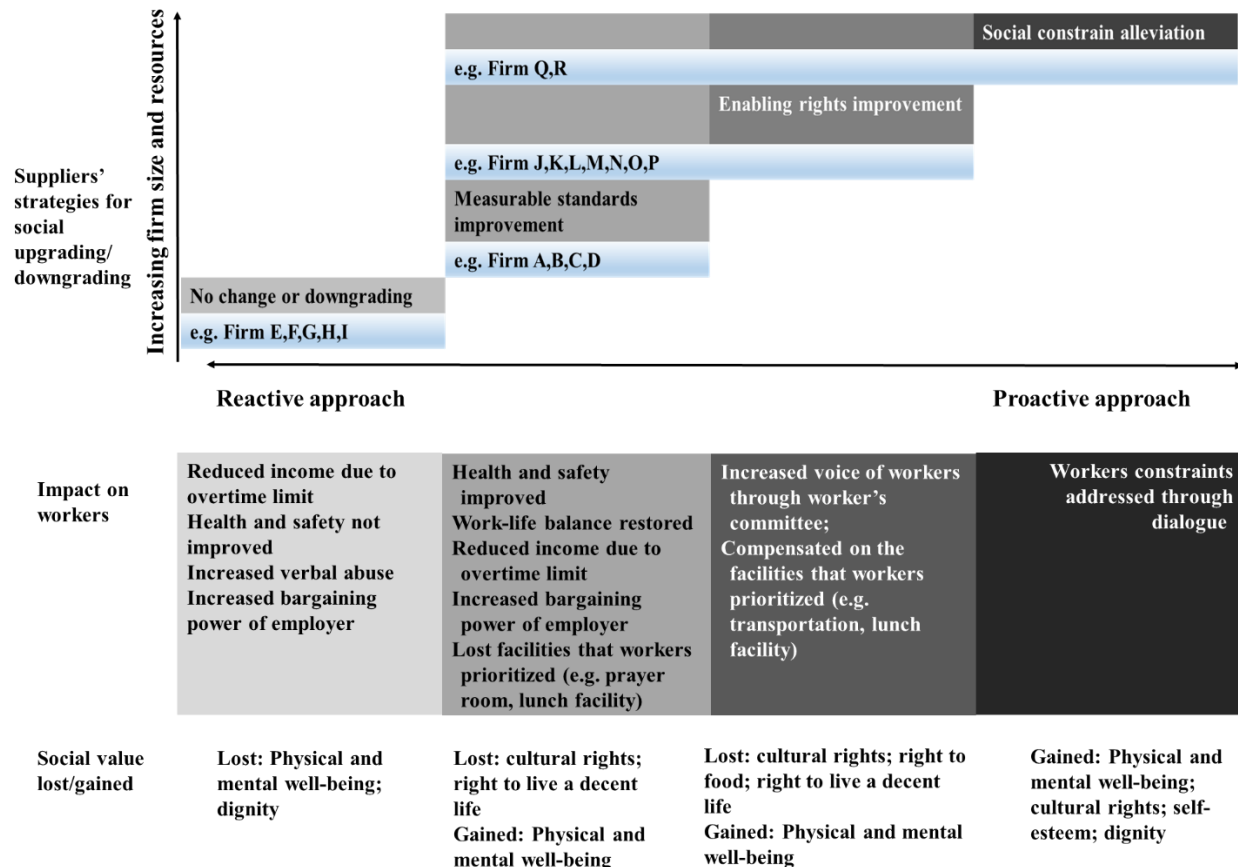
in terms of complying with the measurable dimensions, while still lagging behind in terms of implementing the enabling rights of workers. The findings reinforce that most small suppliers have focused on the tangible dimensions of compliance in order to present their compliance status as a ticket to enter into a new relationship or maintain the existing ones (cf. Gugler and Shi 2009). The pressure to comply has created the necessity to find ways to cover the sizable cost of compliance. This has prompted most of the firms to pursue process upgrading, mainly through technological advancements and through the imposition of increased work pressures on the labour force. However, with a few exceptions, the process upgrading initiatives have not resulted in an upgrading of workers' skills and have not improved the conditions related to other sensitive issues, such as freedom of speech and gender equality. Furthermore, these compliance-driven economic upgrading initiatives have brought about an increased power imbalance and led to the exclusion of unskilled workers from the job market (Figure 8.2).

In contrast, firms that are relatively large and resourceful (e.g. Firms J–R) have concentrated on improving the measurable dimensions along with nurturing workers' skills. The two large firms even tried to improve workers' overall quality of life by offering additional facilities that are not part of compliance. These firms strategised to cover the cost of compliance by improving labour productivity resulting from their increased efficiency, greater job satisfaction and superior quality of life. As a result, a relatively greater level of satisfaction was observed among the workers in these firms.

Second, the analysis shows that the socially grounded needs of the workers have been neglected in the process of compliance. With the exception of the two large firms, the other firms had to either stop providing facilities that were previously offered to the workers or replace those facilities with something less suitable (and less costly) for the workers' social context. The findings indicate that, in order to manage the cost of compliance, a number of firms had to cut corners on the facilities that are not part of the labour codes, although those were more valuable to the workers compared to the ones listed in the codes. A closer investigation of these initiatives through the social value creation lens (Sinkovics et al. 2015) shows that there has been loss of social value in the process of implementation of compliance. The analysis in Tables 8.1, 8.2 and 8.3 shows that certain compliance initiatives that cater to prescribed needs rather than felt needs generate positive outcomes in terms of social upgrading (Goldewijk and Fortman 1999). What is more, in the majority of the cases, CSR compliance has, instead of adding social value, in fact destroyed

previously existing social value. Although the two large firms offered facilities that were designed to alleviate the constraints of the workers, it must be noted here, that these two firms are resource-rich and thus are able to cater to both the felt and prescribed needs of the workers.

Figure 8. 1: Impact of social upgrading on workers



The findings contribute to both CSR-related IB studies and GVC studies. Criticism of the compliance-based approach is not new to CSR studies; The compliance based approach of MNEs has been criticised in previous CSR studies for promoting MNEs' imperialism (Khan and Lund-Thomsen 2011). Labour codes have been criticised as the tools used by MNEs to succeed in the "politics of production" (Taylor 2011) and to maintain control over suppliers (Ponte and Gibbon 2005). Previous studies have pointed out that the codes are not designed as a reflection of workers' voices (Lund-Thomsen and Coe 2013; Lund-Thomsen and Lindgreen 2013) and demonstrate an overall lack of understanding of the causes of poverty (Newell and Frynas 2007; Prieto-Carrón et al. 2006). While these studies raise important criticisms of the compliance-based paradigm, their

arguments are still not based on the direct experiences of the workers. The findings of this chapter not only re-establish the criticisms highlighted in previous CSR studies, but also advance those by pointing out both the intended and unintended consequences of the compliance-based approach for workers. Further to this, the findings are based on data directly collected from interviews with the workers (Sinkovics et al. 2016a). Examples of intended consequences are improvements in working conditions and health and safety, and control of overtime hours; while the unintended consequences include reduced monthly income, increased workload, and reduced job security resulting from process upgrading. Another important unintended consequence has been the loss of social value due to discontinuation or alteration of some of the previously offered facilities that are not part of compliance. The progress made through compliance cannot be undervalued; however, to achieve more enduring and meaningful results, an understanding of the root causes of workers' problems is necessary (cf. Locke 2013). In this respect, this study draws on Sinkovics et al. (2015), who emphasise the alleviation of constraints as a means to create meaningful social value. In line with this thinking, an understanding of the workers' constraints that prevent workers and their communities from attaining their human rights (including economic, social and cultural rights) is necessary to avoid these unintended consequences of compliance (Sinkovics et al. 2016a). However, the reasons underlying these unintended consequences are the top-down imposition of standards by multinational buyers and suppliers' reactive approach in implementing these. To this end, Sinkovics et al. (2016a) urge that only when the top-down approach (codes, agreements, guiding principles) meets the bottom-up approach (needs and constraints) is it possible to go beyond mere symptom treatment and actually address social constraints. Such an approach can tie the Western "best" labour practices together with the socially grounded needs of the workers and thus go beyond implementing the prescribed needs only.

The cases presented in this study provide both negative and positive demonstrations of the above argument. It must be noted, however, that the firms taking steps to alleviate workers' constraints are both large and resource rich. Due to their resource poorness, a number of small and medium sized firms were not able to maintain their social value creating activities even when they wanted to. This study, therefore, extends the argument of Sinkovics et al. (2016a), who suggest the need to investigate cases where suppliers have the resources to keep and/or extend previous initiatives.

The findings of this chapter also contribute to the social upgrading literature within the GVC discipline. Tables 8.1, 8.2 and 8.3 show that a number of initiatives that generate positive outcomes for social upgrading have resulted in losses of social value. Therefore, the concept of social upgrading is not synonymous with social value creation. To this end, the findings of the chapter stress that the concept of social upgrading may benefit from a greater understanding of workers' needs and constraints (Sinkovics et al. 2015) and a higher degree of integration of work and workers' voice (Selwyn 2013).

Figure 8. 2: Impact of economic upgrading on workers

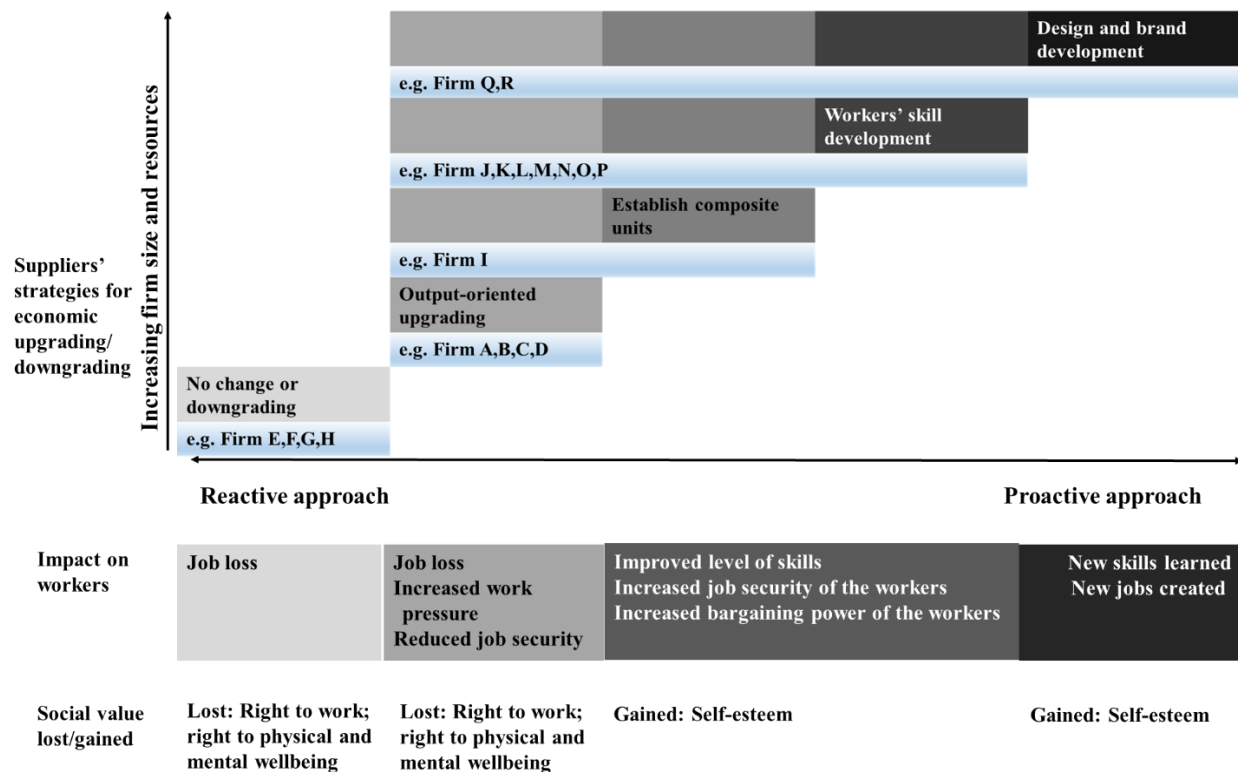


Table 8. 1: The impact of upgrading on workers in small firms

Dimensions	Changes due to upgrading	Intended (by buyers/firms) consequences	Unintended consequences	Human rights violated/respected	Social upgrading	Social value creation
Firm name: Firm E, Firm F, Firm G and Firm H						
Key social upgrading strategy: No-limited change or downgrading/ Key economic upgrading strategy: No-limited change or downgrading						
Measurable standards						
Wage and benefits	Complied with national minimum wage; festive bonus and maternity benefits introduced	Salary increased Increased financial security after child birth and during festive times	Increased demand for male workers and young, unmarried female workers to avoid the cost of maternity benefits	Right to living wage Right to be treated fairly	Yes	No
Social protection	No change or deterioration in health and safety condition First aid facility but no childcare and dining space	No change in health and safety condition	Even deterioration of health and safety conditions in cases where downgrading has taken place	Right to be safe	No	No
Working hour	No overtime; daily target given	Increased time with family Better social life	Reduced monthly income due to overtime limitation More pieces of garments produced in less time Complete impractical daily target either by squeezing lunch time or after regular work hour without claiming any overtime payment	Right to living wage Right to physical and mental wellbeing	Yes	No
Enabling rights						
Freedom of association	Workers are strongly discouraged from joining union	Workers not interested to join union as such associations are politically affiliated	Workers lose their collective bargaining power	Right to express opinion freely	No	No
Freedom of speech	No formal mechanism to express complains	Workers cannot express their problems	Build-up of agitation and labour unrest	Right to express opinion freely	No	No
No discrimination	No female workers in the supervisory team or quality checking team	Female workers are scared to refuse orders of their supervisors and accept their control without much argument	Accept domination and verbal abuse by senior male colleagues	Right to be treated fairly	No	No
Skill development	No formal mechanism for training	Workers learn on their own motivation	Workers have to pay the price for being unskilled while they receive no opportunity for skill development	Right to live with self-esteem	No	No
Promotions	Informal; based on seniority	Workers tend to stay in the same factory for long-time	Workers experience biases in the promotion process	Right to be treated fairly	No	No
Lost social value in transition						
Job loss	Downsized employees due to reduction in sales or due to overall shut down of factory	Increased pressure on existing workers	A large number of unskilled workers have lost job	Right to work	Not part of compliance	No
Job security	Pressurise existing workers to work harder by referring to them about the current job crisis in the industry	Increased work pressure on existing workers	Reduced bargaining power over management	Right to work Right to physical and mental wellbeing	Not part of compliance	No
Equal opportunity	Preference for young females and males to avoid maternity cost	Increased job opportunity for males and young, unmarried females	Women of maternity age gets unfair treatment	Right to be treated fairly	Not part of compliance	No

Firm name: Firm A, Firm B Composite, Firm C and Firm D						
Key social upgrading strategy: Measurable standards improvement/ Key economic upgrading strategy: Output-oriented (capacity) upgrading						
Measurable standards						
Wage and benefits	Complied with national minimum wage; festive bonus and maternity benefits introduced	Salary increased Increased financial security after child birth and during festive times	Increased demand for male workers and young, unmarried female workers to avoid the cost of maternity benefits	Right to living wage	Yes	No
Social protection	Improved fire safety and hygiene Introduced child care and dining facility Introduced separate medical unit and doctor for first aid	Improved working condition	Workers think some new facilities are not important, such as child care centre, dining room.	Right to be safe	Yes	Yes
Working hour	Reduced overtime Daily production target to be finished within regular work hours	Increased time with family Better social life	Reduced monthly income due to overtime limitation More pieces of garments produced in less time Complete impractical daily target either by squeezing lunch time or after regular work hour without claiming any overtime payment	Right to physical and mental well-being	Yes	No
Enabling rights						
Freedom of association	Union participation not encouraged	Workers not interested to join union as such associations are politically affiliated	Workers lose their collective bargaining power	Rights to freedom of association	No	No
Freedom of speech	Workers' committee formed for liaison with management	Workers get a way to liaison with management	Workers cannot express their problems freely with management	Right to freedom of speech	Yes	No
No discrimination	No female workers in the supervisory team or quality checking team	Female workers are scared to refuse orders of their supervisors and accept their control without much argument	Accept domination and verbal abuse by senior male colleagues	Right to be treated fair	No	No
Skill development	No formal mechanism for training; Unskilled workers are downsized as cost per worker has increased due to compliance	Workers learn on their own motivation	Workers have to pay the price for being unskilled while they receive no opportunity for skill development	Right to self-esteem	No	No
Promotions	Informal; based on ability to finish target on time	Workers are more conscious about increasing productivity and not wasting time	Workers face intense work pressure to meet targets	Right to be treated fairly	No	No
Lost social value in transition						
Lunch facilities	Lunch facilities stopped	Reduce operating cost	Workers have to wake up early to cook lunch at home and also bear lunch cost	Right to food	Not part of compliance	No
Prayer room	Prayer room converted into dining space	Better hygiene in the dining area	No privacy in saying prayers	Cultural right	Not part of compliance	No
Job security	Downsizing to compensate the cost of compliance; stopped recruiting new workers Preference for young females and males to avoid maternity cost	Increased work pressure on existing workers	Reduced job security; Reduced bargaining power with management Women of maternity age gets unfair treatment	Right to work;	Not part of compliance	No
Festive benefits	Stopped providing free clothes to workers and their family member on Eid	Reduced operating cost	Workers face increased financial load during festive time as they have to spend on clothes	Cultural right	Not part of compliance	No

