

by Juliane Reinecke
Professor of Organisation Studies,
Warwick Business School

and Jimmy Donaghey
Professor International HRM,
Warwick Business School

Collective Action and Social Partnership in Global Supply Chains: Lessons from the Bangladesh Accord

Introduction

On 23 April 2013, the Rana Plaza building complex collapsed claiming the lives of over 1,100, mainly women, ready-made garment workers, and injuring many more. This was just the latest in a series of fatal factory fires and collapses which killed hundreds of garment workers in Bangladesh, many despite being audited against international accountability standards including some of those in the Rana Plaza complex. The collapse also demonstrates the failure of prevailing business practice to deal with labour issues in global supply chain based on social auditing of factory compliance against accountability standards and codes of conducts.



Structural re-enforcements in an Accord factory building

In this thought piece, we examine how collective governance built upon the principles of social partnership can help to overcome collective action problems inherent in prevailing practice that emphasises individual actions. A collective action dilemma describes a situation where the action of individuals leads to lack of investment or resources being overexploited as in the “tragedy of the commons” unless an external authority, typically, the government intervenes to regulate access¹. Elinor Ostrom suggested an alternative, polycentric system of governance, in which formally independent centres of authority interact to make allocation, regulation, and sanctioning decisions². In such a system, private actors can avoid the tragedy of the commons if certain design principles are followed. Applied to labour standards in global supply chains, the question to be addressed is how can actors design polycentric institutional arrangements that avoid free-riding while providing sustainable governance in the interest of intended beneficiaries, that is workers?

The argument developed here is that by understanding worker safety as a collective action problem, and by drawing on social partnership as understood in industrial relations, building a more robust approach to global labour governance can be achieved. We illustrate our arguments by examining a key response to the Rana Plaza tragedy, the Bangladesh Accord for Building and Fire Safety (Accord)³, which contains wider lessons for labour rights in global supply chains.

Worker Safety as a Collective Action Problem

Factory safety is a collective action dilemma nested at multiple levels with competing interests, which, in combination place downwards pressures on labour standards.

At the brand level, even though safe and sustainable factories carry collective benefit for the entire industry, buyers face individual disadvantage when pursuing costly sustainable actions, as such costs may not be borne by competitors. Brands are competing against each other on a low cost model, and competitors may benefit from safety upgrades that another firm has made. Without assurances that all buyers invest in safe and sustainable factories, it is difficult to convince individual buyers to take action due to the risk of free riding.

At the supplier level, a collective approach to lift standards potentially could increase the income of the industry and workers at a relatively low marginal cost to buyers. Instead, competition between factories both from within the country and from abroad is cutthroat due to low entry barriers. Suppliers compete with each other on a cost-basis, and push downwards pressure on workers in terms of wages and safety regimes.

At the worker level, as long as an unlimited supply of labour is ready to take up work in garment sector, workers lack market power to demand safer workplaces. Efforts at developing a collective voice in the form of trade unions face strong resistance from employers, and often government officials alike. As a result, out of over 4,500 officially registered garment factories in Bangladesh, only about 10% have registered unions. But according to local estimates, many fewer are functioning properly due to the immature system of industrial relations, fragmentation of unions and lack of organising capacities.

At the supply chain level, highly complex global webs of purchasing relationships involve multiple buyers sourcing from multiple suppliers with parties spreading their relationships across geographical spaces to minimise risk. The combined effect has been increasing fragmentation, multiple tiers involving sub-contracting and an overall lack of transparency. Fragmentation has produced a situation where, in the absence of state oversight, brands have not taken responsibility for labour standards within the factories that produce the goods which they sell.

Social auditing creates a collective action dilemma of its own. Even in cases of major non-compliances, there is little follow-up by buyers, and contracts are rarely terminated. The result is corporate complicity in a system where multiple buyers re-monitor the non-compliances of their supplying factories.

At the host government level, competition among sourcing destinations for low cost production drives down standards and wages. Bangladesh is the world's second-largest exporter of ready-made garments, but it faces increasing competition from neighbouring Myanmar as well as Cambodia and Laos and increasingly East Africa. The Bangladeshi government resists effective regulation out of fear that compliance will increase production costs, and decrease the competitiveness of this sector that makes up 80% of exports in a highly competitive, and mobile global market.



