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CSR IMPLEMENTATION CHALLENGES IN GLOBAL SUPPLY CHAIN- EXPARIANCES FROM BANGLADESH GARMENTS INDUSTRY

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ABSTRACT

The purpose of this paper is to investigate how suppliers in Bangladesh garment industry independently can take CSR for their own business affairs. Data is collected through interviews of large international buyers, important Bangladesh suppliers and major organizations having influence on the supply chain context. The findings show high supplier dependency on buying company’s code of conduct in CSR implementation. Five main challenges are identified; weak supplier-driven CSR implementation; non-questioning business culture; dilemma consequences of order pressures; weak coherence between the buyers’ implementation strategies and; absence of self-contained supporting organizational structure. This research considers CSR implementation as prerequisite for ensuring efficiency and sustainability in the supply chain of the garment industry in Bangladesh. Based on the challenges it is suggested that suppliers need to improve by: (1) initiatives and measures to build up responsibility to practice CSR; (2) develop a supply chain culture based on CSR orientation and intelligence and (3) establish link with educational institutions to achieve CSR competence for implementation. The study offers insight on CSR implementation challenges of international suppliers of Bangladesh garments industry and highlights the understanding of the effects of CSR implementation for supply chain sustainability.

Keywords: CSR implementation, supply chain, supplier challenges
INTRODUCTION

The implementation of Corporate Social Responsibility (CSR) in supply chain (SC) is one of the most complex strategic challenges for companies involved in global business transactions to manage. The research study has primarily paid attention on the corporates’ responsibilities and in specific how multinational corporations (MNCs) exert pressures and controls on suppliers for SC compliance (Ciliberti et al. 2010; Baden et al, 2009; Ciliberti et al. 2008; Seurling and Müller, 2008). For SMEs the corporate CSR-driven approach is commonly perceived as similar to regulations (Baden et al, 2009) allowing suppliers to take the role of conformers rather than pursuing their own development in terms of CSR implementation.

As rational supply chain management (SCM) requires shared goals to achieve sustainable competitive advantage (Perry and Towers, 2009), this paper highlights how the pressure on suppliers to take own initiatives towards CSR integration need to be considered. Supplier conforming strategy makes it difficult to achieve effective SC management which places demands on the suppliers' responsibility. The call on suppliers to be self-driven gets support by numerous global initiatives and standards undertaken to operationalize the work for CSR implementation in business activities. As a way to strive for CSR accountability global MNCs establish codes of conduct or join a general code via for example UN’s Global Combat (GC) or implement a management system according to one of the standards ISO 14001, OHSAS 18001 or the new ISO 26000. With the launch of standards there are risks that resourceful companies become super-suppliers and super-agents in SC as these have the ability to fulfill the implementation requirements more efficiently than smaller companies (Perry and Towers, 2009). To not only benefit resourceful super-suppliers this paper draws attention on the importance that SC companies need to create an ability to compete on equal terms.

Although MNCs have come far in CSR implementation, research knowledge of supply chain integration and how companies actually deal with CSR issues in foreign affairs is deficient. How suppliers apply to and develop CSR guidelines in own activities and what ability they have to manage for CSR accountability have received scarce attention. This study pays attention to CSR implementation in garment industry SC in Bangladesh. The purpose is to investigate how suppliers in Bangladesh garment industry independently can take CSR for their own business affairs.

Bangladesh’s garment industry is the second largest exporter of cloth in the world after China and the largest industrial employer in the country. With nearly 5,000 garment factories the industry employ 3.5 million workers of which 85% are women producing clothes for leading global retailers and brands. Their wages begin at around US $ 43 a month which is the lowest in Asia which has been strongly criticized. Recently has in Bangladesh been observed the rising prices of essentials; unpaid salaries; absence of responsible trade unions and good relations between workers and owners; misbehavior of mid-level officials; and deferred payments to workers. The worlds’ attention to the suppliers’ irresponsible behavior has increased after events causing fires in factories and recently the collapse of a factory in Rana Plaza which caused about 1,200 employees death. With the increase of standards and the global pressures on the buying companies, smaller supplier risk to be eliminated from SC if not following the demands from retailers (Perry and Towers, 2009) which can have serious effects on the country’s employment situation and economy.