Table 8. 2: The impact of upgrading on workers in medium-sized firms

Dimensions	Changes due to upgrading	Intended (by buyers/firms) consequences	Unintended consequences	Violated human rights	Social upgrading	Social value creation
Firm name: Firm J, Firm K, Firm L, Firm N, Firm O, Firm Ps						
Key social upgrading strategy: Measurable standards and Enabling rights improvement/ Key economic upgrading strategy: Capacity increase, establish composite unit and workers' skill development						
Measurable standards						
Wage and benefits	Complied with national minimum wage; festive bonus, attendance bonus, maternity benefits, performance bonus, awards and recognition, yearly paid holiday and social events, provident fund	Increased monthly salary High level of job satisfaction Greater motivation to work sincerely	N/A	Right to living wage	Yes	Yes
Social protection	Improved health and safety condition; Child care, medical and dining facility	Workers are satisfied with the improvement	Workers think some new facilities are not important, such as child care centre, dining room.	Right to safety, physical and mental wellbeing	Yes	Yes
Working hour	Reduced overtime hours	Better family and social life of the workers	Reduced overall monthly income level	Right to living wage	Yes	No
Enabling rights						
Freedom of association	Workers are discouraged from joining the union	Workers not interested to join union as such associations are politically affiliated	Workers lose their collective bargaining power	Right to freedom of association	No	No
Freedom of speech	Established formal mechanism for complaining and liaison with the management	Better communication with the managements Build-up of labour agitation can be prevented in time	Workers are satisfied as they can represent their specific issues, while avoiding being victimised by the influence of union activists	Right to freedom of association	No	Yes
No discrimination	Most females are still recruited at workers level but not promoted to supervisory position	Female workers are scared to refuse orders of their supervisors and accept their control without much argument	Accept domination and verbal abuse by senior male colleagues Dissatisfaction among female workers	Right to be treated fairly	No	No
Skill development	Formal mechanisms for specialised and multiple skill development both at worker and managerial levels	Improved level of skills	Increased job security of the workers Increased bargaining power of the workers	Self-esteem right	Yes	Yes
Promotions	Performance based mechanisms (based on pieces produced daily/weekly/monthly)	Workers are satisfied with the systematic approach to promotion Increased pressure to improve performance	Workers feel pressurised to work beyond their physical and mental capacity	Right to physical and mental wellbeing	Yes	No
Lost social value in transition						
Free Lunch	Free lunch has been replaced by a nominal lunch allowance	Workers have to arrange their own lunch	Workers have to get up early to prepare their lunch or purchase it from outside The lunch allowance is not enough to cover the cost; so increased financial load	Right to nutritious food	Not part of compliance	No
Transportation	Free transportation facility has been replaced by nominal allowance	Workers have to arrange their own conveyance	The transportation allowance is not enough to cover the cost, so increased financial load Increased insecurity, particularly for female workers	Right to physical and mental wellbeing	Not part of compliance	No
Additional financial help	Stopped providing philanthropic helps to workers in time of their financial crisis	Workers have to manage fund from their own salary and savings	Increased financial load and insecurity for the workers and their families	Right to physical and mental wellbeing	Not part of compliance	No
Job security	Stopped recruiting workers Pressurise existing workers to work harder	Increased work load and monitoring faced by the workers	Workers feel increased insecurity about losing job if they fail to comply with management's expectations	Right to work	Nor part of compliance	No

Table 8. 3: The impact of upgrading on workers in large firms

Dimensions	Changes due to upgrading	Intended (by buyers/firms) consequences	Unintended (by buyers/firms) consequences	Violated human rights	Social upgrading	Social value creation
Firm name: Firm Q, Firm R						
Key social upgrading strategy: Measurable standards, Enabling rights improvement and social constrain alleviation/ Key economic upgrading strategy: Capacity increase, establish composite unit and workers' skill development, design and brand development						
Measurable standards						
Wage and benefits	Provides salaries beyond national scale; number of additional benefits beyond the basic ones	Higher monthly income than average workers High level of job satisfaction Greater motivation to work sincerely	N/A	Right to living wage	Yes	Yes
Social protection	Global standard working condition A number of measures that ensure workers physical comfort (i.e. air cooler, fume control system) Fully functional childcare and medical facility	High level of job satisfaction Greater motivation to work sincerely	N/A	Right to safety, physical and mental wellbeing	Yes	Yes
Working hour	Overtime reduced to 2 hours/day	Better family and social life	Workers' overall monthly income has reduced	Right to living wage	Yes	No
Enabling Rights						
Freedom of association	Workers are discouraged from joining the union; the involvement in union activity is confirmed before recruitment	Workers not interested to join union as such associations are politically affiliated	Workers lose their collective bargaining power	Right to freedom of association	No	Yes
Freedom of speech	Established formal mechanism for complaining and liaison with the management	Better communication with the managements Build-up of labour agitation can be prevented in time	Workers are satisfied as they can represent their specific issues, while avoiding being victimised by the influence of union activists	Right to freedom of association	No	Yes
No discrimination	The balance between gender is maintained at all level	Workers feel that they are treated fairly	N/A	Right to be treated fairly	Yes	Yes
Skill development	Ample opportunities for specialised and multiple skill development both at worker and managerial levels	Improved labour productivity	Increased job security of the workers Increased bargaining power of the workers	Self-esteem right	Yes	Yes
Promotions	Depends on skills and learning	Workers are satisfied with the systematic approach to promotion Workers are interested for learning new skills	Career development	Right to be treated fairly	Yes	Yes
Gained social value in transition						
Additional facilities	A number of facilities beyond compliance, such as, free lunch, transportation, education for children, vocational training for family members, saving facilities, prayer facilities, full medical facilities for family etc.	Better living standard of the workers Opportunities for getting out of poverty	N/A	Right to live a decent life Right to physical and mental wellbeing	Not part of compliance	Yes

Chapter 9: Conclusion

This thesis has investigated the upgrading strategies of suppliers (RQ1) at the firm level, relational factors driving those (RQ2) and the implication of those for employees' work and personal lives (RQ3). The study has been based on 18 Bangladeshi garment manufacturing firms that are involved in tacit promissory contracting relationship with their buyers. Within this relational arrangement, the studied firms have been engaged in recurrent discrete transactions with the same buyers since their inception, but without the existence of any original legally binding written agreement (Hoque et al. 2016).

The results of the study reveal three key findings. First, the findings of the study show that the small suppliers have mainly focused on output (capacity) enhancement in their initiation towards economic upgrading. In contrast, relatively larger firms have concentrated on higher-value-adding actions, including building vertically integrated raw material production units, developing workers' skills and even designing and creating their own brands. The social upgrading strategies of the small firms have mainly involved implementing the measurable dimensions of the codes, while, in the cases of large and medium sized firms, these have also involved addressing the more sophisticated rights of the workers. The large and medium sized firms have sought to offer employees opportunities for skills and career development, although they remain reluctant to address issues related to discrimination and freedom of association. Second, suppliers' upgrading strategies can vary through a spectrum of reactive to proactive approaches. They have been more eager to unilaterally pursue economic upgrading compared to undertaking social upgrading. While, in most of the cases, economic upgrading initiatives were driven by suppliers' internal motivations, the actions undertaken for social upgrading were largely driven by the pressure for compliance from buyers and Accord. Third, the upgrading initiatives have generated mixed results for the workers of different sized firms. Their socially grounded needs have been neglected in the process of implementing the labour standards prescribed by the buyers. The workers in small firms have experienced an improvement in health and safety conditions, while reporting reduced job security, increased work pressure and reduced monthly income resulting from employers' output-oriented economic upgrading. The workers of large and medium firms have mostly enjoyed positive outcomes in terms of improved working conditions and better opportunities for skills and career development. The workers of small and medium sized firms have had to either completely sacrifice

or compromise their pre-compliance facilities, although those were more suited to their needs and social context.

The thesis contributes to the IB and GVC literatures in three ways. First, the thesis elucidates a to-date unexplored form of international outsourcing relationship, namely tacit promissory contracting. By identifying this specific form of relationship, the study highlights to both IB and GVC disciplines the significance of a legally binding contract in driving suppliers' strategies/approaches towards upgrading. Second, the thesis has emphasised the suppliers' role as the fabricators of their firm-level upgrading strategies. This is an aspect that is largely under-researched both in the IB and GVC literatures (cf. Marchi et al. 2014). Thus, the study contributes to IB theory by placing central focus on the suppliers rather than taking them as passive takers of MNEs' decisions (Hoque et al. 2016). It contributes to the GVC literature by pointing out how suppliers' firm-level efforts matter in the implementation of distinct forms of upgrading, given that upgrading is largely studied in GVC as an outcome of the governance structure of the value chain (e.g. Humphrey and Schmitz 2002). Third, the study has revealed the broader implications of upgrading strategies by identifying the root causes of workers' problems and the human rights implications of those. It has also identified the limitations of the social upgrading approach in GVC and has pointed out how focusing on a wider range of human rights would yield more insights into this concept (Sinkovics et al. 2016a). The study has advanced the understanding in IB by moving beyond the typical MNE-centric approach, both in examining the outcome of CSR compliance and also by integrating the voices of the workers that until now have been largely excluded from this body of literature (cf. Khan and Lund-Thomsen 2011). Overall, the study contributes to both the IB and GVC literatures by following up on recent interests in the cross-disciplinary engagement of perspectives from these two disciplines (Johns et al. 2015).

In the next section, this chapter summarises the key findings and explains how those have addressed the three research questions. The contributions of these findings to theory, policy and practice are also highlighted in section 9.2. The methodological limitations and further research directions are included at the end of the chapter.

9.1 Key findings

RQ1 sought to explore the strategies adopted by the studied firms for pursuing social and economic upgrading. To address this research question, four types of social upgrading strategies

and five types of economic upgrading strategies were identified and presented in Chapter 6. The social upgrading strategies that have been identified from the data are: i) No change or downgrading; ii) Measurable standards improvement; iii) Enabling rights improvement; and iv) Social constraint alleviation. The five types of economic upgrading strategies are: i) Limited/no change and downgrading; ii) Output oriented upgrading; iii) Establishment of composite factories; iv) Workers' skill development; and v) Design and brand development. An analysis of the drivers underpinning these upgrading initiatives revealed that both social and economic upgrading strategies can be placed within a spectrum of reactive versus proactive approaches. The firms are also grouped together based on their social and economic upgrading strategies, driven by the varying degree of reactivity versus proactivity (Figures 9.1 and 9.2). A further analysis shows that two firm-level factors, firm size and the state of resources, are responsible for influencing the upgrading strategies of the suppliers. The small firms have shown a tendency to adopt upgrading initiatives that were mostly externally motivated, whereas medium and large firms have demonstrated a tendency towards pursuing upgrading out of internal motivation.

RQ2 sought to identify the conditions/drivers within the tacit promissory contracting context that lead to social and economic upgrading in suppliers' firms. To address this research question, nine conditions have been identified that have driven social and economic upgrading within the context of tacit promissory contracting. Among these nine conditions, the ones that are necessary and the ones that are sufficient for the instances of social and economic upgrading have also been identified. The analysis of necessary and sufficient conditions shows that the causal conditions that are sufficient for the instances of social upgrading are: i) attracting new buyers, ii) promises for increased orders from existing buyers; and iii) relational continuity with buyers. The causal conditions that are necessary (but not sufficient) for social upgrading to occur are: i) pressure for social compliance and ii) maintaining relationships with existing buyers. While these necessary conditions cannot individually account for the instances of social upgrading, their combination can. Thus, the firms experiencing the configuration of i) pressure for social compliance OR ii) maintaining relationships with existing buyers (i.e. $fspsc * fsmreb$) will also have a high potential for the occurrence of social upgrading.

In the case of economic upgrading, the causal conditions that are necessary (but not sufficient) for economic upgrading to occur are: i) pressure for social compliance; ii) maintaining relationships with existing buyers; iii) suppliers' internal motivation; and iv) promises from

existing buyers. The causal condition that is sufficient for instances of economic upgrading is attracting new buyers. The intermediate solution shows three configurations of conditions that can result in economic upgrading in firms (Table 9.1).

Table 9. 1: Configuration of conditions for economic upgrading

Configuration 1	Pressure for social compliance OR Maintaining relationship with existing buyers OR Suppliers' internal motivation (fspfsc*fsmreb*fssim)
Configuration 2	Maintaining relationship with existing buyers OR Attracting new buyers OR Suppliers' internal motivation (fsmreb*fsanb*fssim)
Configuration 3	Maintaining relationship with existing buyers OR Promise from existing buyers OR Suppliers' internal motivation (fsmreb*fspeb*fssim)

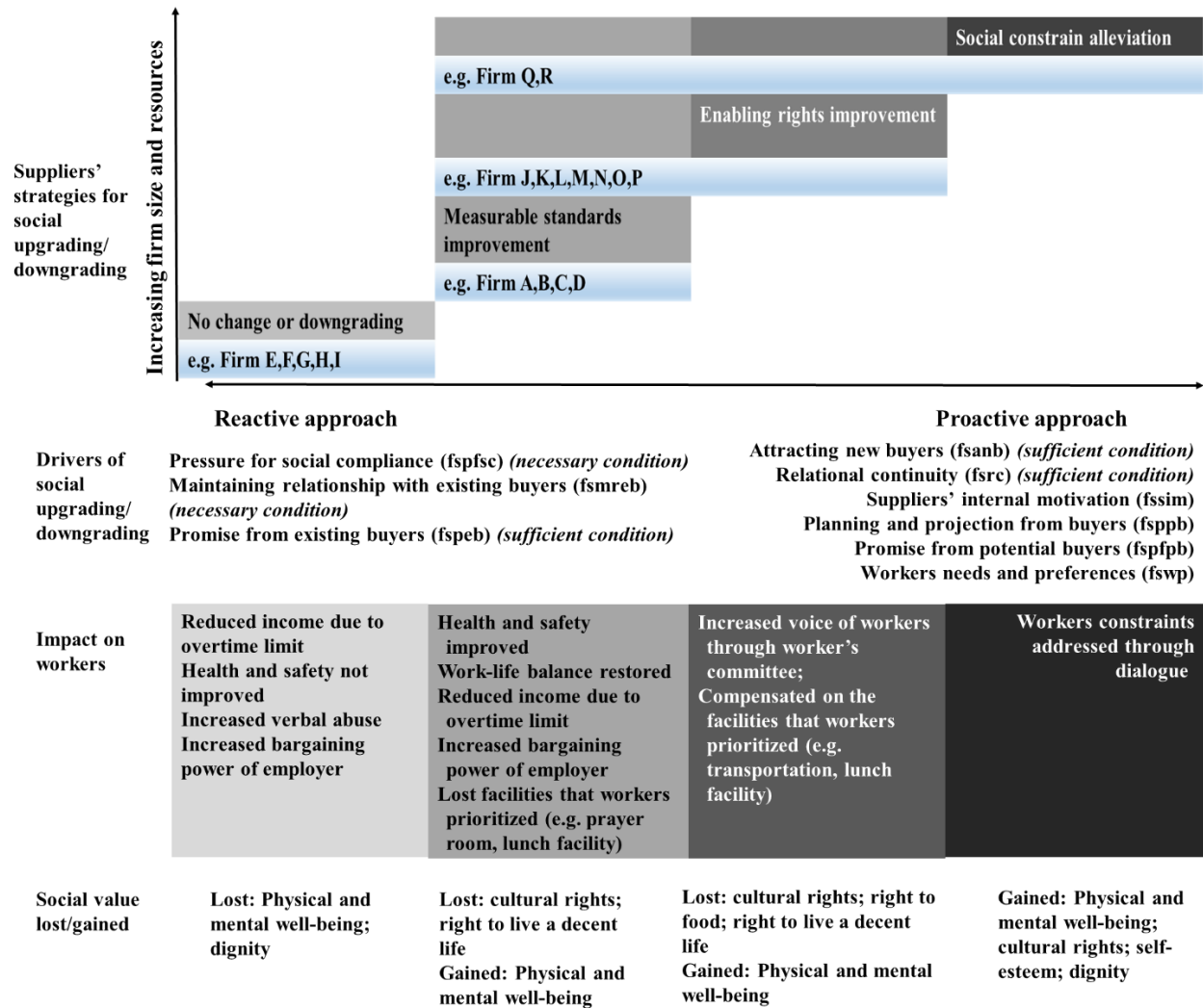
One of the important findings from the fuzzy set analysis is that suppliers are more eager to unilaterally pursue economic upgrading compared to undertaking social upgrading. This is because the parsimonious solution in the truth table analysis shows that, in the case of economic upgrading, “suppliers’ internal motivation” has remained the essential causal condition to distinguish between the positive and negative cases, while in case of social upgrading the essential causal condition has been “pressure for social compliance”. This result indicates that suppliers pursue economic upgrading out of their own proactive motives in order to increase competitiveness, although they undertake social upgrading initiatives mostly due to pressure from buyers.

RQ3 examined the impact of social and economic upgrading on employees’ work and personal lives. The findings show that economic and social upgrading initiatives have generated mixed results for the workers. The small firms have mainly focused on the measurable or tangible dimensions of the labour codes, while showing reluctance to address more sophisticated issues such as gender discrimination, freedom of association and career development. The medium and large firms, on the other hand, have focused on the implementation of both measurable standards and enabling rights. Nevertheless, two key enabling rights, freedom from discrimination and freedom of association, are still addressed to only a limited extent even in medium and large firms.

In terms of the impact of economic upgrading on workers, a number of initiatives have been beneficial for the workers. For instance, the measures taken by the medium and large firms for skills development have facilitated better career prospect for the workers, enhancing their job security and bargaining power at work. Nevertheless, economic upgrading initiatives have also

generated negative consequences for the workers. To exemplify this, the strategies adopted by the small firms to increase output have led to increased workloads and reduced job security.