A trade union meeting in Dhaka

Failure of Individual Action

Single brands have neither the willingness, incentive nor leverage to make individual mechanisms work, as the failure of social auditing demonstrates. Wary of exposure to negative publicity by mainly Western NGOs, labour activists and unions, brands have heavily invested in social auditing of factory compliance, which accounts for up to 80% of their ethical sourcing budget⁴. Yet while social auditing has helped companies manage their supply chains, safeguard individual reputation and claim social responsibility, it has largely failed to improve working conditions. Shortcomings have been tragically demonstrated by the failure to prevent a series of fatal industrial accidents. Rana Plaza famously housed two factories, Phantom Apparels and New Wave Style, that were audited against the Business Social Compliance Initiative's (BSCI) standard.

Critics have long argued that social auditing is primarily designed to limit buyers' legal liability and to manage reputational risk, rather than improving working conditions⁵. In theory, the threat of sanctions – withdrawal of orders – encourages suppliers to address non-compliances. In practice, social auditing creates a collective action dilemma of its own. Even in cases of major non-compliances, there is little follow-up by buyers, and contracts are rarely terminated, not least because this would create disruption to the supply chain. This renders the threat of an individual buyer withdrawing orders ineffective. In turn, the knowledge that individual action is likely to make little difference reinforces a buyer's incentives to keep "eyes wide shut" even if suppliers are found non-compliant with a company's code of conduct. Companies and their suppliers then both have an interest in hiding labour violations rather than reporting them. The result is corporate complicity in a system where multiple buyers re-monitor the non-compliances of their supplying factories, leading to duplication of audits and 'audit fatigue', yet without significant remediation taking place.

Social Partnership as Collective Action

Scholars agree that solving complex governance challenges in global supply chains requires collaborative approaches, as no single organization can do it alone. As will be developed below, the response to the Rana Plaza disaster has seen the emergence of a social partnership-type arrangement to try to address these institutional failures. The concept of "social partnership" established amongst

practitioners in the European social partnership system, and academics from the field of industrial relations is useful to understand how a higher degree of consensus can be achieved to help users themselves overcome collective action problems⁶. While originally referring to national tripartite institutions, as mirrored in the structure of the International Labour Organisation (ILO), we suggest that the concept of social partnership can also help to understand voluntary collective action in transnational contexts.

Social partnership is essentially about adopting a collective approach to solving problems, involving a double dynamic of:

- **Multiple interest coalition:** Through forming a social partnership, different parties can cooperate and build a consensus through which problems can be solved, even if their individual interests compete or the definition of the problem differ. Mutuality is built upon the recognition that, at times, the interests of the parties involved, typically workers and managers/owners, may not be shared but that a common solution can create mutual benefit despite divergent interests⁷. In global supply chains, a collective mechanism to address labour rights violations can benefit both buyers seeking to avoid reputational damage, as well as worker representatives seeking to develop safe workplaces.
- **Industry-wide, pre-competitive collaboration:** Tragedies such as Rana Plaza have demonstrated that an industry's reputation is a shared resource, subject to reputational spillovers⁸. One incident can damage

Viewing governance as a collective action problem helps improve our understanding of the complex institutional arrangements that can contribute to collective governance within complex global supply chains.

the reputation of an entire industry beyond the firms directly involved. Moreover, addressing root causes requires industry-wide collaboration. Encompassing interest groups thus need to collaborate to achieve collective action and sanction free-riding. Many brands now accept the need for pre-competitive collaboration as a way of removing from competition issues of collective concern, such as labour rights. When acting collectively to address systemic problems in an industry's global supply chain, global buyers can avoid competing on safety and achieve greater leverage. Collective action then spreads the cost of economic adjustment, increases sanctioning capability and reduces the incentives for free riding.

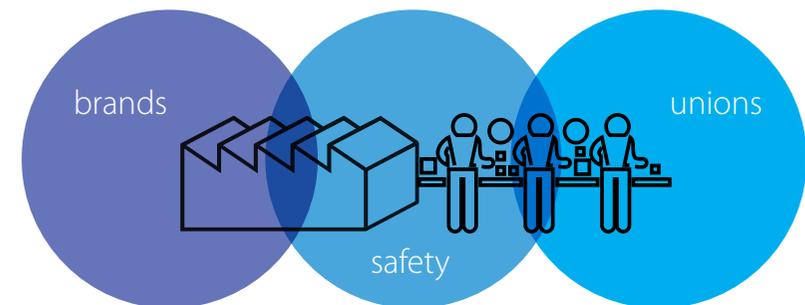
In the next section, we outlined how these dynamics have been harnessed to build an innovative system of supply chain labour governance based on principles of social partnership.