To understand the CSR implementation context three questions are discussed; 1) How is CSR integrated in buying companies activities? 2) How do supply chain companies respond to their requirements? 3) What is supplying company’s ability and barriers to develop own capacity for CSR accountability? By addressing these questions insight on how the integration of economic, political, structural and cultural factors create barriers for CSR implementation in SC is offered.

LITERATURE REVIEW - CSR IMPLEMENTATION

CSR as a concept is normative prescribing how companies should act as being a vital part of society. With CSR emerging as a concept-in-use in most organizations, the research discussion has transformed from the rhetoric resting on
normative-ethic argument to normative-performance arguments (Lindgren and Swaen, 2010). This means a movement from pure ideal arguments towards research focusing on how CSR could be implemented and practiced.

The implementation of CSR in company activities are commonly discussed in terms of voluntary way to combat social injustice and to take environmental responsibility for society development (Carroll, 1979). The connection between business and society is based on the premise that companies need to be legitimated by society for survival and success which commonly is based on economic arguments (Sundström, 2009). With pressures coming from stakeholders and other critical organizations in society the voluntariness are questioned seeing CSR implementation as compulsory for business survival (Sammalisto and Sundström, 2013). Noticed is how CSR implementation contributes to improvement of corporate image and reputation which enhance organizational attractiveness on the market (Steiner et al, 2012, Yoon et al, 2006). With CSR implementation companies are perceived to get “a clearer responsibility, more profound self-interest and greater potential” to act as key actors on social issues (Transparency International, 2009 s xxiv).

**CSR Implementation Approaches**

CSR implementation research are commonly discussed from three different perspectives with focus on company CSR responsiveness (Kramer and Kania, 2006; Christmann and Taylor, 2006), as step-by-step development process (Christmann and Taylor, 2006; Mirvis and Google, 2006; Crittenden et al, 2011; Lindgreen et al, 2011) and as priory attribute (Cruz and Wakolbinger, 2008; Crittenden et al, 2008; Klerkx et al, 2012).

The CSR responsiveness approach (Kramer and Kania, 2006) differs between defensive or offensive implementation strategies which basically overlap the discussion of symbolic or substantive implementation as presented by Christmann and Taylor (2006). The defensive or symbolic approach is criticized as used for public relation or green washing purposes and by companies undertaken to reduce risks of external vulnerability and managed with minimal investments. CSR fails to be practiced in daily activities in ways prescribed by certified standard. In contrast, the offensive or substantive strategy means that a company uses certified standard seriously in an attempt to implement CSR in all business operations.

The step-by-step approach (Christmann and Taylor, 2006; Mirvis and Google, 2006; Crittenden et al, 2011; Lindgreen et al, 2011) view implementation as a development process. Mirvis and Googins (2006) focus on the balance between CSR confusion and coherence and how this is dependent on the company situation. For new companies, and especially companies with small resources and less ability to integrate CSR in a strong way, the implementation need to follow logical stages of growth including coordination and collaboration across work units and company levels. Companies’ internal capacity applied to environmental issues, and company commitment to meet requirements to implement CSR, have high influence on its success. Five stages are defined starting with episodic activities and programs to comply with laws and standards, ending up by transformative thinking about both doing good and doing well in business requiring visionary leaders and partnerships with community.

Lindgreen et al (2011) step-by-step perspective regards CSR implementation as a change process based on sense making in which an organization is transformed to reach the end stage of desired CSR integration. Implementation as a change process requires negotiation to develop shared organizational understanding while integration is the extent to which the organization reaches compliance with CSR principles as an end-stage. According to this approach the implementation process represents a set of activities which requires top management support and change of culture to orient towards full CSR integration. Leadership engagement plays a crucial role for implementation success and a serious commitment of top management is essential. Nine implementation stages are identified, which in principle overlap with the ones presented by Mirvis and Googins (2006).