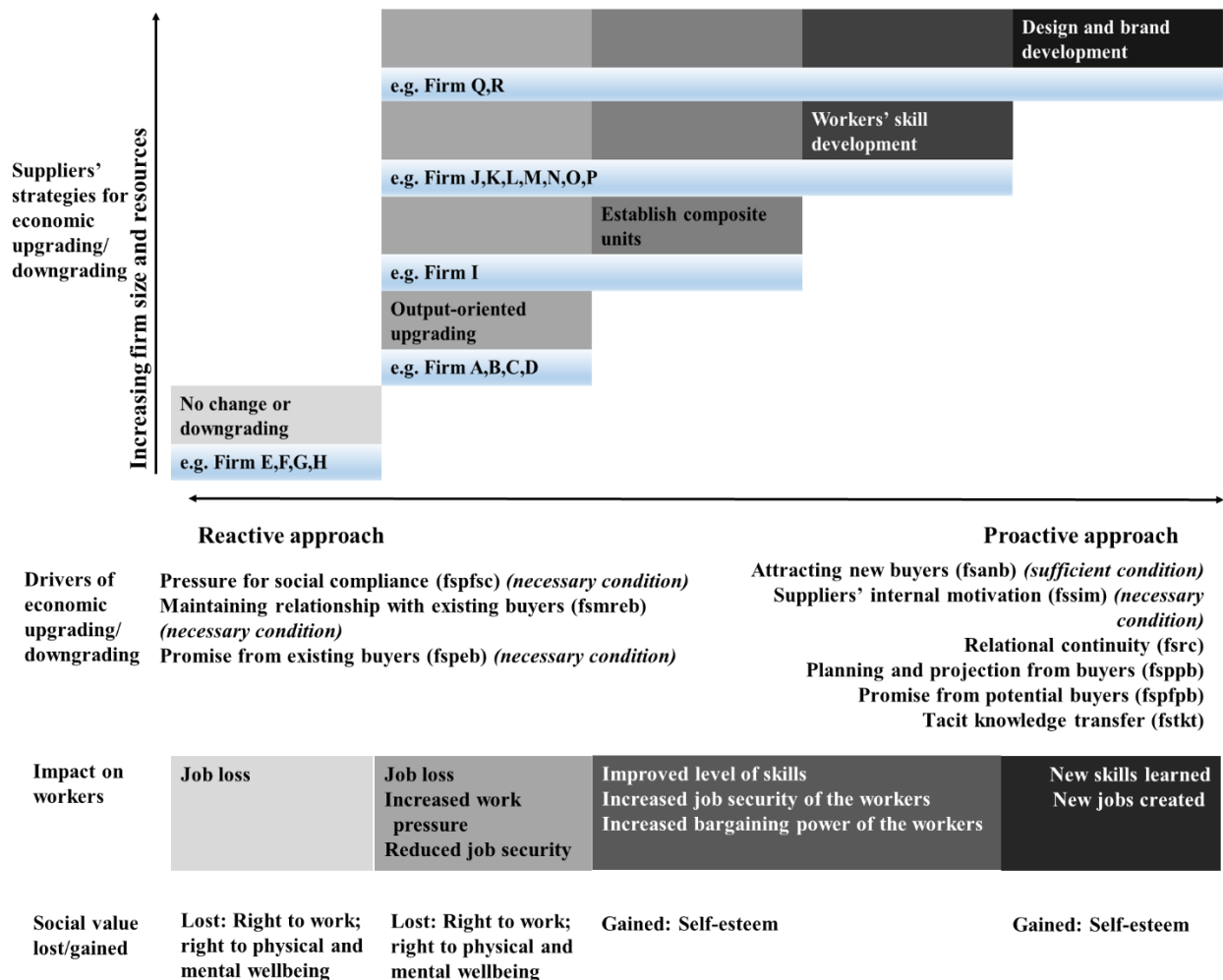
Figure 9. 1: Strategies, drivers and impact of social upgrading



Therefore, the strategies adopted for economic and social upgrading have generated positive outcomes for the workers, as originally intended, while a number of other initiatives have also resulted in unintended consequences for them. For instance, the intended consequences of implementing the measurable standards have been an improvement in health and safety conditions and reduced overtime hours, resulting in better work–life balance. These actions have, however, produced unintended consequences involving reduced monthly incomes and increased workload during regular working hours. One of the most significant unintended consequences has been the

loss of social value due to the discontinuation of some of the previously offered facilities that are not part of compliance. Except for two large firms, in the majority of the cases, CSR compliance has, instead of adding social value, in fact destroyed previously existing social value. Therefore, the findings presented in Chapter 8 show that the firms have a lack of understanding of the workers' felt needs and constraints, and that their social upgrading initiatives predominantly cater to the prescribed needs of the workers. Thus, the upgrading initiatives have created limited social value for the workers.

Figure 9. 2: Strategies, drivers and impact of economic upgrading



9.2 Contribution to theory and practice

The thesis contributes to both IB and GVC studies by highlighting suppliers' role as fabricators of their firm-level upgrading strategies. The IB literature has predominantly focused on the strategies of MNEs, while regarding suppliers as the passive takers of those (cf. Marchi et al. 2014). Nevertheless, this study has put central focus on the suppliers and their strategy-making processes. The study has identified the firm-level and relational factors that drive social and economic upgrading initiatives in Bangladeshi garment manufacturing firms within the context of a specific form of relationship with their MNE buyers. The literature review reveals that, in comparison to IB studies, the GVC literature has remained advanced in terms of integrating suppliers into the analysis, particularly in the notion of upgrading (cf. Johns et al. 2015). However, the upgrading analysis in GVC studies mainly assumes that the form of governance and the structure of the value chain can influence the potential for distinct forms of upgrading (Humphrey and Schmitz 2002). The suppliers' efforts at the firm-level are largely hidden in the upgrading analysis in the GVC literature (Morrison et al. 2008). In fact, GVC studies have been criticised for their overall lack of focus on firm-level strategies (Gui 2010). Therefore, the current study contributes to GVC studies by pointing out the suppliers' role as strategy makers and by identifying their different upgrading strategies. It must be noted here that previous GVC studies have also identified four types of economic upgrading (i.e. product, process, functional and chain upgrading in Humphrey and Schmitz (2002)) and two types of social upgrading (i.e. implementing measurable standards and enabling rights in Barrientos et al. (2011)). However, the firm-level strategies that underpin different forms of upgrading have not been explored before. The current study, in contrast, has explored how suppliers adopt different strategies for economic and social upgrading based on the evaluation of their firm size, resources and a number of relational factors.

The thesis has contributed to the IB literature by exploring a specific form of relationship between suppliers and their MNE buyers, namely tacit promissory contracting. Elsewhere, Hoque et al. (2016) introduced tacit promissory contracting and explained the nature of this specific relational form. The current study has explained how tacit promissory contracting uniquely sits in the middle of market and relational governance by drawing on theoretical insights from Williamson (2005) and Macneil (1978). The position of this specific relational form within the GVC governance framework proposed by Gereffi et al. (2005) has also been identified. In line with this framework, tacit promissory contracting has been conceptualised as a slightly different

form of captive governance in which suppliers are allowed to serve multiple buyers instead of just one. Thus, the thesis has also contributed to the GVC analysis by identifying this slightly different form of captive governance. Further to this, the study has highlighted the role of contracts within the buyer-supplier relationship that has been largely hidden in the existing GVC governance framework.

The current study has also contributed to IB and GVC literatures by providing a comprehensive list of conditions emerging from the tacit promissory relational context that drive social and economic upgrading. The previous IB and GVC studies have not systematically generated a list of conditions/drivers that could account for the instances of social and economic upgrading. There have been a limited number of isolated attempts by previous IB studies that have identified influences of different drivers that could stimulate upgrading, such as non-market institutions (e.g. Corredoira and McDermott 2014), social ties with other members in local and international networks (e.g. McDermott and Corredoira 2010), knowledge transfer from buyers (e.g. Khan et al. 2015) and integration into the global production networks of MNEs (e.g. Li et al. 2016). Similarly, the previous GVC studies have offered insights into the interplay between the form of relational tie and the type of upgrading (cf. Humphrey and Schmitz 2002). However, existing GVC studies have pursued the analysis of upgrading at the firm-level to only a limited extent. For this reason, the firm-level and relational factors that drive social and economic upgrading are still only broadly understood in the GVC literature (cf. Morrison et al. 2008). The current study has adopted micro lenses to identify the conditions within particular firms and within a specific form of relationship that can drive social and economic upgrading. Therefore, the list of drivers of upgrading that has been presented in this study is also original to the GVC literature.

The current study has contributed to the CSR literature by pointing out the merit of a needs- and human rights-based approach to CSR, as opposed to the compliance-based approach (cf. Sinkovics et al. 2015). The findings of this study show that the compliance-based approach can generate unintended outcomes for the workers. Even when a positive outcome is generated from a particular upgrading action, as was originally intended, a number of aspects of the human rights of the workers can still be violated as a result of that initiative. Thus, there could be a loss of social value in the process of the implementation of upgrading initiatives (Sinkovics et al. 2016a). This finding contributes to the CSR-related IB literature by highlighting how top-down imposition of labour codes caters more towards the prescribed needs of the workers rather than the felt needs.

The findings show that externally imposed codes have limited capacity to understand and treat the root causes of workers' problems. As a result, workers are constrained in their ability to address a number of their social, economic and cultural rights. Being nearer to the context, the suppliers are likely to have a better understanding of these root causes compared to MNEs. However, given that the small suppliers are also constrained by limited resources, they prioritise the implementation of the prescribed CSR codes first. They do so to demonstrate their commitment to the buyers in order to attract repeat orders, given the footloose nature of the tacit promissory contracting relationship. In contrast, the findings of this thesis show that only large and resourceful firms are able to offer facilities based on workers' needs and priorities in addition to implementing the buyer-imposed codes. Therefore, the top-down approach to CSR code implementation has its limits (Lund-Thomsen and Lindgreen 2013; Newell 2008). Especially when it comes to small and less resource-rich firms, this approach limits their ability to address the workers' needs and rights. Previous CSR studies have already criticised this approach as imperialist (Khan and Lund-Thomsen 2011) and have questioned the effectiveness of this approach in alleviating the root causes of poverty (Newell 2008; Newell and Frynas 2007; Newell and Wheeler 2006). The current study advances this stream of research by identifying how CSR activities may benefit from adopting a needs- and rights-based approach (Sinkovics et al. 2016a).

The study also contributes to the social upgrading analysis in GVC studies. The findings show that, although a number of social upgrading initiatives have generated positive outcomes for workers, those have also generated unintended outcomes resulting in loss of social value. Thus, this finding implies that social upgrading is not synonymous with social value creation. To this end, this study points out how the social upgrading approach may benefit from adopting a needs- and rights-based approach that caters more to workers' voices (cf. Selwyn 2013).

Overall, this study has synergised the insights from the IB and GVC studies. The findings of the study seeks to build a bridge between these two bodies of literature by linking the notion of upgrading in the GVC studies with firm-level strategies, which is a key interest in the IB landscape (cf. Marchi et al. 2014). Thus, the current study advances the recent agenda of cross-fertilisation of IB and GVC studies (Johns et al. 2015).

The findings of the thesis have implications for policy and practice. The study has identified different upgrading strategies and the firm-level and relational factors that may shape those strategies. The thesis has also explained the nature of tacit promissory contracting, which is

a widely prevalent relational form in the Bangladeshi garment industry. The Bangladeshi garment manufacturers can benefit from these findings by understanding the dynamics of their relationship with their buyers and how upgrading strategies may be developed within this specific relational context. The study has also explored the impact of upgrading initiatives on workers and the implications of those for human rights. The positive cases have demonstrated how adopting a needs- and rights-based approach to upgrading can generate favourable outcomes for business in the form of a greater degree of worker satisfaction and productivity. These findings can help motivate those suppliers who intend to do responsible business by espousing a needs- and rights-based approach for upgrading.

The study has identified that the size and state of resources of the firm influence the upgrading strategy. Due to their resource constraints, small firms find pursuing economic and social upgrading to higher degrees challenging. For the purpose of maintaining relationships with buyers, small firms may make idiosyncratic investments; however, those investments can take them only to the periphery of upgrading. This means, in the case of economic upgrading, that they are able to improve only the output-oriented dimensions (Hoque et al. 2016); and, in the case of social upgrading, they can merely implement the measurable dimensions that are mandatory in nature (Sinkovics et al. 2016a). Thus, this finding indicates a greater need for government support for the small firms. Especially given the current scenario of intense compliance pressure together with the footloose nature of tacit promissory contracting, the government needs to develop an appropriate incentive and loan system for small firms in order to stimulate higher levels of upgrading among them. Further to this, the government should provide them with other necessary support, such as easy access to water, electricity and gas lines, continuous electricity supply and so on. By understanding the nature of local firms' relationships with their buyers, the government can negotiate with the key buyers and Accord for a greater degree of incorporation of local firms' and workers' perspectives in the labour codes. The government can influence the buyers and Accord to set achievable and practical targets for compliance. The study finds that uncertainty resulting from the tacit promissory contracting challenges suppliers to unilaterally pursue upgrading, especially social upgrading initiatives. Given that tacit promissory contracting is largely prevalent in the industry, the government can negotiate with the buyers to become involved in a greater degree of commitment to their suppliers by means of legal contracts.

9.3 Limitations and future research directions

One of the key limitations of the study is that it has only explored those Bangladeshi suppliers that are involved in a specific form of relationship with their buyers in which there exists no legal contract. The non-existence of contracts has intensified the levels of power and knowledge asymmetry between buyers and suppliers (Hoque et al. 2016), which has ultimately affected the degree of certainty of suppliers' future business. It is, therefore, important to explore whether the existence of a contract increases the level of internal motivation of a supplier in pursuing upgrading. In addition, the current study also excludes the small suppliers that work as subcontractors of other Bangladeshi garment manufacturing firms. These firms producing the excess orders of the large firms are the vast majority forming a large informal sector. Therefore, the exclusion of these firms prevents the current thesis to address the constraints of these firms and their workers who are assumed to be in more vulnerable situation (Labowitz and Baumann-Pauly 2014). For this purpose, future studies may benefit from having a more comprehensive sample group by including suppliers that are involved in different forms of relationship with their buyers. Thus, the future research may seek to examine whether the upgrading strategies of suppliers and their drivers vary when suppliers are tied to their buyers by means of legally enforceable contracts or when they are merely carrying the subcontracted jobs of other local producers.

The second limitation of the study relates to its research approach, which is qualitative in nature. Although the study has attempted to conduct data analysis in a structured manner by use of Nvivo and fsQCA software, the findings are not generalisable. However, the findings of this study could be applicable in other, similar contexts. For instance, the garment manufacturing firms in other South Asian countries (i.e. India, Pakistan and Myanmar) that are located in similar institutional contexts and are tied to their buyers via tacit promissory contracting may benefit from the findings. In order to generate more generalisable results, future studies may quantitatively test the upgrading strategies among a large number of randomly selected firms. By building on the list of drivers of upgrading identified in this study, future studies can develop a scale for measuring the extent to which each relational factor contributes towards upgrading. Such a scale can also measure the degree of upgrading achieved by the suppliers and can also quantify their level of reactivity versus pro-activeness in doing so. In so doing, future studies can use advanced statistical techniques, such as structural equation modelling.

The data analysis of the study shows that all the firms have either utilised their existing capabilities to realise their upgrading strategies. In cases of lack of capabilities, a number of firms have systematically developed capabilities to implement upgrading strategies. However, this link between capabilities and upgrading strategies has not been explicitly explored in this thesis. Therefore, future studies may examine how firms from developing economies develop different capabilities to implement their upgrading strategies within the context of different forms of relationships with their buyers.

Appendix A: Interview guide

INTERVIEW GUIDE FOR GARMENT FIRM OWNERS/MANAGERS

- Name of the organisation
- Name of the interviewee
- Position of the interviewee
- Size of the organisation (number of employees – executives/workers)
- Ownership structure (i.e. foreign/local investment; single owner/family/board of directors)
- Main buyers
- Services offered (i.e. product lines, functions – OEM, ODM, OBM)
- Type of relationship with buyers (i.e. existence of legally enforceable contract; length of relationship; process of ordering; materialising and finishing a transaction; exchange of knowledge and information; modes of contacting buyers; critical shapers of repeat orders)
- Factory location

1. What is the history of your firm?

Probe for

- Who started it
- Who had the idea to start it
- How did the idea come about

2. What were the critical/important events from the inception of the firm until today? How have you managed those critical events?

Probe for

- Changes over time
 - Have you undertaken any actions for increasing efficiency and/or improving functions?
 - Have you undertaken any actions for social standard compliance?
- Reason for change
 - What was the driving force behind these actions?
- Result of change
 - How the changes have influenced business?
- Were there any critical events where the company would have failed had they not found a way around that challenge?
- How managed the incidence
- How it influenced business

3. What were the major learning points throughout the history of the firm?

Probe for

- What was the incidence
- What was the learning from the incidence
- How it influenced future actions

4. What are the main challenges the firm is facing now and how are they planning on dealing with those challenges?

Probe for

- Production input constrain
- Financial constrain
- Production resources constrain
- Market access constrain
- Market power constrain
- Market security constrain

5. Where do you want to see your firm in future? What could be the challenges and/or opportunities that may potentially affect your growth path?

INTERVIEW GUIDE FOR GARMENT FIRM WORKERS

- Name of the worker
- Job responsibility
- Work tenure
- Previous occupation and education before joining the industry
- Home town/village
- Current accommodation arrangement i.e. place of living, accompanying family members/room mates, number of dependents

1. What has been your experience as a garment worker?

Probe for

- What was your first job in the industry?
- How have you got the first job?
- How have you started the first job? (i.e. process of migration, settlement and adaptation)
- What challenges have you faced while starting your career in the industry? (i.e. social/family constrains, adjustment in city, financial constrain, skill related constrain etc.)
- How many jobs did you switch in this industry before joining this firm? Why have you changed those jobs?

2. What has been your experience in this firm?

Probe for

- How you got this job?
- What role has this firm played in influencing your skill levels and career progress? (i.e. trainings received; promotions)
- How do you feel about the work environment in this factory?

3. What have been the major challenges that you faced as a worker in this factory? What steps have you taken to overcome those challenges?