The Bangladesh Accord for Building and Fire Safety as Social Partnership

The Accord (<http://bangladeshaccord.org>) was signed in the immediate aftermath of the Rana Plaza building collapse in 2013 to develop a more robust approach to worker safety in the Bangladesh ready-made garment industry. The Accord grew out of an earlier attempt to create a "Memorandum of Understanding", which never came into force as only two brands, Pvh and Tchibo, had signed up⁹. It was only after Rana Plaza that a number of labour actors including the Global Union Federations, IndustriALL Global Union and UNI Global Union, as well as the labour rights NGOs Clean Clothes Campaign and Workers Rights Consortium were able to pressure a critical mass of brands

into signing up to this five-year, legally binding agreement between brands and unions that is unprecedented in global supply chain governance. The Accord is chaired by the ILO, and has been signed by 215 signatory companies (as of 2017), global and local unions, with labour rights NGOs as witness signatories. Signatory companies include global brands such as H&M, Inditex, C&A, Primark and Hugo Boss, large Western retailers such as Aldi, Carrefour or Tesco as well as a number of smaller apparel brands. The Accord illustrates how a collective and collaborative approach by brands and unions can generate leverage to change the system through collective action. Six dimensions rooted in the social partnership approach help to establish the institutional conditions for effective private governance.

1. **Transnational co-determination:** Central to the Accord is recognition that worker representatives, and not just representatives of capital, must be included in the design and oversight of transnational labour governance regimes. The Accord Steering Committee consists of equal representation of trade union and company representatives. Rather than promoting common business interests in protecting reputation¹⁰, inclusion of recognised labour representatives means representation of interests of the agreement's intended beneficiaries: garment workers.
2. **Developing worker voice:** Worker voice is central to a partnership approach as it recognises the potentially competing interests of management and workers over core organisational issues¹¹. As such, the Accord oversees the development of a more comprehensive structure of worker voice in the area of workplace safety, including joint worker-management safety



committees in all factories, and a robust complaints mechanism.

3. **Leverage through collective action:** Collective action by a large proportion of buyers provides far greater leverage for effective sanctioning than any buyer would have individually. As expressed by a buying brand: "If you don't remediate you lose your orders from 215 brands. That's leverage, that's how you get things done in Bangladesh." Under Accord rules, when a factory is found unsafe, no signatory brand may source from this factory. Facing the loss of orders from not just one, but a large group of buyers commits the factory to invest in remediation. Effective sanctioning led to the most unsafe factories being temporarily or permanently shut, with remediation efforts monitored in almost all other factories, potentially saving the lives of thousands.
4. **Accountability through collective oversight:** Collective oversight over inspections can overcome some of the limitations of previous auditing approaches, such as lack of transparency. By including unions, the ILO and NGOs in oversight as well as placing factory reports and Steering Committee minutes in the public domain, buyers are incentivised to act on non-compliance. Parties without profit rationales can expose firms who seek to circumvent the collective approach. Transparency also re-enforces collective leverage, because even brands not covered under the Accord are less likely to source from factories that have found to be unsafe.
5. **Pooling of resources:** Pooling of resources increases marginal per capita return, which incentivises participants because they know that their individual contribution makes a bigger difference¹². With industry-wide contributions, a collective safety mechanisms can fund high-quality inspections with engineering teams specializing in fire, electrical and structural safety. Pooling of resources overcomes the deficiencies of single brand approaches such as lack of expertise, under-funding of specialized inspections and protocols for follow-up action and remediation. Cost sharing makes governance more accessible especially for smaller buyers with limited resources and further reduces incentives for free-riding.
6. **Highly focused approach:** One of the criticisms of the Accord is also one of its strengths. The Accord has a narrow focus on building, electrical and fire

safety. While preventing fatalities within the industry, it has done little to increase poverty wages or extend worker rights beyond safety. In contrast, wide-ranging approaches such as the UN Global Compact on the other end of the spectrum have been criticised for achieving few of their objectives. Focussing on a clear and tangible problem can concentrate actions and resources on delivering more effective problem solving.



Primark's Kusha Mela – Compensation of Rana Plaza victims and their families

The Accord found more than 80,000 safety issues in its first round of inspections of 1,100 factories. Critical issues were found in almost each factory often despite having previously passed multiple social audits. As of 2017, 74% of identified safety issues have been reported or verified as

fixed¹³, such as fire proofing the electrical wiring, installation of fire doors and fire systems as well as redistributing weight loads and strengthening the factory building's columns (see Picture).