Crittenden et al (2011) follow the same discussion of clear steps requirement to integrate CSR. Their argument is built on the fact that the lack of clear rules slows down the implementation process. They found that only 60 % of CSR strategies are implemented in companies with poor effects on performance as well. Suggested is a four stage implementation framework following the same principles of systemic implementation as stated by Mirvis and Googins (2006) and Lindgreen et al (2011). Briefly, the stage approaches differs related to if implementation depends on resources...
(Googins and Mirvis, 2006), top management commitment (Lindgreen et al, 2011) and regulation (Crittenden et al, 2011) and development stages involved before reaching full CSR integration as an end-stage.

The third approach discusses implementation as following a priority strategy. Crittenden et al (2008) and Klerkx et al (2012) argue that companies decide what key elements to include in activities. Cruz and Wakolbinger (2008) have noticed that certain areas are more prioritized in implementation. Their findings show that companies choose what activities are of importance and concentrate on them in implementation.

**CSR Implementation in Supply Chain**

Theoretically SCM is defined in numerous ways. Boyd et al (2007) define an integrated supply chain as “a vertically coordinated network of firms that engage in various activities associated with the production and distribution of a firm’s products to its end customers” (P. 341). Stock and Boyer (2009) identify three common features discussed in SC literature emphasizing the sharing of activities, benefits and constituents/components. Perry and Towels (2009, referring to Svensson, 2007) add the importance of integration of activities, actors and resources stretching from raw material to end users of SC to achieve the goal of sustainable competitive advantage. SCM theory is based on the premise that improvements are connected to the SC as a whole and not to a single company (Perry and Towels, 2009).

Most studies of CSR in SC discuss the dependency between MNCs and SMEs and how smaller companies rely on larger companies for survival (Klerkx et al, 2012; Baden et al, 2009; Perry and Towels, 2009). The SME perspective differs from a SCM approach as it assumes the existence of dependency and power between the parties, rather than reciprocity and the sharing of responsibilities. Perry and Towels (2009) discuss five pillars having impact on CSR in SMEs; transaction cost economics (TCE), globalization, SCM, demand chain management (DCM) and trust. The TCE question concerns the “make of buy” choice (referring to Williamson, 1975, 1985) as relevant for the SC context; globalization has to do with global sourcing strategies; SCM how activities are connected to other partners or network of partners; DCM that certain business are customer-led driven including CSR and finally; trust is necessary to create collaborative relationships. These “pillars” represents the antecedents having impact on CSR practice in relation to SMEs (Perry and Towels, 2009).

CSR integration in supply chain research follows the view of corporations’ as accountable for social and environmental issues related to their supply chain affairs regardless if these concerns the corporation itself or their suppliers (Cruz and Wakolbinger, 2008). Primarily the focus is on small company CSR adaptability, how these follow corporate requirements of compliance and how to gain competitive advantage in being selected as part of supply chain (Ciliberti et al. 2010; Ciliberti et al. 2008; Seurling and Müller, 2008). The discussion concentrates on how the suppliers need to be strategically managed in order to adopt the core values and principles which the focal company has implemented (Ciliberti et al, 2008). Since suppliers are selected based on carefully chosen criteria, the responsibility is transferred to the companies which comply with stated requirements (Ciliberti et al, 2010). This means that CSR provide competitive advantages for those suppliers complying with the focal company's CSR requirement while less responsive suppliers risk stagnation or to be closed down.

**METHOD**

To answer the research questions an explorative method was used following SC design including the characteristics of supply chain research (1-3) and contextual elements having influence on SC context (4). Figure 1 shows the research design:
As SC research involves a complex mixture of research objects and problems this paper adopts an exploratory research design (Ghauri and Grönhaug, 2002). A mixed-method approach (Baden et al, 2009) is used by combining semi-structured interviews both in Sweden and in Bangladesh with factory observations in Bangladesh garment industry. Two visits in Bangladesh were done in October 2012 and April 2013. The buying companies (1) were selected as they have central positions in SC and are important actors of Bangladesh garment industry. The first (2) and second (3) tier suppliers were selected as being part of the buying companies SC in Bangladesh. Besides SC partners’, interviews with supporting key organizations in Dhaka (Dhaka Chamber of Commerce and Swedish International Donor Agency (Sida), 4) having good knowledge of local business conditions as well as representatives of buying houses (5) were done. The latter informants provided complementing information about the suppliers' local situation in Bangladesh.