Probe for

- Personal constrain (i.e. adoptability, lack of interest in the job)
- Social/family constrain (i.e. restriction on working, family separation, conflict with family responsibilities)
- Skill related constrains (i.e. lack of specialised skills)
- Financial constrain (i.e. salary/benefits, overtime payment)
- Constrains from work environment (i.e. relationship with co-workers/employer, schedule, facilities)

- 4. What has been the role of this firm in addressing the challenges that you have faced?**
- 5. Have you joined any trade union? If yes, what role has the trade union played in your job experience? If no, why have you not considered joining the trade union?**
- 6. How do you see your future career in this industry? What could be the potential challenges/opportunities that may affect your future career path?**

Appendix B: State of social and economic upgrading by firms

Table I: Economic upgrading since inception: Firm A, Firm B, Firm C and Firm E

	Firm A	Firm B	Firm C	Firm E
Capital				
Type of upgrading	Horizontal <ul style="list-style-type: none"> • Productivity increase • Adding new function 	Horizontal <ul style="list-style-type: none"> • Moving to self-constructed building • Productivity increase 	Horizontal <ul style="list-style-type: none"> • Capacity increase 	No change
Functional activities	ODM (Bangladeshi factory is OEM)	OEM	OEM	CMT
Level of automation	Recently purchased automated machines to replace helpers	Recently purchased automated machines to replace helpers	Planning to purchase automated machines to replace helpers	No plans of automated machine purchase
Technological advancement	CAD machine; Appliqué and graphic printing machine; CCTV camera in factory floor	CAD machine; CCTV camera in factory floor	N/A	N/A
Level of value addition in product	Medium-value added	Low-value added	Low-value added	Low-value added
Labour				
Productivity rate	38%	35%	30%	29%
Training	On-the-job training by colleagues and supervisors	On-the-job training by colleagues and supervisors	On-the-job training by colleagues and supervisors	On-the-job training by colleagues and supervisors
Worker's skills	Specialized and repetitive	Specialized and repetitive	Specialized and repetitive	Specialized and repetitive
Knowledge transfer	Co-designing with buyers; Managerial know-how from Turkish partner; market knowledge from Netherlands based partner	Codified design instruction; no other knowledge transfer	Codified design instruction; no other knowledge transfer	Codified design instruction; no other knowledge transfer

Table II: Social upgrading since inception: Firm A, Firm B, Firm C and Firm E

Dimensions	Firm A	Firm B	Firm C	Firm E
Measurable standards				
Type of employment	Mostly full-time	Mostly full-time	Mostly full-time	Mixed (full-time and part-time)
Wage level	Comply with national minimum wage	Comply with national minimum wage	Comply with national minimum wage	Comply with national minimum wage
Working hours	8 hours/day; 2 hours/day overtime (if necessary)	8 hours/day; 2 hours/day overtime (if necessary)	8 hours/day; 2-4 hours/day overtime in peak seasons	8 hours/day (overtime avoided)
Social protection: Health and safety				
Fire exit	Meets requirement	One more exit recommended	External exit recommended	Meets requirement
Fire notices	Meets requirement	Meets requirement	Meets requirement	Recommendation for clearer notices
Fire training	Meets requirement	Meets requirement	Meets requirement	Meets requirement
Sprinkler	Advised to install	Advised to install	Advised to install	Advised to install
Ventilation	Few more windows recommended	More lights recommended	Two exhaust pipes and a few fans recommended to reduce heat on factory floor	More windows and fans recommended
Space	Rented one more floor to meet space requirement	Meets requirement	Rented one more floor to meet space requirement	Advised to increase production space
Medical facility	Meets requirement	Meets requirement	Meets requirement	No medical facility available
Child care facility	Meets requirement	Meets requirement	Advised to provide child care facility	Advised to provide child care facility
Social protection: Hygiene				
Toilet facility	Meets requirement	Meets requirement	One more toilet recommended	Separate toilets for male and female workers recommended
Pure drinking water	Meets requirement	Meets requirement	Meets requirement	Advised to provide pure drinking water facility
Dining hall	Recently renovated to provide more space; currently provide food but will soon stop	Meets requirement but no food provided	Advised to provide more space; currently provide food but will stop doing so soon	No dining hall
Social protection: Building safety				
Type of building	Rented shared building	Recently constructed own building	Rented shared building	Rented shared building
Construction compliance	Advised to move to independent building	Advised to install fire exit in basement	Advised to move to independent building	Advised to move to independent building
Placement of generator	Meets requirement	Meets requirement	Meets requirement	Currently on second floor; advised to move to ground floor
Placement of storage	Advised to move to top floor	Meets requirement	Advised to move to top floor	Advised to provide more space and move from exit area
Enabling rights				
Freedom of association (workers' union participation)	Workers are discouraged from joining union	Workers are discouraged from joining union	Workers are discouraged from joining union	Workers are threatened not to join union
Freedom of speech (system of complaining)	Regular meeting with management to discuss issues	Regular meeting with management to discuss issues	No formal mechanism to discuss issues	No formal mechanism to discuss issues
Gender ratio	<ul style="list-style-type: none"> Workers: Females as helpers and operators (90%); males in cutting and quality control team (10%) 	<ul style="list-style-type: none"> Workers: Female (80%; as helpers and operators), male (10% in cutting and quality control team) 	<ul style="list-style-type: none"> Workers: Female (90% as helpers and operators), male (in cutting and quality control team, 10%) 	<ul style="list-style-type: none"> Workers: Female (75% as helpers and operators), male (cutting 10%; production 15%) Supervisors: Male (100%)

	<ul style="list-style-type: none"> Supervisors: Male (100%) Management: Male (60%); Female (40%) 	<ul style="list-style-type: none"> control team and 10% in production Supervisors: Male (100%) Management: Male (100%) 	<ul style="list-style-type: none"> Supervisors: Male (100%) Management: Male (100%) 	<ul style="list-style-type: none"> Management: Male (90%); female (10%)
Skill development mechanism	Informal on-the-job training; self-motivated learning	Informal on-the-job training; self-motivated learning	Informal on-the-job training; self-motivated learning	Informal on-the-job training; self-motivated learning
Promotion	Informal, skill-based	Informal, skill-based	Informal, skill-based	Informal, skill-based
Incentive system	Basic salary plus hourly overtime payment (up to max 2 hrs); daily production target given	Basic salary plus hourly overtime payment (up to max 2 hrs); daily production target given	Basic salary; piece-based overtime payment; daily production target given	Basic salary; no overtime payment; daily production target given
Formal job description provided	Not given	Not given	Not given	Not given
Job rotation allowed	Not practised	Not practised	Not practised	Not practised

Table III: Economic upgrading since inception: Firm D

Year of upgrading	1988	1889–2013	2013–Early 2014
Economic upgrading/downgrading pursued	<ul style="list-style-type: none"> Start of the factory in Dhaka city in own constructed building Started with 4 production lines 	<ul style="list-style-type: none"> Updated the machines continually Gradually moved to sourcing mostly from local suppliers since 1999 	<ul style="list-style-type: none"> Construction and start of a new fully compliant factory in an industrial area The new factory has 6 production lines
Reason/driver for upgrading	Inspiration and help from friends experienced in the garment industry	<ul style="list-style-type: none"> The firm proactively changed the machines to keep pace with the competition and to attract buyers Started local sourcing as the backward linkage industry was developed and imported raw materials are expensive 	<ul style="list-style-type: none"> Pressure from buyers and Accord for compliance which cannot be implemented in old building Plan to attract good buyers who are more systematic and pay good price
Capital			
Type of upgrading	Start of the factory; CMT	Process and functional upgrading; OEM	Process upgrading; OEM
Functional activities	<ul style="list-style-type: none"> Receiving order from buying house Producing garment according to buyer specifications Importing 90% raw material from abroad from buyer nominated suppliers 	<ul style="list-style-type: none"> Receive orders from buying house and produce as per buyer specification Source 80% raw materials locally from own supplier network 	Same
Level of machine automation	Low	Low	Moderate; the new factory includes all the auto machines to reduce reliance on labour
Other technological advancement	Low	Low	Moderate CAD and CAM Machine, CCTV in new factory
Level of value addition in product	Low; Producing basic T-shirt and shorts	Low; same products	Medium; started producing hooded jackets and denim range
Labour			
Productivity rate	No data	5000pcs/month; 32% productivity rate	12000 pcs/month (projected); 60–70% (Targeted)
HR activities (Training, development recruitment)	<ul style="list-style-type: none"> On-the-job training for workers Recruitment of experienced staff from the industry 	<ul style="list-style-type: none"> On-the-job training of new recruits Training from machines suppliers to the managerial staffs 	<ul style="list-style-type: none"> On-the-job training The owners son joined business who is an MBA
Incentive system	No additional incentive	Festive bonus	New factory: Festive bonus, performance award (yearly), attendance bonus Old factory: festive bonus
Worker's skill focus	Garment production	Production efficiency to ensure on time delivery	Productivity increase

Table IV: Social upgrading since inception: Firm D

Year of upgrading	1988–2013	2013–Early 2014
Social upgrading/downgrading pursued	<ul style="list-style-type: none"> Started the factory in accordance with National Labour Act No significant social upgrading since inception 	<ul style="list-style-type: none"> Construction of new fully compliant building Hired consultants for compliance guidance in the new building No changes in the old factory
Reason for upgrading	<ul style="list-style-type: none"> Passed the DOL inspection, so upgrading was not necessary Buyers also did not put much pressure for upgrading 	<ul style="list-style-type: none"> Pressure from buyers Expecting inspection from Accord Planning to get “green” level from Accord to attract good buyers
Capital		
Type of employment	Mostly full-time	All full-time
Wage level	National minimum wage	Revised national minimum wage
Health and Safety	<ul style="list-style-type: none"> Basic fire safety First aid facility No childcare facility 	<ul style="list-style-type: none"> Improved fire marking, fire drill, wide fire exits Medical unit and recruitment of two medical officers Childcare facility
Hygiene	Space, windows and toilets are not according to workers ratio	New factory layout is designed in accordance with worker-space, worker-toilet facility ratio
Working hour	Upto 4–6 hours of overtime	Overtime is limited to 2 hrs daily
Building safety	The old factory is in rented building shared with two other garments	New factory is one floor flat layout to ensure building and fire safety
Labour		
Workers union participation	Not encouraged	Not encouraged
System of complaining	<ul style="list-style-type: none"> No formal system 	<ul style="list-style-type: none"> Workers’ welfare committee to be created
Gender ratio	Male (50%) and female (50%)	New factory: Female (80%) workers; Male are mostly staff
Skill development mechanism	<ul style="list-style-type: none"> On-the-job training 	<ul style="list-style-type: none"> New factory On-the-job training Recruitment of experienced workers from the surrounding industrial area Creation of new compliance department and the staffs receiving training from consultants
Promotion	Informal	Performance records are kept and performance based promotions to be implemented soon
Incentive system	Festive bonus	Festive bonus; monthly performance bonus
Job rotation allowed	No	No
Additional facilities to improve workers lives	Prayer room and prayer time	Prayer room and prayer time

Table V: Economic upgrading since inception: Firm F

Year of upgrading	2007	2008–2013	Early 2014
Economic upgrading/downgrading pursued	Start of the factory in a rented shared building with 2 production lines	<ul style="list-style-type: none"> Started producing for a Turkish producer who supply to European supermarkets No significant upgrading 	<ul style="list-style-type: none"> No change
Reason/driver for upgrading	<ul style="list-style-type: none"> To utilise the post-MFA market opportunity of Bangladeshi garments To utilise the experience and contacts gained from owner's previous work in buying house 	<ul style="list-style-type: none"> To ensure more certainty for order they started working with Turkish partner Investment in upgrading will increase set up cost but the buyers will not increase price The owners' unwillingness as he thinks he is earning enough for himself 	<ul style="list-style-type: none"> Unplanned and discontinuous orders from the Turkish buyer affected continuous working capital
Capital			
Type of upgrading	Start of the factory; CMT	No upgrading; CMT	No upgrading; CMT
Functional activities	<ul style="list-style-type: none"> Serve as second tier supplier of key buyers Receive order from first tier supplier and produce garments according to buyer specification Import raw material from buyer nominated suppliers 	<ul style="list-style-type: none"> Produce garment according to the instruction of the Turkish producer Import most raw materials 	<ul style="list-style-type: none"> Receive bulk orders from the Turkish partner Cut make and trim the apparels Use imported raw material
Level of machine automation	Low	Low	Low
Other technological advancement	Low	Low	Low
Level of value addition in product	Low	Low	Low
Labour			
Productivity rate	2000 pcs/month	2000–3000 pcs/month (depends on season)	N/A
HR activities (Training, development recruitment)	<ul style="list-style-type: none"> On-the-job training Recruit part-time/temporary workers from other companies 	<ul style="list-style-type: none"> On-the-job training Initial training from Turkish partner 	<ul style="list-style-type: none"> Focused mainly on marketing Overseas visits to search new buyers
Incentive system	Basic salary Overtime payment	Basic salary Overtime payment	Basic salary Overtime payment
Worker's skill focus	Garment production	Garment production	Marketing; liaison with subcontractors; and on time delivery

Table VI: Economic upgrading since inception: Firm F

Year of upgrading	2007–2013	Early 2014
Social upgrading/downgrading pursued	<ul style="list-style-type: none"> • Mere compliance with National Labour Act • No significant social upgrading 	<ul style="list-style-type: none"> • Social compliance is of limited concern • No significant social upgrading
Reason for upgrading	<ul style="list-style-type: none"> • Experienced no pressure from buyers • Experienced DOL inspection twice and passed, so there was no need of upgrading 	<ul style="list-style-type: none"> • Minimal pressure for compliance from buyers
Measurable standards		
Type of employment	Mostly part-time and temporary workers	Mostly part-time and temporary workers
Wage level	National minimum wage	National minimum wage
Health and Safety	Basic fire safety	Basic fire safety
Hygiene	Basic hygiene	Basic hygiene
Working hour	Seasonal overtime up to 4 hrs	Seasonal overtime up to 4 hrs
Building safety	Not a concern	Not a concern
Enabling rights		
Workers union participation	Not encouraged	Not encouraged
System of complaining	<ul style="list-style-type: none"> • No formal system; • Faced workers protest twice, once due to delay salary payment and then due to accident and compensation issue 	No formal system;
Gender ratio	Both male and female workers	Both male and female workers
Skill development mechanism	<ul style="list-style-type: none"> • On-the-job training 	On-the-job training
Promotion	Informal	Informal
Incentive system	No additional incentive	Festive bonus
Job rotation allowed	No	No
Additional facilities to improve workers lives	No	No

Table VII: Economic upgrading since inception: Firm G

Year of upgrading	2003	2005–2007	2009–2011	2012	2013–early 2014
Economic upgrading/downgrading pursued	Started as a buying house	<ul style="list-style-type: none"> Start of a 4 line factory in a rented shared building Having Inditex and Third Stage as the main buyer; besides worked for different buyers with small order quantities on arbitrary basis 	<ul style="list-style-type: none"> Gradual decrease in production and missed delivery deadlines Deterioration of relationship with Inditex and Third Stage and eventually they stopped sourcing 	<ul style="list-style-type: none"> Started working for a Mexican buyer from early 2012 Shut down the garment factory at the end of 2012, sold machinery and other assets 	<ul style="list-style-type: none"> Rented two additional rooms on the building where buying house is located and placed 6 sewing machines from the previous factory. Started production for the local market
Reason/driver for upgrading	To exploit opportunity of rising Bangladeshi export market overseas after MFA phase out	<ul style="list-style-type: none"> Few buyers establish purchasing office in India and Bangladesh and wanted to have direct relationship with factories. Promise from Inditex and Third Stage (wholesalers) from USA to occupy 40% (combined) of their capacity Eventually Inditex and Third Stage occupied 75% of their capacity 	Rising labour unrest in the factory resulted in missed working days and several delay shipments	<ul style="list-style-type: none"> The Mexican buyer could not offer good price as Inditex or Third Stage used to do and payments got delayed several times Reduced profitability resulted in failure to pay salaries and bills on time worsening the labour unrest 	Made two year contract with Bangladesh Cricket Board to produce jerseys for Bangladesh Cricket team
Capital					
Type of upgrading	Start of the business	Functional upgrading; CMT	Process downgrading; CMT	Process downgrading; CMT	Process downgrading; CMT
Functional activities	<ul style="list-style-type: none"> Contact the buyers through marketing and receive orders from them Subcontract the orders to local garment manufacturers Perform quality check and ship those 	<ul style="list-style-type: none"> Produce orders of few buyers based on their design and sourcing raw material from their nominated suppliers Subcontract other orders received via the buying house 	Same	<ul style="list-style-type: none"> After stopping the garment production factory, the owner continued with the buying house only 	<ul style="list-style-type: none"> Produce jerseys for Bangladesh Cricket team according to their specifications Looking for contracts with other Bangladesh brands Continues with the buying house business
Level of machine automation	Low	Medium; Purchase of updated automatic machinery for production of sportswear	Same	Low	Low
Other technological advancement	Low	Low	Low	Low	Low
Level of value addition in product	Low	Low	Low	Low	Low
Labour					
Productivity rate	N/A	30–32%	Reduced as they lost 25% of working days/year	No data	No data
HR activities (Training, development recruitment)	Marketing and communication is the main focus which is mainly done by the owner himself	<ul style="list-style-type: none"> On-the-job training for the workers The owner along with two managers attended two weeks training in USA on garment production methods (self funded) 	<ul style="list-style-type: none"> Could not focus much on training and development during this period Increasing labour turnover de-motivated the owner to invest on training 	Training has not been a focus of the firm during this period	On-the-job training; however HR activities are not the main focus

Incentive system	Basic salary No overtime payment	Basic salary No overtime payment	Basic salary No overtime payment	Basic salary No overtime payment	Basic salary No overtime payment
Worker's skill focus	Marketing and communication	Garment production method	Same	Same	Maintaining accuracy and standards of the jerseys

Table VIII: Social upgrading since inception: Firm G

Year of upgrading	2005–2008	2009–2012	2013–2014
Social upgrading/downgrading pursued	The garment factory was built in compliance with the National labour Act	<ul style="list-style-type: none"> Improved few health and safety and hygiene factors Rising problem of labour unrest since 2011 due to failure to pay salaries on time 	<ul style="list-style-type: none"> The factory shut down and workers get no compensation Started production for local market in small scale whereby compliance is not an issue at all
Reason for upgrading	To get orders from Inditex and Third Stage	<ul style="list-style-type: none"> Inspection by Inditex in 2009 resulted in few improvements Some workers joined the union and got influenced by labour agitation in the surrounding industrial area 	<ul style="list-style-type: none"> Failure to control rising labour unrest and its adverse affect on profit Shift to local market where compliance issue does not exist
Measurable standards			
Type of employment	Combination of full-time and part-time	Same	Part-time and temporary (based on seasonal order)
Wage level	National minimum wage	Same	Lower than national minimum (decided by the amount of task)
Health and Safety	Basic facilities	Widened the factory gate in co-operation with the landlord for fire safety	Not a concern
Hygiene	Basic facilities	Rented one more floor for increased space and ventilation in the floor area	Not a concern
Working hour	Occasional overtime of 6 hrs/week per worker	Reduced overtime due to objection of Inditex	Over-time is not needed
Building safety	Not a concern	No changes made although Inditex recommended for removal of generator and improvement of electrical safety	Not a concern
Enabling rights			
Workers union participation	Some workers became part of the union	Internal workers' protest got support from union leaders	Not a concern; Factory being located in a residential area, the workers are separated from the union protected area and live in segregated community
System of complaining	No formal system	No formal system	No formal system
Gender ratio	Mostly female workers; all staffs are male	Same	All male workers and staffs
Skill development mechanism	Primarily based on on-the-job training	No formal mechanism available; depends on workers self learning ability	On-the-job training as needed
Promotion	Informal	Informal	Informal
Incentive system	No additional incentive	No additional incentive	No additional incentive
Job rotation allowed	No	No	No
Additional facilities to improve workers lives	No	No	No

