

Multinational Buyers' Demand for Suppliers to Improve Labor Standards

Experimental Evidence from Bangladesh's Apparel Sector

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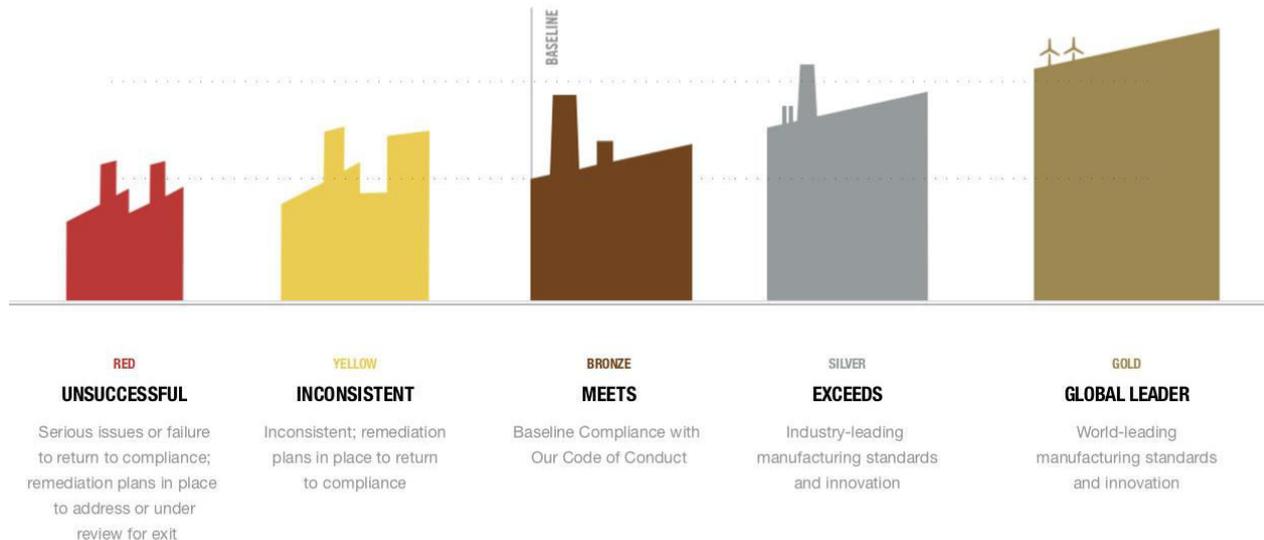
Research motivation

- Many multinational buyers require suppliers to adhere to high standards for quality, delivery, and labor practices, and so on...



Example: Nike Code of Conduct compliance standards

“Ratings...form the foundation of a supplier’s SMSI score, driving business to high performing suppliers and initiating sanctions with suppliers failing to meet minimum performance expectations (Bronze rating).”



Source:
<https://purpose.nike.com/sourcing-manufacturing-standards>.

Research motivation

- In developing countries, where the government's enforcement capacity is often limited, many multinationals directly monitor suppliers' compliance with local labor laws.
- We lack evidence on how these interventions affect suppliers' compliance.
- Further, the economic effects of enforcement of labor regulation on local firms and workers largely unknown.
- This research: Collaborate with multinational buyers to randomize interventions of their Bangladeshi suppliers to minimize negative correlations between a firm's labor regulation compliance and its performance. (Botero et al, 2004; Besley and Burgess, 2004).

This research

- **Multinational Buyers:** The *Alliance for Bangladesh Worker Safety*, a coalition of 29 multinational garment buyers (e.g., Wal-Mart, Target, Gap, etc.).

- **Treatment:** Safety training, building program, manager supervision

- **Method:** Survey, randomly assigned, program for



and **capacity-**
updates **worker-**

Controlled trial (RCT),
the's monitoring

Source: Wikipedia.

How does monitoring by multinational buyers affect adoption of compliance?

- **Pre-specified outcomes:**
 1. **Compliance** with Bangladesh's Safety Committee labor law
 - Establishment, operations, and responsibilities of safety committee
 2. **Factory safety performance**
 - **Physical safety**
 - Indicators of safety culture, e.g., **workers' awareness** of safety committees and safety knowledge

How does monitoring by multinational buyers affect business competitiveness and workers' well-being?