10 semi-structured interviews were conducted with 3 buying company (coded C1-C3) representatives with responsibility for CSR implementation in Sweden (4 interviews) and in Bangladesh (6 interviews). 3 of those interviewed in Bangladesh were responsible for the education of textile workers in training centers in Dhaka which we also visited one of them and got the ability to observe the training. The interviews with CSR representatives were conducted in the corporate headquarters in Sweden and in their local office in Dhaka (C1 and C”). The interviews with buying companies were accomplished to get a deeper understanding of their perception of CSR integration in relation to SC suppliers viewed from a large company perspective.

3 semi-structured interviews were conducted with 2 first-tier suppliers having 8000 and 5000 employees (coded FS1-FS2) and yearly turnover 40-45 million USD. During the interviews we got the opportunity to visit the factories and could observe the production of garments and fabrics at place (Oct 2012). 4 semi-structured interviews were conducted with 2 second-tier suppliers (coded SS1-SS2) producing accessories (textiles, buttons, zippers, paper box, poly bags and label factories) to first-tier suppliers but also to others. SS1 has 1200 employees and with yearly turnover 22 million USD and SS2 has 3500 employees (yearly turnover not told). In one of the cases the first-tier supplier owned the accessories factory which means that the company represents both first and second-tier suppliers.

3 semi-structured interviews and factory visits were conducted with 2 Buying House (coded BH1-BH2) owners. They articulated ambitions to become part of the focal SC investigated which provided information about their CSR implementation strategies to join the network.
2 semi-structured interviews (L1) were conducted with a company working with logistics in SC. Finally, 5 semi-structured interviews were conducted with representatives from SIDA (3 interviews) and Dhaka Chamber of Commerce (2 interviews) – (coded as O1-O2). Totally data are collected from 16 organizations and 26 representatives.

In our visit in April 2013 additional 3 factory visits were planned. Because of the disaster at Rana Plaza, Savar, Dhaka, Bangladesh which caused about 1500 workers death which happened during our visit, our plans could not be completed as the situation was chaotic with people upset and occupied the plants in industrial areas.

RESULT

Corporate CSR Implementation in SC

C1 has a long business experience in Bangladesh and has established a close relationship with local suppliers. The company has 10 auditors who visit the factories in Bangladesh when conducting social and environmental audits. In Bangladesh the company has 250 suppliers which they frame as business partners and has special employees who visit the factories and do initial assessment. Information is gather to see whether the supplier have capacity and proper management. If they fulfill the requirement the partnership proceed with Full Audit Program (FOP) following zero tolerance requirements. Besides announced and unannounced audits, worker and management interviews are done including control of documents. In cases of problem the supplier gets a warning and recommendation to solve the problem before next audit.

The compliance factor is one of the most important issues for the supplier to manage to get the order. By signing ICOC (International Code of Conduct) provided by C1, the suppliers’ publicly affirm their responsibility to respect human rights and environmental issues. The supplier is expected to set up a plan for how they work with these issues which later is reviewed by C1. C1 do 4 audits including the first announced audit and 3 following up audits taking between 4 to 9 months to complete. Besides these audits there are also unannounced verification and technical audits (quality audit) having the purpose to listen to the suppliers and try to help them solve their problems. If the company does not maintain the requirements, additional routine audit is done in which the supplier are told to solve the problem within 1 month. In the meantime no order is placed in that factory. If the supplier fails, C1 continue to block the orders.