Table IX: Economic upgrading since inception: Firm H

Year of upgrading	1991–2002	2003–2008	2009	2011–Early 2014
Economic upgrading/downgrading pursued	Started a textile factory in a village	Upgraded to high-tech machines that are fully computer operated and able to produce wider length fabric	Introduced a section for producing collar and cuff for polo shirt	<ul style="list-style-type: none"> Started production of one coloured polo shirts Started with two production lines
Reason/driver for upgrading	The machine suppliers in China had some buyers (Mainly Chinese and Korean) who were looking for fabric suppliers from Bangladesh	Buyers prefer wider length garment for more cost efficiency	The existing buyers gave the idea to start collar and cuff production and promised to source from them	Met a Chinese wholesaler who promised to source plain polo shirts
Capital				
Type of upgrading	Start of the factory	Process upgrading	Product upgrading	Functional upgrading; OEM
Functional activities	Produce and sell (export to China and Korea and supply to local garments) plain white coloured T-shirt fabric	Same	Produce multicolour and multi textured collar and cuff and export those to China and Korea, supply to local producers	<ul style="list-style-type: none"> Produce plain polo shirt and export those to Chinese wholesalers Send own fabric to dyeing factories for colour and use those for polo-shirt production Occasionally import fabric for garment production
Level of machine automation	Medium	Medium	Medium	Medium
Other technological advancement	Low	Low	Low	Low
Level of value addition in product	Low	Low	Low	Low
Labour				
Productivity rate	4 tons/day	6 tons/day	5000 pcs/month (collar)	1500pcs/day
HR activities (Training, development recruitment)	<ul style="list-style-type: none"> On-the-job training; recruitment of experienced staff from the competitors Recruitment of industrial engineer for factory setup and training of workers Initial training from the machine suppliers on machine handling 	<ul style="list-style-type: none"> On-the-job training The Industrial engineer attended training in China arranged by the suppliers on new machine operation 	On-the-job training of the workers of the new section	<ul style="list-style-type: none"> Recruit experienced garment workers from the surrounding area On-the-job training Few staffs received one month practical training in another local garment firm owned by a relative
Incentive system	Festive bonus; Attendance bonus	Same	Same	Same
Worker's skill focus	Quality assurance	Quality assurance; maintaining delivery and other commitments; maintaining relationship with existing buyers	Maintaining relationship with buyers	Same

Table X: Social upgrading since inception: Firm H

Year of upgrading	1991–2000	2011–Early 2014
Social upgrading/downgrading pursued	<ul style="list-style-type: none"> Started the factory in compliance with National Labour Act Experiences DOL inspection every three years 	<ul style="list-style-type: none"> DOL inspection during the start of the garment and few basic upgrading made Faced no Accord inspection
Reason for upgrading	<ul style="list-style-type: none"> Buyers asked for compliance certificate at initial stage 	<ul style="list-style-type: none"> To get the health and safety clearance from DOL needed to operate a garment Not supplying to USA or Europe prevented them from Accord inspection
Capital		
Type of employment	Mostly full-time	Combination of full-time and part-time (mostly garment workers are temporary, recruited based on order)
Wage level	National minimum wage	Revised national minimum wage
Health and Safety	<ul style="list-style-type: none"> Basic fire safety No medical, childcare facility 	<ul style="list-style-type: none"> Improved fire safety with proper fire marking, construction of additional exit (as the no. of workers increased), monthly fire drill Recruited a medical officer (as the no. of workers increased) Increased lighting in the factory floor
Hygiene	Basic facilities; no dining or pure drinking water	<ul style="list-style-type: none"> Started providing pure drinking water
Working hour	No overtime practiced	No overtime practiced
Building safety	One floor flat building	No change
Labour		
Workers union participation	Not part of industrial area; so workers are disjointed	Not a concern
System of complaining	<ul style="list-style-type: none"> No formal system; The general manger being raised up in the village maintains good relationship and close interaction with the workers 	<ul style="list-style-type: none"> Same
Gender ratio	All male worker and staff	All male (intentionally avoided female in garment to avoid providing childcare facility)
Skill development mechanism	<ul style="list-style-type: none"> On-the-job training; General manager and few other staffs attended initial training in China from machine suppliers 	<ul style="list-style-type: none"> On-the-job training for the workers
Promotion	Informal	Informal
Incentive system	Festive bonus; Attendance bonus	Same
Job rotation allowed	No	No
Additional facilities to improve workers lives	<ul style="list-style-type: none"> Financial help to worker in times of medical or other family needs Nutritious food two–three days a month 	Same

Table XI: Economic upgrading since inception: Firm I

Year of upgrading	1984	1991	2001	2003	2013–Early 2014
Economic upgrading/downgrading pursued	Start as a buying house (Lawee Apparel)	<ul style="list-style-type: none"> Start the garment production plant (Libas Stitch) With 2 lines and 25 machines units in a rented shared building 	Start the accessories plant producing buttons, zippers and internal lining (GFS export) in a rental building	Start the labelling plant (Insaf Trade International) in a rental building	<ul style="list-style-type: none"> Started construction of weaving plant for production of fabric Shifts focus from US and European buyers to those from Asia and Asia-pacific, New Zealand
Reason/driver for upgrading	Utilise previous work experience	To serve buyers with small order quantities (less than 500 pieces)	To better manage the lead time and reduce uncertainty	To better manage the lead time and reduce uncertainty	Plans to stop the garment production plant in near future as the pressure for compliance increase and be a raw material supplier of the large firms
Capital					
Type of upgrading	Start of the business	Functional upgrading; CMT	Functional upgrading; OEM	Functional upgrading; OEM	Functional upgrading; OEM
Functional activities	Contact the buyers, receive orders and subcontract those to local factories	<ul style="list-style-type: none"> Start producing small order quantities in own garment based on buyers specifications Import most raw material from buyers' nominated suppliers Focus on marketing for attracting new buyers from different countries to Bangladesh 	<ul style="list-style-type: none"> Owners wife occasionally co-design with small buyers who need support Source fabrics mostly from local suppliers Source accessories from own plant Supply accessories to other local garment firms 	<ul style="list-style-type: none"> Start sourcing sateen labels from own plant Source woven labels from other local suppliers Supply sateen labels to local firms 	<ul style="list-style-type: none"> Will start sourcing fabrics from own plant Get the dyeing done externally Supply fabrics and other accessories to other suppliers
Level of machine automation	Low	Low	Low–Medium <ul style="list-style-type: none"> Purchase of updated accessories machinery with are technologically intensive 	Medium–high <ul style="list-style-type: none"> Purchase of high tech and sophisticated Sateen labelling machines 	High <ul style="list-style-type: none"> Weaving plant is technologically intensive Replacement of manual machines with automachines in the garment unit
Other technological advancement	Low	Low	Low	Low	Low
Level of value addition in product	Low; Production of basic uniform and T-shirt	Low-medium <ul style="list-style-type: none"> Started producing uniform for reputed buyers (British airways, Mercedes, Swiss Airlines) which require accuracy 	Low-medium <ul style="list-style-type: none"> Started producing children wear which require compliance with quality and safety standards Started using own accessories 	Low-medium	Medium; Started using own fabrics
Labour					
Productivity rate	N/A	28%–30%	Same	Same	Same

HR activities (Training, development recruitment)	<ul style="list-style-type: none"> • HR is not a prime focus 	<ul style="list-style-type: none"> • Primarily on-the-job training • Most managerial, marketing and merchandising activities are controlled by the owner himself • Owner makes overseas visits for search of buyers 	<ul style="list-style-type: none"> • Recruitment of family members in key positions for increased loyalty and control • The owner handles most of the key activities • The owner's wife handles any issues related to design 	Same	<ul style="list-style-type: none"> • Recruitment of few experienced employees at managerial level at the textile unit as the owner lack knowledge in this business
Incentive system	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)
Worker's skill focus	Marketing and liaison with buyers	Marketing (done by owner only); accuracy and identical production	Marketing (done by owner only); Meeting the delivery time	Same	More focus on marketing

Table XII: Social upgrading since inception: Firm I

Year of upgrading	1991	2010	2013–Early 2014
Social upgrading/downgrading pursued	Compliance with National Labour Act in the factory	Becomes member of BSCI and experiences the first inspection whereby they received 56%	<ul style="list-style-type: none"> • No changes done • Changed to buyers who are less demanding about compliance
Reason for upgrading	To get buyers and license from DOL	Pressure from buyers for better compliance	Compliance will involve 200% increase in capital investment and 100% increase in variable cost
Measurable standards			
Type of employment	Combination of full-time and part-time	Same	Same
Wage level	National minimum	National Minimum	Increase wage with increase in national minimum wage
Health and Safety	Not a prime concern	<ul style="list-style-type: none"> • Improved fire safety • Provide basic first aid medical facility 	Limited changes made, for instance, fire training, installed exhaust fans
Hygiene	Not a prime concern	No new facilities	No new facilities
Working hour	4–6 hours of overtime	Same	Overtime hour reduced to 2 hours/day
Building safety	Not a concern	Not a concern	The rental setup makes any changes difficult
Enabling rights			
Workers union participation	Restricted	Restricted	Restricted
System of complaining	No formal mechanism	No formal mechanism	No formal mechanism
Gender ratio	No data	No data	Female (70% as workers); males (10% as supervisor, heavy machine operators and management staffs)
Skill development mechanism	On-the-job training	Same	Formal training for the textile plant staffs only
Promotion	Informal; managerial positions are occupied by relatives	Same	Same
Incentive system	Festive bonus 100% of salary	Same	Reduced the per centage value of festive bonus to 80% of salary
Job rotation allowed	No	No	No
Additional facilities to improve workers lives	No	No	No

Table XIII: Economic upgrading since inception: Firm J

Year of upgrading	1989	1991	2000	2005	2008	2010	2013	Early 2014
Economic upgrading/downgrading pursued	Start production in one floor of a rented building with 2 production lines and old machinery	Start production in own building with 4 production lines	<ul style="list-style-type: none"> • Increase capacity to 7 lines • Purchase of CAD machine • Start working for Kappahl, Sweden • Start production of medium value added garments (e.g. sports wear, jackets) 	<ul style="list-style-type: none"> • Establishes dyeing plant in the same premise • Start production for K-Mart Australia 	<ul style="list-style-type: none"> • Increase capacity to 12 lines • Starts imaging unit (Tex Image) • Starts separate unit for embroidery (Tex image embroidery) 	<ul style="list-style-type: none"> • Starts a new washing plant • Add Shumito Yoshi, Japan and Lidl, Germany as buyers 	<ul style="list-style-type: none"> • Starts construction of a new 10 storey building for garment production that is compliant with Accord codes • The new building has 7 production lines 	<ul style="list-style-type: none"> • Starts production in the new building on a limited scale • Plans to start co-designing with buyer in two years time
Reason/driver for upgrading	<ul style="list-style-type: none"> • Exploiting rising market opportunity for Bangladeshi garments • Using owners experiential knowledge 	<ul style="list-style-type: none"> • Learning from previous mistake • To attract value conscious buyers 	<ul style="list-style-type: none"> • To increase commitment towards the existing buyers • To meet demand of new buyer – Kappahl 	To develop own backward linkage for increased control on quality and price	To develop own backward linkage for increased control on quality and price	Same	<ul style="list-style-type: none"> • Compliance with Accord building safety requirement which is difficult to implement in old building • Promise of increased orders from existing buyers 	<ul style="list-style-type: none"> • Willingness of existing buyers to get the design task done by Firm J • Upgrading will allow more profit margin which is needed for the increased maintenance cost of compliance.
Capital								
Type of upgrading	Start of the factory; OEM	Process upgrading; OEM	Process and product upgrading; OEM	Functional upgrading; OEM	Functional upgrading; OEM	Functional upgrading; OEM	Process upgrading; OEM	Process and functional upgrading; OEM → ODM
Functional activities	<ul style="list-style-type: none"> • Produce garment according to buyers' specifications • Import raw materials from abroad 	Same	Started sourcing 80% raw material from local firms	Started dyeing fabrics to be used by garment unit	Started to implement advanced imaging and embroidery on garments	Started washing the garments before final packing	Perform all functional activities under one roof except textile production (dyeing, stitching, imaging, and washing)	Planning to start a design unit to start co-designing with the buyers
Level of automation	Low	Low	Low	Medium	Medium	Medium	Medium-high <ul style="list-style-type: none"> • Replacing manual machines with auto machines 	High <ul style="list-style-type: none"> • The new building includes all sewing machines with auto trimmer
Technological advancement	Low	Low	Low	Medium	Medium	Medium	Medium-high <ul style="list-style-type: none"> • Start using advance software for production scheduling • Start using software for process efficiency by detecting delays, deadlines and reminders 	High <ul style="list-style-type: none"> • The new building includes a floor with Overlock sewing machines for implementing complex designs • Purchase of high speed industrial sportswear sewing machines

								<ul style="list-style-type: none"> • Purchase and trial runs of computerised design software
Level of value addition in product	Low; Produce basic garment	Low	Medium	Medium	Medium	Medium	Medium	<ul style="list-style-type: none"> • Medium-High • Planning to produce more formal garments, high quality sportswear and party dresses of existing buyers
Labour								
Productivity rate	No data	22%	No data	No data	No data	25%	42%	60% (targeted)
HR activities (Training, development recruitment)	<ul style="list-style-type: none"> • On-the-job training for workers • Recruitment of experienced workers and staff 	Same	<ul style="list-style-type: none"> • Received initial training on producing newly added product lines from a Sri Lankan firm • Recruited 3 experts from local industrial area for operating CAD machine 	<ul style="list-style-type: none"> • Typical on-the-job training of new recruits 	<ul style="list-style-type: none"> • Recruitment of 2 Danish designers and Three Turkish managers for training the workers and staffs of Tex Imaging and Tex Embroidery 	<ul style="list-style-type: none"> • On-the-job training of workers for producing new buyers' orders 	<ul style="list-style-type: none"> • Creation of new HR department for developing relationship with workers • Recruitment of 10 Sri Lankan IEs for operating new advanced software and training staff • IEs train promising workers for skill development to overcome 25% skill shortage in the firm • Recruitment of experienced operators for the new factory • Stopped recruiting new helpers • Trained efficient helpers for becoming operators 	<ul style="list-style-type: none"> • Recruitment of two Indian and three local designers for test run of the design unit • Sent owners daughter for post graduation in Fashion Designing in the UK • Both on-the-job and off-the job training of the supervisors and senior operators on production of the new product lines and operation of the new machines
Incentive system	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Started providing provident fund	<ul style="list-style-type: none"> • Introduce piece based bonus system • Reward and recognition for the monthly best performer 	Same
Worker's skill focus	Basic garment production skill	Basic garment production; quality control	Implementing complex designs; quality control	Same	Learning new imaging and embroidery skills	Understanding and customising according to different buyers demands	Increase productivity; Reduce waste of work hour in inefficient activities (e.g. gossiping, late arrival to work, negligence)	Increase productivity; Understanding and producing complex designed apparel

Table XIV: Social upgrading since inception: Firm J

Year of upgrading	1989–1999	2000	2003	2013– Early 2014
Social upgrading/downgrading pursued	Social compliance is not a major issue	Becomes compliant with national labour law	Becomes compliant with Kappahl’s codes	<ul style="list-style-type: none"> Starts implementing Accord recommendations following their first inspection Starts construction of a new fully compliant factory building Recruitment of separate compliance manager
Reason for upgrading	Buyers are not concerned on compliance	Prerequisite of working for Kappahl	Pressure from Kappahl	Pressure from Accord and the existing buyers
Type of employment	Both full-time and part-time (50–50%)	Same	Mostly full-time (75–80%)	Primarily full-time
Wage level	National minimum wage	Same	Same	Increased minimum wage (Tk5400)
Health and Safety	Not a concern	Basic fire safety; first aid facility	<ul style="list-style-type: none"> Improved fire safety Advanced medical facility Introduced providing maternity benefits 	<ul style="list-style-type: none"> Advanced fire safety measures with installation of sprinkler in new building (old buildings on the process) Introduced child care facility in on floor of the newly constructed building
Hygiene	Not a concern	Proper toilet facility	<ul style="list-style-type: none"> Increased toilet facility Improved ventilation through additional windows and exhaust fans Built a separate dining hall 	<ul style="list-style-type: none"> Introduced providing pure drinking water Increased space in the dining
Working hour	Upto 6 hours overtime during pick season	Same	Same	Mostly regular working hour; upto 2 hours overtime, if highly necessary
Building safety	Not a concern	Not a concern	Not a concern	<ul style="list-style-type: none"> Becomes the major concern Constructed new fire exists, widened stair cases, increased space in the factory floor in old buildings Difficulty in increasing the load strength of the oldest building
Workers union participation	Restricted	Restricted	Not encouraged	Not encouraged
System of complaining	No formal mechanism	Same	General manager maintains informal communication with the workers on the floor to listen to their problems	<ul style="list-style-type: none"> Creation of workers’ welfare committee for regular communication with management Creation of separate HR department and recruitment of separate labour liaison manager
Gender ratio	No data	No data	Mostly female workers (90%); supervisors and staffs (10%) are males	Mostly female workers (80%); supervisors and staffs (20%) are males
Skill development mechanism	Mainly on-the job training	Same	On-the-job training of the workers; supervisors and senior operators receive formal training	<ul style="list-style-type: none"> Formal off-the-job training for promising operators and helpers for further skill development through Sri Lankan IEs Training of the design team through Indian designers
Promotion	Informal	Same	Same	Introduced formal mechanism for promotion based on performance; yearly review of works’ skill developed
Incentive system	No additional incentive	Same	Same	Basic salary; performance based bonus; additional help in times of family or medical needs; introduced PF
Job rotation allowed	No	No	No	Planning to develop a team of senior workers with multiple skills through both on-the-job and off-the-job training