The Accord is not without problems associated with collective action. Firms can opt not to sign up to the collective agreement yet free ride on the contributions of signatory firms. In the case of the Accord, unions but particularly NGOs have played an active role in encouraging a large proportion of companies to participate. But their pressure may be less potent in absence of a tragedy that focuses critical attention on an entire industry. Then, the Accord has shown how private actors can overcome a collective action problem. But uncertainty about renewal, extension or replacement after its 2018 expiry date illustrates the need to build stronger links with national government and governance structures to ensure legitimacy and support of collective action mechanisms.

Conclusion

The Accord is an unprecedented example of how collective action in global supply chains can generate collective leverage and solve a collective action problem – despite a lack of reinforcing institutional support from the host government. The resulting mechanism has put an urgent halt to a tragic series of deadly factory incidents. Our argument is that the social partnership nature of the Accord has played a central role in its success by bringing

together a plurality of interests and having inbuilt mechanisms for ensuring accountability through participation of unions and NGOs.

Viewing governance as a collective action problem helps improve our understanding of the complex institutional arrangements that can contribute to collective governance within complex global supply chains. A number of key lessons can be drawn. First, the collective approach enables a system which provides leverage between participants but also against those who may seek to free-ride. Secondly, collective oversight from an independent body provides a mechanism through which diverse actors can be guided down a common path. Finally, the inclusion of multiple interests enables the identification of mutual solutions to interests affecting particular parties.

A final and more general lesson to be drawn for the principle of social partnership is that, in the current neo-liberal environment, individual action and intense competition is often elevated above the benefits of cooperative and collaborative behaviour. Taking individual action as illustrated by the social auditing model adopted by many supply chains creates an inferior regime in terms of health and safety governance. The Accord demonstrates that collective responses have a central role to play in developing meaningful and sustainable governance mechanisms that can deliver common solutions despite competing interests.

Endnotes

- ¹ Ostrom, E., Dietz, T., Dolsak, N., Stern, P.C., Stonich, S., & Weber, E.U. (Eds.) 2002. *The drama of the commons*. Washington, DC: National Academy Press.
- ² Ostrom, E. 2010. Beyond Markets and States: Polycentric Governance of Complex Economic Systems. *American Economic Review*, 100, 641-672.
- ³ See also Donaghey, J., & Reinecke, J. (Forthcoming). When Industrial Democracy meets Corporate Social Responsibility – A Comparison of the Bangladesh Accord and Alliance as responses to the Rana Plaza disaster. *British Journal of Industrial Relations*.
- ⁴ ETI 2013. Auditing Working Conditions. Ethical Trading Initiative. Retrieved January 12, 2015, from <http://www.ethicaltrade.org/in-action/issues/auditing-working-conditions>
- ⁵ Locke, R., Amengual, M., & Mangla, A. 2009. Virtue Out of Necessity? Compliance, Commitment, and the Improvement of Labor Conditions in Global Supply Chains. *Politics & Society*, 37, 319-351.
- ⁶ Turner, L. (Ed.). 1997. *Negotiating the new Germany: can social partnership survive?* Ithaca, NY: Cornell University Press.
- ⁷ Kochan, T.A., & Rubinstein, S.A. 2000. Toward a stakeholder theory of the firm: The Saturn partnership. *Organization Science*, 11(4), 367-386.
- ⁸ Barnett, M.L., & King, A.A. 2008. Good Fences Make Good Neighbors: A Longitudinal Analysis of an Industry Self-Regulatory Institution. *Academy of Management Journal*, 51, 1150-1170.
- ⁹ Reinecke, J., & Donaghey, J. 2015. After Rana Plaza: Building Coalitional Power for Labour Rights Between Unions and (Consumption-Based) Social Movement Organisations. *Organization*, 22, 720-740.
- ¹⁰ In contrast, the Alliance for Bangladesh Worker Safety, a competing, corporate-driven self-regulatory initiative insists that "The Corporation is a voluntary association of business organizations the primary purpose of which...is to further their common business interests by strengthening worker safety conditions."
- ¹¹ Donaghey, J. 2016. Trojan horse or tactic? The case for partnership. In Johnstone, S., & Wilkinson, A. (Eds.). *Developing Positive Employment Relations*. Basingstoke: Palgrave Macmillan.
- ¹² Poteete, A., Janssen, M., & Ostrom, E. 2010. *Working Together: Collective Action, the Commons, and Multiple Methods in Practice*. Princeton, NJ: Princeton University Press.
- ¹³ <http://bangladeshaccord.org/progress/>