According to C1 many challenges remains concerning working wages and environmental issues but these require collaboration in different project with association like the government and SIDA. C1 is not the only buyer of the factory which means that other companies have their own code of conduct for the supplier to consider.

C2 and C3 are smaller buyers compared to C1 with shorter business experiences in Bangladesh and less people working with CSR issues. C2 have 35 suppliers with around 50 factories. The two companies have established code of conduct and require that the supplier's factory follows these and the law in the country. The codes should be recognized but are experienced as a work in progress taking time to implement.

The level of compliance is, according to C2, not excellent but acceptable and developing day by day. Globally 11 people are employed for complain related issue which means, that they are short of resources and uses the same audit strategy in relation to all suppliers. The audit system is viewed as a rather simple process with compliance inspections of the supplier. After the first inspection the supplier is evaluated concerning the factory. The supplier is expected to set up an action plan which also is seen as an attempt to handover the responsibility for problems to the factory. Many of the buyers tell the suppliers that “this is your problem and you should fix it”. When setting up the plan, the supplier is not told how to do it or when or where they should start. C2 wants them to take responsibility for their own problems without deadlines for when these should be finished. C2 do follow up visits in which they try to solve problems, give suggestions or provide the
supplier with equipment. In the first factory visit C2 look at if basic requirements are fulfilled. Later area such as lights, clean toilet, and clean factory are inspected. The first year is temporarily to prove liability and after one year C2 go back to the factory to communicate how to develop the company to fulfill their requirements.

The C2 ambition is to work closely with suppliers as good business partners and to avoid auditing experienced as policing with tough requirements. If the supplier works actively with improvements, C2 can place direct order to the supplier. Important to get an order is that C2 is satisfied with prices and that the supplier follows their policy and related responsibilities. CSR implementation is regarded as a step by step process in trying to get away from policing and with ambitions to see the factories improvement more quickly.

C2 experiences several challenges. Many of the buyers don’t want see the reality and problems concerning overtime issue and lack of mid management mindset behavior. This is a struggle when it comes to buyer collaboration as C2 wants to have a dialog concerning common problems. There exit a dialog in buyer's forum in which all the international brands are joining. During these meetings the buying companies have contact to each other and discuss common problems. Occasionally C2 also have contact with other Swedish buyers. A second challenge is to minimize orders to sub-contractors. The main supplier should inform C2 about changes in production but in peak seasons every factory has multiple orders in the same time and it is difficult to know who is producing what. One solution is to develop close relationships with so called key suppliers requiring the development of partnership relations and trust.

According to C2 it could be dangerous to take too big steps. The suppliers are still most concerned about fire safety issues rather than other sophisticated or hygiene issues. The dream is to overcome this kind of barriers as the suppliers cannot rely on others to point out the problems all the time. C2 call for the need of a changed management mindset in which the suppliers want to do it, not because someone else says they have to do it. The change of attitude requires midlevel management training. There are still problems with fire safety issues despite that this was the first issue to overcome ten years ago. Some of the factories are back in the same situation as in the beginning. They look good during inspection but in between they adopt traditional routines. There are also too much people working in one factory. The factory owners expand the business but the area of production is the same. In one sewing machine operates two persons in which one is expert and the other one is helper.

Supplier CSR Implementation

All suppliers argue that they follow the buyers' code of conducts which is seen as essential to get the orders. Some (FS1, FS2, SS1) highlights that buyers expect the same requirement on subcontractors as on themselves. The subcontractor is commonly nominated by the buyers and occasionally, the buyer (FS1) audit second tier suppliers as well. In SS1 self audit is done and in FS2 the second tier suppliers are audit by the company. In FS2 and SS1 the buyers offer training programs for employees, arrange meetings and seminars. Most suppliers are positive to the audits as it gives “mental awareness and social responsibility” (FS1).

During site visits, we observed signs showing responsibility requirements, met staff taking care of workers in cases of sickness, saw special rooms for child care and water cleaning equipment.