Additional facilities to improve workers lives	No	No	No	Started providing cooked lunch for the workers
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Table XV: Economic upgrading since inception: Firm K

Year of upgrading	1984	1992	1996	1999–2000	2006	2013–Early 2014
Economic upgrading/downgrading pursued	<ul style="list-style-type: none"> Start the first garment factory (Firm K) with 5 production lines in own building Contact buyers through buying houses 	Start the second factory in neighbouring area (Salman Adnan Pvt. Ltd.) with 4 production lines in own building	<ul style="list-style-type: none"> Include Auto Bonprix, Germany as the buyer eventually occupying 60% of Azim & Son's capacity Introduces denim jeans range 	<ul style="list-style-type: none"> Auto Bonprix occupy 100% of Azim & Son's capacity Start contacting buyers directly through own marketing team Added Red Cat and other new buyers 	<ul style="list-style-type: none"> Starts replacing the manual machines with auto trimmer machines Established dyeing, washing and fabric production plant 	<ul style="list-style-type: none"> Construction and start production in new state-of-the-art fully compliant new factory in outside Dhaka with 11 lines Old factories start working for Asian and Latin American buyers who are less demanding
Reason/driver for upgrading	To exploit the rising export market of Bangladeshi garment	<ul style="list-style-type: none"> Increased order from existing buyers Promise from the potential buyers 	<ul style="list-style-type: none"> Following reference from existing buyers, Auto Bonprix contact them for production of Denim range 	<ul style="list-style-type: none"> Satisfaction of Auto Bonprix lead towards increased commitment from them Direct marketing towards buyers added new buyers 	<ul style="list-style-type: none"> To enhance control on price and delivery time To reduce cost and increase productive capacity after increased order volume during post MFA era 	<ul style="list-style-type: none"> Pressure from Accord for structural changes in old buildings which is difficult. So constructs new compliant building from scratch No change in old factories
Capital						
Type of upgrading	Start of the factory; CMT	Process upgrading; CMT	Process upgrading; CMT	Process upgrading: OEM	Process and functional upgrading; OEM	Process upgrading; OEM
Functional activities	<ul style="list-style-type: none"> Design specifications provided by the buyers through buying house Buying house imports raw materials on their LC and supply to the factory 	Same	Same	<ul style="list-style-type: none"> Maintains direct liaison with the buyers Develops connection with local and overseas suppliers for sourcing raw materials on own 	Same	Same
Level of automation	Low	Low	Low	Low	Medium (due to replacement of manual machinery)	Medium
Technological advancement	Low	Low	Low	Low	Moderate The raw material plants possess advanced machines	<ul style="list-style-type: none"> High The new factory includes updated machinery, trunk line system, CCTV all throughout
Level of value addition in product	Low	Low	Medium; started producing high quality denim ranges	Medium	Medium	Medium
Labour						
Productivity rate	No data	No data	No data	No data	33%	<ul style="list-style-type: none"> Old factories: 33–35% New factories: 56% (65% targeted)
HR activities (Training,	<ul style="list-style-type: none"> On-the-job training 	<ul style="list-style-type: none"> Transfer of senior workers to the new 	<ul style="list-style-type: none"> Auto Bonprix trains the quality control workers 	<ul style="list-style-type: none"> Auto Bonprix trains on root cause identification and early defect detection to the 	<ul style="list-style-type: none"> A team of senior operators are sent for training on 	<ul style="list-style-type: none"> The suppliers of the new machinery train the

development recruitment)	<ul style="list-style-type: none"> Recruitment of experienced workers 	factory for training others		operation managers and line supervisors	handling auto machines to BGMEA <ul style="list-style-type: none"> Other workers received on-the-job training from the senior team 	supervisors on machines usage <ul style="list-style-type: none"> Creation of a separate production planning division (PPD) which was previously handled by merchandising division. Recruitment of three Turkish industrial engineers under PPD for training the workers and staff in the new factory on productivity increase
Incentive system	Festive bonus	Festive bonus	Festive bonus	Festive bonus	Festive bonus; attendance bonus	Festive bonus; attendance bonus
Worker's skill focus	Basic garment production	Same	Meeting the demands of Auto Bonprix	Understanding raw materials; managing suppliers network; and quality assurance	Same	Increasing productivity; operating advanced machines and systematic scheduling

Table XVI: Social upgrading since inception: Firm K

Year of upgrading	1984–1998	2003	2008	2013–Early 2014
Social upgrading/downgrading pursued	Not a concern	Becomes fully compliant with National Labour Act	Added one more floor to Aziz & Son for separating the management offices from main factory area for safety	<ul style="list-style-type: none"> • Construction of a fully compliant factory • The old two factories get “yellow” level which the new one gets “green” level
Reason for upgrading	No significant pressure from buyers or the monitoring authority	<ul style="list-style-type: none"> • Pressure from Auto Bon Prix and other buyers • DOL inspection recommendation 	Recommendation of DOL inspectors	To implement the structural changes recommended by Accord which was not possible in old building
Measurable standards				
Type of employment	No data	No data	No data	No data
Wage level	National minimum wage	Same	Same	Comply with increased wage rate
Health and Safety	Not a concern	<ul style="list-style-type: none"> • Updated fire safety measures • Changed location of the inventory 	<ul style="list-style-type: none"> • Recruited doctor and allocated room for medical facility • Introduced childcare centre with minimal facilities 	<ul style="list-style-type: none"> • The old factories just included external fire exit for fire safety and no other changes • The new factory complies fully with the health and safety requirement of Accord
Hygiene	Not a concern	<ul style="list-style-type: none"> • A prayer/resting room for workers 	<ul style="list-style-type: none"> • Made a separate dining room 	<ul style="list-style-type: none"> • The old factory started providing pure drinking water • The new factory has automatic air cooler and purifier for heat and pollution control in the factory area
Working hour	Overtime up to 6–7 hours/day in peak season	Same	Same	Overtime hours have reduced to 2–4 hours/week
Building safety	Not a concern	Not a concern	Not a concern	<ul style="list-style-type: none"> • The old buildings improved electrical safety • The new factory is built using advanced engineering method for good strength • The two storey flat structure of the new building is efficient for distribution load evenly
Enabling rights				
Workers union participation	The factory being in residential area, the workers are not part of any worker community/union	Not encouraged	Not encouraged	Not encouraged; the new factory is in core activist industrial area and so management has strongly discouraged workers to join unions
System of complaining	No formal system	No formal system	Recruitment of an ex-army as HR manager to control labour agitation	No formal system developed in new factory yet
Gender ratio	Operators and helpers are females; Workers in the inventory, cutting section, supervisors, quality control are males	Same	Same	No data; as the new factory is still recruiting
Skill development mechanism	On-the job training and self learning of the workers	Same	Same	Formal training for a senior team of workers in the new factory
Promotion	Informal	Same	Same	Same
Incentive system	Festive system	Same	Same	Same

Job rotation allowed	No	No	No	No
Additional facilities to improve workers lives	Occasional financial and not financial help provided to workers in times of need	Same	Same	Stopped providing extra financial help to workers

Table XVII: Economic upgrading since inception: Firm L

Year of upgrading	1994	2001	2003	2006	2008	2013-Early 2014
Economic upgrading/downgrading pursued	Enters garment exporting business with a buying house	<ul style="list-style-type: none"> Starts own factory with 5 lines Factory is set up on a two floor own building on own land 	<ul style="list-style-type: none"> Increases the production capacity to 11 lines and added two more floors to the old building Adds Kohls and JC Penny from USA as the new buyers Started producing bottom lines 	<ul style="list-style-type: none"> Builds a separate management building Adds 2 production lines in the old building Adds Target, USA and Max, Dubai as new buyers 	<ul style="list-style-type: none"> Starts designing Sanoma range of Kohl's by outsourcing the design service from a US firm Started production of children wear for Tesco Purchased new expensive labelling machines Introduced dying and washing plant 	<ul style="list-style-type: none"> Hires "Time Study", a consultant on industrial engineering for productivity increase Builds a new one floor unit for capacity increase (i.e. 5 lines shifted from old building and 6 new lines to be added in May 2014)
Reason/driver for upgrading	<ul style="list-style-type: none"> Utilise the connections created in previous job in garment industry Exploit the rising market opportunity of Bangladeshi garment in US market 	<ul style="list-style-type: none"> Pressure from buyers for social compliance which can be better implemented in own factory setting Promise of Impact and Maxwell, the clothing wholesalers from USA (previous buyers from buying house business) for continued order Exploiting the cheap labour and network developed from buying house business 	<ul style="list-style-type: none"> Promise from Kapl and JC Penny for bulk orders after satisfying them with sample order quantity 	<ul style="list-style-type: none"> Increasing capacity followed by promise from new buyers (Target and Max) 	<ul style="list-style-type: none"> Design outsourcing: Promise from Kohl's to make them the exclusive supplier of Sanoma range from South Asia with adding design service In house raw material: To meet product standards (hygiene, labelling) of Tesco children wear 	<ul style="list-style-type: none"> To comprise for the increased maintenance cost of compliance through sales increase To accommodate the recommendation from Accord inspection
Capital						
Type of upgrading	Start of business	Functional upgrading; OEM	Process and Product upgrading; OEM	Process upgrading; OEM	Functional and product upgrading; OEM	Process upgrading; OEM
Functional activities	Making liaison with Bangladeshi producers and foreign buyers	<ul style="list-style-type: none"> Producing garments according to buyer specification Sourcing raw materials from both local and foreign suppliers 	Same	Same	<ul style="list-style-type: none"> Produce in-house raw materials For other brands, follow buyers design instructions and source raw materials 95% from local sources 	Same
Level of automation	Low	Low	Low	Low	Low	High; replaced all manual machines with auto-trimmer machines
Technological advancement	Low	Low	<ul style="list-style-type: none"> Medium Purchase of interlock sportswear sewing machines for production of Kohls Sanoma range 	Medium	<ul style="list-style-type: none"> Medium-high Purchase of advanced labelling and fabric processing machinery 	<ul style="list-style-type: none"> High Introduced MAE, software for production scheduling and work allocation to reduce time lost, backlogs and overtime hours

						<ul style="list-style-type: none"> Plans to change the floor layout from bundle production system to unit production system which is less labour intensive
Level of value addition in product	Low	Low; Produce basic top garments	Low: Produce basic top and bottom garments	Low	<ul style="list-style-type: none"> Medium: for Sanoma range Low: for other brands 	Low-medium
Labour						
Productivity rate	No data	No data	No data	No data	30–35%	From 38% to 43%
HR activities (Training, development recruitment)	<ul style="list-style-type: none"> Maintaining contact with buyers Searching new buyers 	<ul style="list-style-type: none"> On-the-job training on basic garment production 	<ul style="list-style-type: none"> On-the-job training for quality control, accuracy and reducing defect rate 	<ul style="list-style-type: none"> Handling large orders Production scheduling using MS Excel and log book 	<ul style="list-style-type: none"> On-the-job training for workers of different lines to understand the demands of their respective buyers 	<ul style="list-style-type: none"> Recruitment of IEs from Bangladesh and get them trained through ‘Time study’ Sponsored few senior managers to attend courses on operations management, factory layout planning
Incentive system	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Weekly bonus to individual workers for maximum production pieces	Line based performance bonus and competition reward (for both team + individual)
Worker’s skill focus	Marketing	Basic garment production	Maintaining accuracy of sportswear production	Material management; delivery time maintenance	Productivity increase	Productivity increase

Table XVIII: Social upgrading since inception: Firm L

Year of upgrading	2001	2003	2008	2013–Early 2014
Social upgrading/downgrading pursued	Establish a factory fully compliant with National Labour Law	Update the compliance requirements according to new buyers' codes (Kohl's and JC Penny)	Start compliance with BSCI code (achieved 96% in first inspection)	Start compliance with Accord code (achieved yellow level in first inspection)
Reason for upgrading	Pressure from buyers for social compliance to which the contractor factories were not responding	Pressure from the new US retailer buyers	Pressure from Tesco mainly to follow codes of a neutral body instead of a particular buyer	Pressure from Accord and the buyers
Measurable standards				
Type of employment	No data	Full-time (almost all)	Mainly full-time	Mainly full-time
Wage level	National minimum wage	National minimum wage	National minimum wage	Comply with increase minimum wage
Health and Safety	Compliant with National Labour Act	<ul style="list-style-type: none"> • Increased space in factory area • Improved fire safety 	<ul style="list-style-type: none"> • Introduced separate medical facility • Introduced childcare facility 	<ul style="list-style-type: none"> • Updated the medical facility in line with worker ratio • Updated the child care facility in line with female worker ratio • Widened the stair cases of the old buildings
Hygiene	Compliant with National Labour Act	Mainly focused on the hygiene needed for maintaining the product standard	<ul style="list-style-type: none"> • Separate dining hall • Increase toilet facility as the number of workers increased 	<ul style="list-style-type: none"> • Introduced providing pure drinking water • Increased space in dining according to workers ratio
Working hour	Practice of overtime up to 4–6 hours	Same	Same	Overtime limit reduced to 2 hours a day
Building safety	Not a concern	Not a concern	Not a concern	<ul style="list-style-type: none"> • Builds a new ground floor flat building for superior health and safety • Distributed the load of machines in multiple buildings for added safety • Improved the load taking capacity of the old buildings and more planned
Enabling rights				
Workers union participation	Restricted	Restricted	Restricted	No encouraged; sponsored industrial police check post to protect the area as well as the factory from vandalism of union activists and the workers are warned not to participate
System of complaining	No formal mechanism	<ul style="list-style-type: none"> • Recruited a co-ordination manager for maintaining liaison between management and workers • The owner directly visits and talks to workers about their problems to maintain a close relationship 	Same	<ul style="list-style-type: none"> • Created an internal workers' union with elected leader • The owner maintains personal relationship with workers to identify problems before agitation builds up
Gender ratio	Both male and female workers; Supervisors and staff are all men	Same	Same	Same

Skill development mechanism	On-the-job training	On-the job training	<ul style="list-style-type: none"> • Separate on-the job training for separate production lines according to their respective buyers focus 	<ul style="list-style-type: none"> • Opportunity for high performing workers to develop further skills in multiple tasks through training
Promotion	Performance based promotion	Same	Same	Same
Incentive system	Festive bonus; year end bonus	Same	Same	Introduced group performance based incentive in addition to individual bonus
Job rotation allowed	No	No	No	Planning to start unit production system which require job rotation
Additional facilities to improve workers lives	No	Financial help for the workers in times of their medical and family needs	<ul style="list-style-type: none"> • Started providing cooked lunch and packed breakfast • Started providing transportation facility to the workers 	<ul style="list-style-type: none"> • Cooked lunch is replaced with lunch allowance which is less costly • Stopped providing breakfast to save cost • Transportation facility was replaced with a nominal transport allowance

Table XIX: Economic upgrading since inception: Firm O

Year of upgrading	2000	2003	2004	2008	2013–Early 2014
Economic upgrading/downgrading pursued	<ul style="list-style-type: none"> Start of the factory in a shared rental building with 4 production lines Started working for few of the reputed US brands e.g. GAP, Old Navy and JC Penny 	<ul style="list-style-type: none"> Construction and start production in own building in industrial area with 14 lines Started working for Puma and Next 	Establishment of dyeing and washing plant in a nearby area	Purchase of a knitting/ textile plant in nearby area	<ul style="list-style-type: none"> Started extension of the factory building Planning to change the floor layout to unit bundle system on the new production floors on experiment basis
Reason/driver for upgrading	Utilise experience from previous family business	Promise from Puma and Next for occupying 40% of capacity with expansion	To ensure better control on quality and price	To achieve more bargaining power over buyers	<ul style="list-style-type: none"> In order to comply with Accord requirement on space-worker ratio and accommodate other facilities Promise from buyers for more order To increase productivity and reduce dependence on labour
Capital					
Type of upgrading	OEM	Process upgrading; OEM	Functional upgrading; OEM	Functional upgrading; OEM	Process upgrading; OEM
Functional activities	<ul style="list-style-type: none"> Get orders through buying house Produce garments with buyer' Source raw materials from locally and overseas 	Start contacting the buyers directly and establish separate marketing department	<ul style="list-style-type: none"> Conduct dyeing and washing of 40% of fabric in house Provide dyeing and washing service to other garments locally 	<ul style="list-style-type: none"> Produce 60% of the fabric in-house, while source the rest from abroad according to buyers' specifications Supply fabric to other local garments Import accessories e.g. zipper, button, logo patch, labels from buyer nominated suppliers locally and abroad. 	Same
Level of automation	Low	Medium; updated machines with higher productive capacity was installed in new factory	Medium; updated machinery for the dyeing and washing plant	High; <ul style="list-style-type: none"> the machines in the knitting plant include state-of-the-art machinery Manual machines are replaced by auto-machines in garments 	High
Technological advancement	Low	High; <ul style="list-style-type: none"> Installation of CAD and complex embroidery machines Advanced software for scheduling and defect detection 	High; <ul style="list-style-type: none"> Install auto process scheduling and delay detection system to identify delays and deadlines in the whole production system 	High; from order to production of fabric, dyeing, washing and sewing everything is systemic using advanced software	High; <ul style="list-style-type: none"> Install trunk line system for energy efficiency. CCTV in the floor area