To become more autonomous in CSR implementation the FS and SS suppliers experience several challenges to overcome. The main problem is the lack of higher educated middle management and to employ higher educated people to the industry. A second problem is that trained employees leave after the Muslim festival ‘Eid’ or when they are offered better payment conditions. As there is a surplus of suppliers less bargaining power is obtained with high competition. A third problem is the lack of collaboration associations which makes the interaction between suppliers weak.

Logistic Company, Buying Housing Companies and supporting organizations discuss other barriers necessary to become autonomous. First, Bangladesh suppliers have a long way to go compared to European countries. This means that areas told to be important by the buyers are maintained while other areas are overlooked and seen as less important. Delays or rejection in shipment cause time pressures and extra costs for the suppliers and the logistic companies. Many of the buyers have different standard requirements. These problems are more difficult for smaller suppliers to manage which contribute to child labor employment. The buying companies do not pay for the extra costs for compliance. As small
companies commonly face financial problems it is difficult for them to reach compliance requirements. Workers should do 8 hours work but in order pressures they work 12 hours with extra payment for overload.

DISCUSSION

Key garment industry suppliers (SS1 and SS2) follow the buying companies’ code of conduct ruled by the audit process. This follows the discussion viewing CSR implementation as step-by-step development process (Christmann and Taylor, 2006; Mirvis and Google, 2006; Crittenden et al, 2011; Lindgreen et al, 2011) and how it is necessary to give priority to the most important issues (Crittenden et al, 2008; Cruz and Wakolbinger, 2008; Klerkx et al, 2012). For SMEs it is more difficult to follow requirements of compliance mostly because of financial problems.

Despite sharing the incremental implementation approach, the buying companies use two different strategies to integrate CSR in SC. C1 adopts a planned strategy in which the suppliers have to follow strict rules to become part of SC. In following this strategy supplier compliance is reached in which the buying company decides on the way of proceeding. For the supplier this strategy is impost on them by an outside company (Hannagan, 2008). From the buying company’s perspective they are treated as if they need help and support to achieve compliance. C2 view CSR implementation in SC as a collaboration strategy built on partnership which basically follows the principles of SCM research and the pillars of reciprocity and trust (Perry and Towers, 2009). Although empowering the suppliers with trust it is difficult for C2 to maintain control over the situation as the suppliers occasionally drop back to previous conditions of no-compliance.

Both first and second tier suppliers conform to the buying companies’ strategy by following code of conduct. According to supporting organization the Bangladesh culture is not questioning authorities and used to follow the rules. At peak periods and situations of high order pressures, the suppliers have to turn to subcontractors to deliver the order which makes SC business difficult for buying companies to control. Economic requirements and time constraints are barriers for developing sustainable and effective SC. In order to reach flexibility and having control over the SC many of the suppliers are expanding their business areas through the establishment of more products and factories covering bigger parts of SC. This expansion strategy allows them to increase control of the business in SC. The expansion strategy is more used by buying houses companies which are not part of the focal SC. Figure 2 shows the different CSR implementation strategies undertaken by SC companies.

FIGURE 2
CSR IMPLEMENTATION STRATEGIES IN SC
CONCLUSION

Several challenges remain before garment industry suppliers in Bangladesh are able to work more independently with CSR implementation. First, for buying companies there is a need of a more unified CSR implementation view that clarifies how they should work with these issues in relation to SC. Facing many buyers with different requirements make it difficult for suppliers to know how to respond to various requests. Key suppliers have easier to find solutions while smaller companies with financial problems face a harder time to find ways to work independent with CSR implementation. Five main challenges are identified: weak supplier-driven CSR implementation; non-questioning business culture; dilemma consequences of order pressures; weak coherence between the buyers implementation strategies and; the absence of self-contained supporting organizational structure. Based on the experienced challenges it is suggested that suppliers need to improve CSR capacity by: (1) initiatives and measures to build up responsibility to practice CSR; (2) develop a supply chain culture based on CSR orientation and intelligence and (3) establish link with educational institutions to achieve CSR competence for implementation. So in order to make the supply chain sustainable and the industry more competitive in the global competition the suppliers need to improve their CSR capacity.

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