Level of value addition in product	Low; Basic ranges of the buyers	Medium; started producing the sportswear ranges, jackets and hooded knitwear and bottom parts	Medium	Medium-high <ul style="list-style-type: none"> • Offer composite service to the buyers • Started producing formal shirts for Next and JC Penny 	Medium-high
Labour					
Productivity rate	No data	56%	No data	No data	67%
HR activities (Training, development recruitment)	<ul style="list-style-type: none"> • No separate HR dept. • On-the-job training of workers • Transfer of experienced managers from family business 	<ul style="list-style-type: none"> • Separate HR department • Recruitment of experienced workers and staff from neighbouring area • On-the-job training • Separate production planning division • Consultation with a Turkish firm to train managers on advance software usage 	<ul style="list-style-type: none"> • Training from the machines suppliers and BGMEA team for dyeing and washing 	<ul style="list-style-type: none"> • Retained 80% of the existing employees of the knitting plant. • Sent the operation managers several time to Korea and China for training on multiple functions • Participation in national and international trade fairs for gaining external knowledge • Overseas training on production planning, machine and merchandise handling and fashion for promising managers 	<ul style="list-style-type: none"> • Creation of separate department for industrial engineers for layout change, training and liaison with planning dept. • Recruitment of industrial engineers from Sri Lanka and India • Off-the-job training to operation managers and supervisors for the new layout system
Incentive system	Festive bonus	Festive bonus and Year end performance bonus	Same	Provident fund Yearly holidays Annual award for good achievement Yearly amusement program Monthly competition award for workers who produce beyond the target level	Currently not changed but will be revised with the new layout system
Worker's skill focus	Basic garment production and quality control	Systematic scheduling; controlling defects and managing bulk orders from multiple buyers	Integrating the new plants with the garment production system	Functioning all the units as a team toward keeping delivery promise	Reducing time waste and defects, learning new skills

Table XX: Social upgrading since inception: Firm O

Year of upgrading	2000	2003	2008	2013–Early 2014
Social upgrading/downgrading pursued	The factory started with full compliance of the National Labour Act	Compliance with the buyers codes, specially Next and Puma	The entire factory undergoes BSCI inspection and receives 88% compliance level	The factory undergoes Accord inspection and receives Yellow level
Reason for upgrading	To attract reputed buyers	Precondition of Next and Puma for sourcing from them	<ul style="list-style-type: none"> • Pressure from buyers for compliance with international standard • Easier than complying with multiple buyers' codes 	Pressure from buyers for Accord compliance as all the buyers joined Accord
Measurable standards				
Type of employment	Combination of full-time and part-time	Same	Same	Same
Wage level	National legal minimum	Same	Same	Comply with increased national minimum
Health and Safety	Comply with National Labour Act	<ul style="list-style-type: none"> • Improved fire safety • Introduced medical and childcare facility 	Construction of external fire exit in all the factory buildings following BSCI recommendation	<ul style="list-style-type: none"> • Change of inventory position (recommended by Accord) • Increased frequency of fire drilling • Improved medical and childcare facility (Moved to a separate building adjacent to the main factory for increased safety of children)
Hygiene	Comply with National Labour Act	<ul style="list-style-type: none"> • Spacious floor area with improved ventilation 	<ul style="list-style-type: none"> • Included dining hall in all the factory buildings 	<ul style="list-style-type: none"> • Started providing pure drinking water in the premise
Working hour	Up to 4–6 hours of overtime	Same	Same	Overload limit reduced to 2hrs/day
Building safety	Not a major concern	Not a major concern	Improved the electrical safety in the factory following BSCI recommendation	<ul style="list-style-type: none"> • Change of several electrical elements for further safety • Increased building strength to support the extension
Enabling rights				
Workers union participation	Not an issue	Restricted due to persistent labour unrest in the area	Not encouraged	Not encouraged and a major concern of management
System of complaining	No formal system	No formal system; often made via supervisor	Recruitment of labour Liaison officer for handling labour issues and complains	Same
Gender ratio	No data	Workers mostly female; Supervisors (10% female, 90% male) Staff all men	Same	Same
Skill development mechanism	On-the-job training; BGMEA training for managers	On-the-job training for workers; Hire consultants for training and developing the management staff	On-the-job training for workers; overseas and local off-the-job training for management staff	<ul style="list-style-type: none"> • Few promising workers and supervisors are getting trained for multitasking to support the planned change of layout
Promotion	Performance based	Performance based	Performance based	Performance based
Incentive system	Festive bonus	Same	Same	Same
Job rotation allowed	No	No	No	Allowed for few senior workers
Additional facilities	No	No	No	No

Table XXI: Economic upgrading since inception: Firm N

Year of upgrading	1989	2001	2003	2005	2008	2010	2013	Early 2014
Economic upgrading/downgrading pursued	Start of textile mill (Firm N Textile)	Purchase of denim production plant in EPZ (Firm N Denim)	Establish washing unit in EPZ (Firm N Washing)	Establishment of another textile mill with dyeing facility in EPZ (Firm N Industries)	Establishment of garment production plant in Dhaka city with 4 lines (Firm N)	Expansion into 7 lines; renting the entire building	<ul style="list-style-type: none"> • Significant increase in productivity • Sold Firm N Textile, Firm N Denim, Firm N Industries and Firm N Washing to Duherts, a British MNE 	Start construction of a compliant factory outside Dhaka city with 25 lines
Reason for upgrading	Start of the firm	<ul style="list-style-type: none"> • Assurance from potential buyers; • To exploit EPZ facilities 	To meet buyers demand for design effects	To produce more value added product	To exploit the rising market for Bangladeshi garment after MFA	Included THF and Next as buyer (THF occupy 45% and Next 35%)	<ul style="list-style-type: none"> • Pressure for complying with the cost of Accord compliance • Increase commitment for THK (THF occupy 70% of production capacity) 	<ul style="list-style-type: none"> • To comply with Accord building safety requirements • To overcome the maintenance cost of the new factory through more sales • To capture 90% of THK sourcing from Bangladesh
Capital								
Type of upgrading	OEM	Product upgrading; OEM	Functional upgrading	Product and functional upgrading OEM	Functional upgrading; OEM	Process upgrading OEM	Process upgrading; OEM	Process upgrading (200% increase in capacity); OEM
Functional activities	Produce basic, one coloured cotton fabrics	Produce basic denim fabric	Wash denim fabric for effect according to buyers' design	Produce multicoloured and multi textured fabric	<ul style="list-style-type: none"> • Produce apparel according to buyer specification • Source raw material from local suppliers 	<ul style="list-style-type: none"> • Produce apparel according to buyer specification • Source raw material THF nominated supplier 	Same	Same
Level of automation	High	High	High	High	Low	Medium; Purchase of CAD machine	High; Replacement of 85% manual machines with automatic trimming machines	High; Replacement of all manual machines with auto machines
Technological advancement	Medium	Medium	High	High	Low	Low	Medium	<ul style="list-style-type: none"> • High • Install Trunk Line system • Introduce computerised system for production scheduling and delay detection
Level of value addition in product	Low	Low	Medium	Medium	Medium	Medium	Medium	Medium
Labour								
Productivity rate	No data	No data	No data	No data	25%	33%	60–63%	70–75% (Targeted)

HR activities (Training, development recruitment)	<ul style="list-style-type: none"> Recruit experience workers from the surrounding areas Recruit Korean managers Hire Korean consultancy firm for set up and training 	Benefit from knowledge of the existing workers	Buyer representative s provide initial training on washing	<ul style="list-style-type: none"> Recruit expert managers and workers from EPZ area with superior salary and facilities Transfer of managers to the new unit for training workers 	<ul style="list-style-type: none"> Recruit experienced workers On-the-job training of new recruits 	<ul style="list-style-type: none"> Initial training from THF for production and quality control Learning from previous mistakes 	<ul style="list-style-type: none"> Formation of separate HR department and recruitment of 30 Sri Lankan HR managers Recruitment of 50 IEs from Sri Lanka and formation of IE department HR works combined with IEs to train workers; implement efficient production methods 	Introduce incentives to increase workers motivation to work more within the regular working hour
Incentive system	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	Basic incentives (i.e. festive bonus, attendance bonus)	<ul style="list-style-type: none"> Introduce bonus system based on number of pieces produced/week Introduce competition and reward based on highest pieces produced in a month Penalty system based on number of mistakes per line 	<p>Planning to introduce incentive system to encourage group work</p> <p>Provident fund</p>
Worker's skill focus	Basic textile production; quality control	Implementing buyers' design accurately; denim production; quality control		Basic textile production; quality control	Garment production; quality control	Superior quality maintenance	Produce more pieces of garments and reduce mistakes	Working as a team (targeted)

Table XXII: Social upgrading since inception: Firm N

Year of upgrading	1989–2007	2008	2010	2013	Early 2014
Social upgrading/downgrading pursued	Compliance with National Labour Act	Start of garments unit in compliance with National Labour Law	Compliance with THF code of conduct	Start the process for compliance with Accord codes	Construction of a new compliant building outside the city
Reason for upgrading	Requirement of DOL	Requirement of buyers	Pre-requisite for becoming THF nominated supplier	Pressure from THF and other buyers	Difficulty in implementing Accord recommendations in previous rented building
Measurable standards					
Type of employment	Combination of full-time and part-time	Mostly part-time	Combination of Fulltime (80%) and Part-time (20%)	Combination of Fulltime (80%) and Part-time (20%)	Mostly fulltime to reduce turnover (targeted)
Wage level	Compliance with national minimum wage	Comply with national minimum wage (Tk. 1600)	Same	Comply with new minimum wage level	Same
Health and Safety	Fulfil basic requirements	Basic health and safety requirement	<ul style="list-style-type: none"> • Improve fire safety • Provide medical facility 	<ul style="list-style-type: none"> • Update fire safety requirements • Introduce child care facility 	<ul style="list-style-type: none"> • Implement all health and safety requirement of Accord
Hygiene	Fulfil basic requirements	Focus is on hygiene needed for maintaining product quality	<ul style="list-style-type: none"> • Provide enough toilet facility • Ensure proper ventilation in the floor area by installing exhaust fans • Provide a separate dining hall 	<ul style="list-style-type: none"> • Provide pure drinking water • Increase space in dining hall 	<ul style="list-style-type: none"> • Implement all hygiene requirement of Accord
Working hour	8 hours plus 4–6 hours overtime	8 hours plus 4–6 hours overtime; even 10 hours of overtime during pick season	8 hours plus 4–6 hours overtime	8 hours plus 2 hours overtime only if highly necessary	Avoid overtime
Building safety	Not a concern	Not a concern	Not a concern	Become the major concern as failure to implement Accord recommendations on increasing space, ventilation, installing sprinklers etc	<ul style="list-style-type: none"> • New building constructed according to Accord codes • New building includes advanced safety and hygiene measures such as automatic sprinklers, air cooler, trunk lines and added building strength
Enabling rights					
Workers union participation	Restricted	Restricted	Not encouraged by the authority	Not encouraged by the authority	Not encouraged by the authority
System of complaining	No data	No formal system of complain and dialogue with the management	No formal system	Creation of workers' committee that maintains regular contact with the management	Use the workers' committee for deepening the management-worker relationship Separate HR division to liaison with workers Research team to identify workers' problems
Gender ratio	Mostly male	No data	Female (80%); Male (20%, mainly supervisors and staff)	Female (80%); Male (20%, mainly supervisors and staff)	Female (80%); Male (20%, mainly supervisors and staff)
Skill development mechanism	On-the-job training	On-the-job training; recruiting experienced workers	On-the-job training	<ul style="list-style-type: none"> • On-the-job training 	Focus more on formal trainings on implementing advance IE techniques for productivity increase

				<ul style="list-style-type: none"> • Formal training of production managers on advance techniques for productivity increase • Formal training of workers on reducing defects, defect detection and productivity increase 	
Promotion	No data	Informal	Informal; based on skills and supervisors' recommendations	Based on performance, e.g. number of bonuses received; recommendation from supervisor	Develop a performance based promotion culture
Incentive system	No data	No additional incentive	No additional incentive	Performance based bonus plus salary	Introduce team performance based incentive to encourage team work
Job rotation allowed	No	No	No	No	Not planned yet
Additional facilities to improve workers lives	No	No	No	No	No

Table XXIII: Economic upgrading since inception: Firm Q

Year of upgrading	1985	1994–1995	2005–2006	2007–2010	2011–2012	2013– Early 2014 and onwards
Economic upgrading/downgrading pursued	<ul style="list-style-type: none"> Started garment factory in Dhaka city in own building 5 production line factory 	<ul style="list-style-type: none"> Construction and start of Bextex, Bangladesh’s first vertically integrated textile unit Factories on 200 acre eco-friendly campus The factories include spinning, fabric weaving (knit, woven and denim), washing and dyeing, processing and finishing plants 	<ul style="list-style-type: none"> Started researching on demand of reputed buyers Construct and start the garment plant in the campus according to buyers’ reference Start factory units for in-house production of apparel raw material e.g. sewing threads, labels, buttons/zippers, printing, embroidery, packaging Shutdown the old factory in Dhaka city 	<ul style="list-style-type: none"> 2007: Started in-house design studio that work collaborate with buyers R&D unit for researching on textile components, patterns and designs Late 2008: launched own brand “Yellow” in the local market Eight exclusive retail outlet for selling Yellow garments 	<ul style="list-style-type: none"> Started exporting “Yellow” brand to Pakistan on experimental basis Three Yellow retail outlets and one marketing office in Pakistan 	<ul style="list-style-type: none"> 2013: The R&D team invents a wrinkle-free eco-friendly fabric in collaboration with PVH (a US based retailer). PVH has patented it and Firm Q is the manufacturer and exclusive licensee in Bangladesh of Cotra dp 3.5 +, Cortex-2000, USA Late 2014: Joint venture with PVH in USA for production of Cotra dp 3.5 +, Cortex-2000 fabric Plan to make Firm Q a “Knowledge Hub” linking buyers, local and foreign researchers and professionals. They named their factory area as “Campus” Plan to purchase established brands in neighbouring countries for easier access to international market as OBM Plan to start exporting Yellow in non-traditional markets such as, Africa, South America and South Korea to exploit the high growth
Reason/driver for upgrading	<ul style="list-style-type: none"> To exploit the quota opportunity 	<ul style="list-style-type: none"> To be the first mover in textile business in Bangladesh Rising demand for fabrics with increase in garment export from Bangladesh Opportunity of fabric export neighbouring countries with booking garment industry 	<ul style="list-style-type: none"> High-fashion buyers wants to source from composite factories to ensure speed and accuracy in time to market Firm Q aimed for high-fashion brands whereby speed is more important than price e.g. ZARA, Macy’s, Tommy Hilfiger, CK, Topman, Dorthy Perkins, River Island 	<ul style="list-style-type: none"> To differentiate from typical garment factories in Bangladesh through offering higher value added design service Buyers appreciate co-designing as that saves their cost and ensures better co-ordination (match with raw material availability) and speed To become the first OBM in Bangladesh 	<ul style="list-style-type: none"> Pakistan being the home land of the owner, they received institutional support Wanted to experiment the brand internationally in a familiar market before moving to western countries 	<ul style="list-style-type: none"> To become competitive in global scale. Already one of the largest vertically integrated textile and garment manufacturers in South Asia. Now aim for competing with South East Asian producers Nurturing knowledge can only take a garment firm to global scale which none of the Bangladeshi firm has done
Capital						
Type of upgrading	Chain upgrading (business diversification after real estate/holding,	Functional upgrading; the garment becomes OEM service provider	Functional upgrading; OEM	Functional upgrading; ODM and then OBM	Functional upgrading; OBM exporter	Functional, product upgrading; Foreign investor

	ICT and pharmaceutical)					
Functional activities	<ul style="list-style-type: none"> • Cut, make and trim (CMT) service provider • Orders mostly received through buying houses • Import most raw material from abroad 	<ul style="list-style-type: none"> • Complete the entire textile value chain starting from yarn production to washing, dyeing and finishing. • Supply fabrics to other local garments • Export fabrics to neighbouring countries • OEM service provider in apparel export 	<ul style="list-style-type: none"> • Started producing garment with buyer provided design • 80% raw material comes from in-house vertically integrated factories and the rest from abroad • Contact the buyers directly via marketing team • Supply fabrics and garment accessories to other local garments and export to neighbouring countries 	<ul style="list-style-type: none"> • Design garments and customise according to buyers' choice • Produce garments using own raw materials and export • Design "yellow" branded clothes with a fusion of western and ethnic fashion • Sell yellow branded clothes in local retail stores 	<ul style="list-style-type: none"> • Design almost 30–40% buyers orders in-house • Design and sell own brand locally and overseas 	<ul style="list-style-type: none"> • Enhancing the capability and capacity of the division handling Yellow in order to prepare for other export market
Level of automation	Low	<p>High (in Bextex)</p> <ul style="list-style-type: none"> • High-tech machinery • Machines are able to produce different types of cotton, high density poplins and twills, double face colourful fabrics produced in variety of loom combinations 	<p>High;</p> <ul style="list-style-type: none"> • The garment unit is equipped with all auto-trimmer machines • The accessories plants include sophisticated machines to implement complex labels, ambush and embroideries 	<p>High;</p> <ul style="list-style-type: none"> • Continuous updating of machines according to global standard; • Participation in international trade fair and machine fair for increasing knowledge on machinery and new technology 	High	High
Technological advancement	Low	<p>High;</p> <ul style="list-style-type: none"> • Use of CAD for implementing complex patterns and prints 	<p>High;</p> <ul style="list-style-type: none"> • CAD, CAM software for implementing complex designs • Production planning software • Computerised quality check for fabrics and garments • Establish support infrastructure (power generation plant from waste heat recovery, private microwave link and Main Frame based ERP with 640 terminals) 	<p>High</p> <ul style="list-style-type: none"> • Use of advanced designing software • Extensive use of ICT for continuous communication with the buyers for co-designing 	<p>High</p> <ul style="list-style-type: none"> • Building of helipads in the campus, so that CEOs and managers of buyers can directly fly to the firm from airport in Firm Q's private helicopters • In campus motel and restaurant, gym for guests to invite continuous co-ordination and strong relationship with buyers 	High

Level of value addition in product	Low; Production of basic T-shirt	Medium; the garment use 50% of own fabrics	Medium-high; <ul style="list-style-type: none"> Offer composite service to buyers the garment unit use 80% of own raw material 	High <ul style="list-style-type: none"> Offer design service 	High	High
Labour						
Productivity rate	5000 pcs/month	No data	No data	No data	No data	<ul style="list-style-type: none"> Fabric: 28 Million Linear Meters Apparel: Woven: 50 million cs/month; Knit: 145 million pcs/month Productivity rate: 68–70%
HR activities (Training, development recruitment)	<ul style="list-style-type: none"> On-the-job training 	<ul style="list-style-type: none"> Recruitment of skilled, semi-skilled and unskilled workers around Firm Q industrial park Recruitment of expats (from India, Pakistan, UK, Spain and Malaysia) for training and management Both on-the-job and off-the-job training for workers and staffs 	<ul style="list-style-type: none"> Recruitment of experienced expats in key managerial positions for knowledge transfer and at mid manager level for training workers and staffs Separate HQ with dynamic corporate culture and individual functional divisions e.g. marketing, HR, Merchandising, Industrial Engineering etc. Separate training and development unit for workers and staffs Local and overseas training for promising staffs 	<ul style="list-style-type: none"> Recruitment of ex-Zara designer as Head of Design unit Recruitment of design graduates reputed foreign and local universities Accept Internees from NIFT, India; London School of Fashion, Nottingham Trent University, UK; Parson's USA etc. The designers are funded to attend important International and National fashion shows and training programmes and short courses in universities Creation of separate division for managing retail and marketing on Yellow brand 	<ul style="list-style-type: none"> Firm Q starts inviting researchers from textile and fashion, industrial engineering etc. for conducting their research which aids knowledge sharing Holds textile and fashion related conferences and fashion shows whereby buyers, reputed designers are invited for feedback and strengthening relationship 	<ul style="list-style-type: none"> Creating and nurturing talents internally through training and education Developing the campus as a centre of knowledge and exchange. HR plays a key role in arranging different liaison activities Increased focus on continuous interaction with workers with rising labour disturbance in surrounding area. Worker liaison and research team for identifying their problems in work and personal lives; solving those problems before the agitation builds up. Complete background check of workers before recruitment for security and for enhanced linkage with workers family/lives HR focuses on becoming the employer of choice locally and internationally and thus holds activities to promote this message to youth
Incentive system	No data	No data	Festive bonus; attendance bonus; Performance based (both individual and group)	Festive bonus; attendance bonus; Performance based; separate performance evaluation team in HR	Same	Introduced skill based incentive to encourage learning of new skills; performance based incentive
Worker's skill focus	Basic garment production and finishing	Quality assurance; keeping pace with global standard	100% quality assurance; early defect detection	Reducing lead time; increasing co-ordination with vertically integrated factories and buyers	Keeping pace with the changing fashion; Speed and time to market	Learning multiple skills and career development

Table XXIV: Social upgrading since inception: Firm Q

Year of upgrading	1985	2005-2006	2013-Early 2014
Social upgrading/downgrading pursued	<ul style="list-style-type: none"> Start of garment factory in compliance with the National Labour Act 	<ul style="list-style-type: none"> Firm Q designed own code in accordance with ILO, National Labour Law and few potential buyers codes Start of the garment and backward linkage factories according to internal codes and standards 	<ul style="list-style-type: none"> Continuous amendment of Firm Q's compliance code according to buyers' preference and now with emergence of accord Continuous update of compliance requirements Worker centred compliance and HR activities Fulfilling workers' need that are not covered by compliance and adapting compliance code according to contextual needs Recruitment of compliance manager and external consultants
Reason for upgrading	Basic requirement for passing DOL inspection and having buyers	<ul style="list-style-type: none"> Potential buyers emphasise full compliance with ILO and their private codes Buyers mentioned that there is a lack of fully compliant factories in Bangladesh which prevents them sourcing from Bangladesh 	<ul style="list-style-type: none"> Compliance is "common sense" that is needed to keep the workers happy, motivated and healthy Workers needs vary significantly from compliance requirement and this deserve attention to keep workers satisfied
Measurable standards			
Type of employment	Mostly full-time	All full-time	All full-time
Wage level	National Average	Beyond national average	Beyond national average
Health and Safety	Basic fire safety and other basic facilities	<ul style="list-style-type: none"> Updated fire safety measures Separate medical unit serving the workers and staffs within the entire campus. The unit has sufficient doctors and nurses with all primary care facilities Separate childcare unit with pre-school education facility 	Updated according to ILO and Accord requirement
Hygiene	Toilet facility	<ul style="list-style-type: none"> Dining hall Pure drinking water points Sufficient toilet facility Air cooler in the factory areas for increased comfort and ventilation 	Updated according to ILO and Accord requirement
Working hour	Overtime up-to 4-6 hours	Overtime up-to 4-6 hrs/day	Overtime up-to 2 hrs/day
Building safety	Not a concern	<ul style="list-style-type: none"> Buildings are constructed according to Bangladesh National Building Safety code Updated electrical safety measures Use of energy efficient electrical equipment 	Updated according to Accord requirement
Enabling rights			
Workers union participation	Not a concern as workers are disjointed from the union community	Not encouraged	Not encouraged for internal security reasons
System of complaining	No formal system	<ul style="list-style-type: none"> Workers' participatory committee (WPC) having elected representatives to liaison with management 	<ul style="list-style-type: none"> Increased interaction with WPC Continuous dialogue between mid management and workers to identify problems in lives and works and solve elements those are not in compliance. Research team to identify issue in workers' life and career
Gender ratio	No data	Male 60% and female 40% (equal opportunity employer)	Same
Skill development mechanism	Primarily on-the-job training	<ul style="list-style-type: none"> On-the-job training 	<ul style="list-style-type: none"> Increased focus on internal development of workers Develop workers for multi skills for increased flexibility and as a contingency against worker migration

		<ul style="list-style-type: none"> • Regular off-the-job training for teaching advanced methods, new skills and new product/machine production/handling • Mandatory training for all workers on quality assurance and defect detection 	
Promotion	Informal	Performance based	Performance and skill based
Incentive system	No data	Performance based incentive according to production data	Performance based; based on new skills learned and applied
Job rotation allowed	No	Yes	Yes
Additional facilities to improve workers lives	No	<ul style="list-style-type: none"> • Opened 14 primary school in the community whereby for children of workers and community can get free education (60% workers children and 40% community) • Provident fund, annual leave, maternity benefits, health and education loan • Free treatment for workers in the medical unit; subsidised treatment facility for workers' family • Free transportation for workers and staff 	<p>In addition to previous ones</p> <ul style="list-style-type: none"> • Introduced Parenting resource centre (based on research results on problems of workers who have new born) which provides free advice on child bearing, holds awareness campaigns in the community and in campus, home visits by care workers etc. • Provide job to workers family members to increase their commitment and family income (30% workers have relatives working in Firm Q)

Table XXV: Economic upgrading since inception: Firm R

Year of upgrading	1994–1996	2000–2004	2007–2009	2010	2011–2012	2013–Early 2014 & Future projects
Economic upgrading/downgrading pursued	<ul style="list-style-type: none"> 1994: Started a 2 line factory in Dhaka city in a rented building (Dekko Knitwears) 1996: Started a 10 line factory in a rented building (Firm R Knitwear) 	<ul style="list-style-type: none"> Development of backward linkage 2000: Firm R Fabric (Knitted and Woven), a textile production plant 2003: Firm R Jeans and Washing, a denim fabric production and washing plant 2004: Firm R Knitex, a dyeing unit. 2004: Firm R Ltd., an accessories plant 	<ul style="list-style-type: none"> Start two separate fully compliant (following BSCI and ILO code) factories (Mirabella Dresses Ltd. and Dazzling Dresses Ltd.) in industrial area Two factories combined 23 lines increasing to 49 and then 140 by 2010 Achieved green level (100%) from BSCI inspection Started producing new product ranges (both knitted and woven) e.g. formal range items (office shirts, coats) 	<ul style="list-style-type: none"> Started another state-of-the-art fully compliant garment factory in industrial area (Firm R Style) with 100 production lines Produce both knitted and woven formal and casual ranges 	<ul style="list-style-type: none"> Started co-designing with the buyers by outsourcing the design function to a US-based fashion designing firm as they have better knowledge on western design 	<ul style="list-style-type: none"> 2013: Start of own design unit for co-designing with buyers 2013: Started producing new sportswear range in the new factory for Nike and Puma 2013: Launched own brand “Youth” in the local market and have purchased retail outlets in key locations of Dhaka city Late 2014: Started selling “Youth” in India 2014: Started construction of a plant in Myanmar for production of lingerie as a joint venture with a Sri Lankan firm. 2016: Planning to start exporting own brand to Singapore and Japan, depending on the success in local market. Already made arrangement with wholesaler (owned by Bangladeshi) in Singapore and Japan for distribution to retail outlets.
Reason/driver for upgrading	<ul style="list-style-type: none"> Promise from C&A for increased order if capacity is increased (C&A occupied 40% of the capacity of both the factories) 	<ul style="list-style-type: none"> Special GSP incentive in Europe for factories in Bangladesh that has own backward linkage GSP incentive helps C&A to get garments at reduced rate from Firm R With the development of backward linkage C&A occupied 80% capacity of both the factories 	<ul style="list-style-type: none"> To attract value conscious buyers who offer good price as compliance indicates the standard of a factory Increased orders from reputed buyers encouraged to increase capacity 	<ul style="list-style-type: none"> Promise from existing buyers for increased order. The reputation of being the supplier of M&S and G Start encouraged other brands to order e.g. Esprit; Celio* and Polo Ralph Lauren 	<ul style="list-style-type: none"> To ensure better control on Standard Minute Variance (SMV) and cost To achieve more bargaining power over buyers and ask for more profit margin 	<ul style="list-style-type: none"> Started own design studio to achieve better control on SMV, cost and bargaining power. To formalise their participation in design Planning to start own brand to leverage from their investment in design Joint FDI in Myanmar to achieve cost benefit from location and knowledge resources from Sri Lankan partner
Capital						
Type of upgrading	Process upgrading; OEM	Functional upgrading; OEM	Process and product upgrading; OEM	Process upgrading; OEM	Functional upgrading; ODM	Functional, product, process upgrading; ODM (Export market), OBM (Local market)

Functional activities	<ul style="list-style-type: none"> Produce garments according to buyers' specifications Source raw material from own local and overseas supplier network Maintain direct contact with all buyers through marketing division 	<ul style="list-style-type: none"> Produce 75% the raw material in vertically integrated factories Produce garment according to buyers' design and standards 	Same	Same	<ul style="list-style-type: none"> Design few ranges of buyers brands through the US firm, customise and finally approve by the buyers For most other brands produce garment according to buyers' design 	<p>Export market:</p> <ul style="list-style-type: none"> Design the raw material part of a garment (fashion part done by the buyers) Produce the garments using own and imported raw materials <p>Local brand:</p> <ul style="list-style-type: none"> A separate design team for design of the local brand "Youth" Use own raw material for the local brand <p>Joint FDI:</p> <ul style="list-style-type: none"> Produce lingerie according to buyers design Share knowledge resources for production accuracy with Sri Lankan partner who is experienced in lingerie production
Level of automation	Low	Low	High; the new factories has all updated auto machines	High; Installation of CAD, CAM, embroidery and appliqué machines in all the new factories	High	<ul style="list-style-type: none"> High; The new FDI project includes high-tech machines as the margin of error is very less for lingerie production
Technological advancement	Low	Low	Use of software for systematic production planning	<ul style="list-style-type: none"> Use advanced production planning software "Fast React" for toll planning Use GFT software for industrial engineering planning (root cause analysis for defects, delay detection) 	<ul style="list-style-type: none"> Continual upgrading of the software Use of ICT to improve communication and co-ordination with the design studio and the buyers 	<ul style="list-style-type: none"> Use of advanced design software for making and implementing complex designs Use of computer-aided lingerie design software for accuracy in implementation Hired Brandix (a Sri Lankan garment firm) for process review and suggest measures for productivity increase in factories
Level of value addition in product	Low	Medium: started using own raw material	Medium; started producing formal range products	Medium	Medium-high	High
Labour						
Productivity rate	15000 pcs/month, 30-35%	40-45%; reduced lead time <ul style="list-style-type: none"> Knitting capacity: 30,000 kg/day Dyeing capacity: 30,000 kg/day Finishing capacity: 30,000 kg/day 	1 million pcs/month; 50-52% on an average	80000pcs/month (new factory); 50-55% productivity rate	2.5 million pcs/month (all five factories), 50-55% productivity rate	<ul style="list-style-type: none"> 2.7 million sewed pcs/month; 70-75% Printing capacity: 1 million pcs/month Embroidery capacity: 180 million stitch/day

HR activities (Training, development recruitment)	<ul style="list-style-type: none"> On-the-job training 	<ul style="list-style-type: none"> On the job training for workers BGMEA and overseas training for staffs 	<ul style="list-style-type: none"> Training from hired consultants on reducing Standard Minute Variance (SMV), increasing on time delivery rate (OTDR) and reducing return to supplier rate (RTS). Both on-the-job and off-the-job training for workers and staffs 	<ul style="list-style-type: none"> Separate industrial engineering division for production planning, quality assurance and productivity increase Recruitment of Sri Lankan managers as staff in IE dept (80% Sri Lankan) 	<ul style="list-style-type: none"> Worker centred HR functions Continuous dialogue to prevent building up of agitation Digging deep into workers' problem, identify the root cause of workers inefficiency i.e. family disturbance, health problem etc. and solving those Reduce migration rate to retain the return on investment on training and development 	<ul style="list-style-type: none"> Marketing division separated from merchandising and now merged with new R&D division for increased co-ordination with buyers, marketing and design team IE, HR and Brandix (consultant) work together to increase worker's motivation for productivity increase such as, skilled based evaluation and incentive system Internal training and development programme for workers and staffs Separate workers training and development division to arrange regular training on sewing different product ranges, using different machines and identifying defects at early stage etc.
Incentive system	Festive bonus, attendance bonus	Same	Same	Introduced performance based incentive system in the three new factories (Based on no. of pieces produced)	Same	Skill based evaluation and incentive (based on no. of new skills learned); Performance based incentive (based on pieces per production line/hour)
Worker's skill focus	Garment production; quality assurance	Garment production; reducing lead time; efficient co-ordination between vertically integrated factories to increase OTD rate	Quality assurance; reducing minute variance between pieces for increasing productivity; ensuring on time delivery	Same	Same	Self motivation to increase own and group productivity and learn new skills.

Table XXVI: Social upgrading since inception: Firm R

Year of upgrading	1994-1996	1997-2006	2007-2010	2011-Early 2014 and onwards
Social upgrading/downgrading pursued	<ul style="list-style-type: none"> The two factories in Dhaka city starts with compliance with National Labour Act Passed the inspection of DOL 	<ul style="list-style-type: none"> Improvement of compliance as per C&A's code Passed C&A audit (conducted by third party) 	<ul style="list-style-type: none"> Construction of three green factories according to BSCI and ILO code Achieved 98% compliance level from BSCI Passed M&S, H&M and Next compliance audit with green level 	<ul style="list-style-type: none"> Changed the mission of company to "Human Spirit" Construction of the first green corporate office in Bangladesh that is energy and recourse efficient, greenery themed architecture. Focus on workers' motivation and welfare Achieved Green level for the three new factories from Accord inspection
Reason for upgrading	<ul style="list-style-type: none"> Minimum requirement to pass the DOL audits Precondition from buyers 	To pass C&A audit to continue the relationship with them	<ul style="list-style-type: none"> To attract value conscious buyers who offer good price for compliance Compliance indicates the standard of factory which is the key to attract reputed brands 	<ul style="list-style-type: none"> To increase workers' productivity by workers' proactive actions rather than pushing them for output increase To reduce migration rate which result in loss of investment on workers
Measurable standards				
Type of employment	Combination of full-time and part-time	Same	Mostly full-time	Mostly full-time
Wage level	National average	National average	More that national average in three new factories	More than national average in three new factories
Health and Safety	Basic fire safety and first aid (According to DOL)	<ul style="list-style-type: none"> Improved fire safety with new marking, increased fire drill Included a separate medical section with better facilities Included childcare facility 	<ul style="list-style-type: none"> Most updated fire safety, sprinkler facility Well-equipped medical unit with doctors Childcare facility where educational activities are also offered 	<ul style="list-style-type: none"> Started providing free medicine for workers and their children Organise health camp whereby free primary care is given to workers and their immediate family members
Hygiene	Toilet facility and ventilation (according to DOL)	<ul style="list-style-type: none"> Increased number of toilets Enhanced the width of exhaust pipe for better ventilation 	<ul style="list-style-type: none"> Dining hall with nutritious lunch Pure drinking water Air cooler in the factory floor for comfort and ventilation Exhaust pipe with high suction capacity for controlling heat and fume in the factory floor 	<ul style="list-style-type: none"> Started special care team for superior factory floor cleanliness
Working hour	Overtime up to 4 hrs/ week/worker	Same	Overtime restricted to 2 hrs/week/worker	Same
Building safety	Not a concern (factories are in rented shared building)	Improved the electrical and generator safety	The new buildings are constructed according to building safety codes	Same
Enabling rights				
Workers union participation	Not a concern as workers are not part of industrial community	Same	Depends on workers willingness but proactively not encouraged	Same

System of complaining	No formal system	Same	<ul style="list-style-type: none"> Workers' participation committee Workers' liaison team for searching and solving workers' problems Continuous dialogue with workers and management through formal meetings and informal visits to factory floor. 	<ul style="list-style-type: none"> Focus on increased liaison with workers
Gender ratio	Mostly female workers and male staff members	Same	<ul style="list-style-type: none"> Two old factories: same Three new factories: Workers – female (65%); Male (35%) HQ Staff– Female (30%); Male (70%) 	Same
Skill development mechanism	On-the-job training and previous work experience of workers	Same	Systematic on-the-job and off-the-job training by IE and HR division	<ul style="list-style-type: none"> Continuous training for internal development of workers and staff Workers receive training on multi-tasking, production of multiple products, use of different machines for increase flexibility and thus reduce loss from migration
Promotion	Informal	Same	Based on performance	Based on new skills learned and performance
Incentive system	Festive bonus, attendance bonus; maternity benefit	Same	Performance based bonus including the previous ones	<ul style="list-style-type: none"> Creation of workers' appraisal committee for keeping performance record Skill and performance based Best performers foreign tour (recently went to Nepal) Annual picnic and other recreation activities for workers and staffs for increased bonding and better mental health
Job rotation allowed	No	No	No	Yes
Additional facilities to improve workers lives	No	No	<ul style="list-style-type: none"> Cooked lunch Pre-school educational facility in the childcare unit by qualified teachers Other financial and non-financial support in time of workers need Beyond national average salary 	<ul style="list-style-type: none"> Provide interest free loan to workers to ensure their high morale and better life Gift for new born baby Free transport facility Planning to start provident fund from 2015.

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