- **Pre-specified outcomes:**
 1. **Workers' job satisfaction and well-being**
 - Self-reported job satisfaction and mental well-being
 - Worker absenteeism and turnover
 - Wages and employment
 2. **Factories' economic performance**
 - Labor productivity

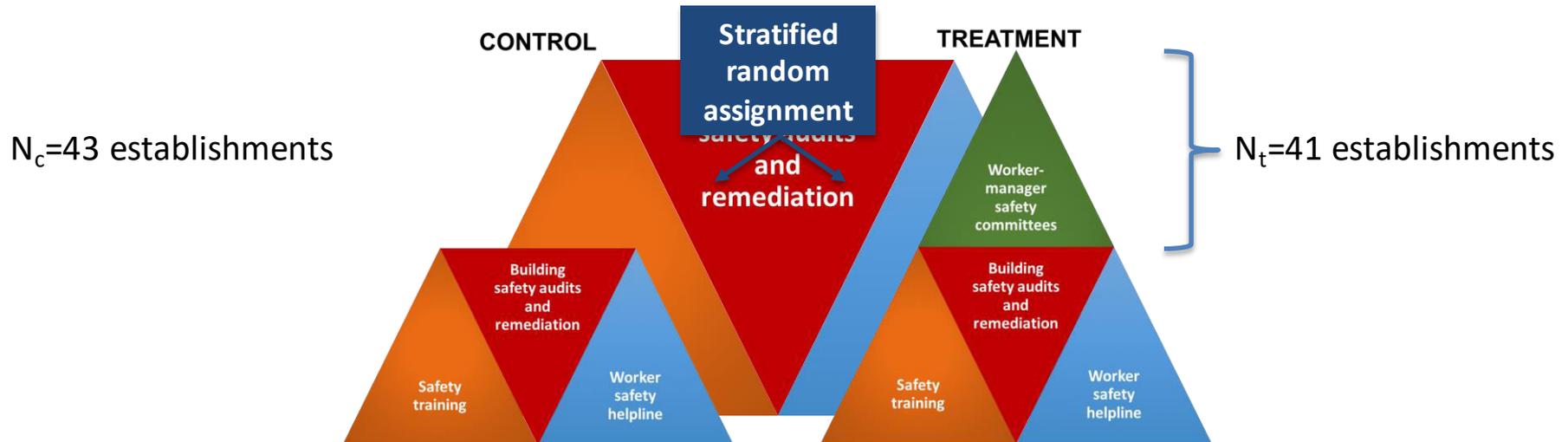


Background & Intervention



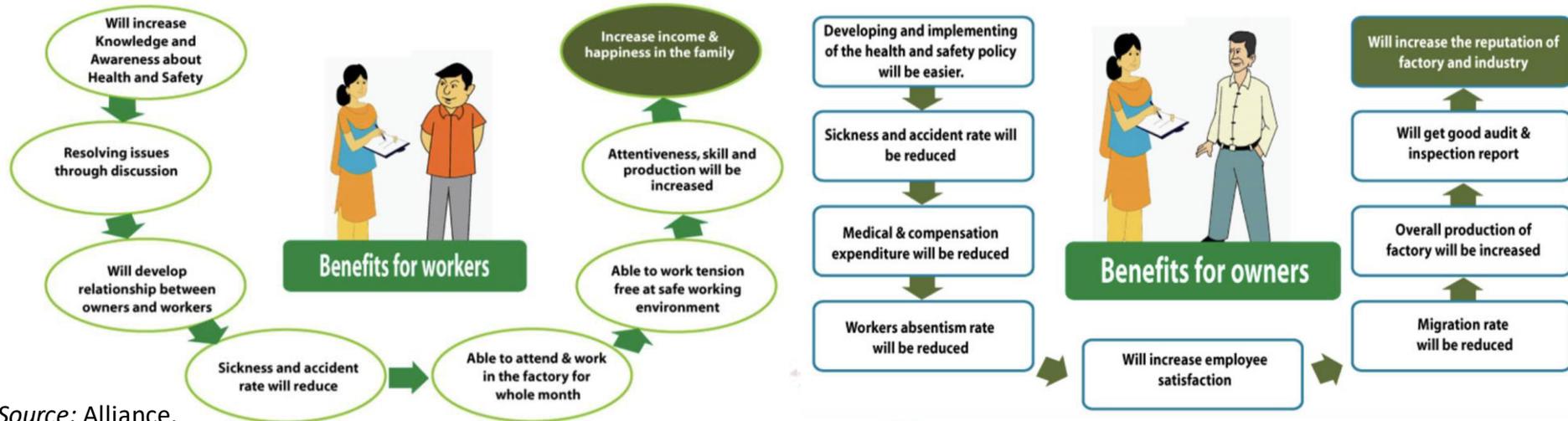
The Alliance

- Covered 700-900 factories and about 1.2 million workers (25% of sector).
- Factory suspensions based on failure to cooperate (179 suspensions).
- Mandatory programs for suppliers:

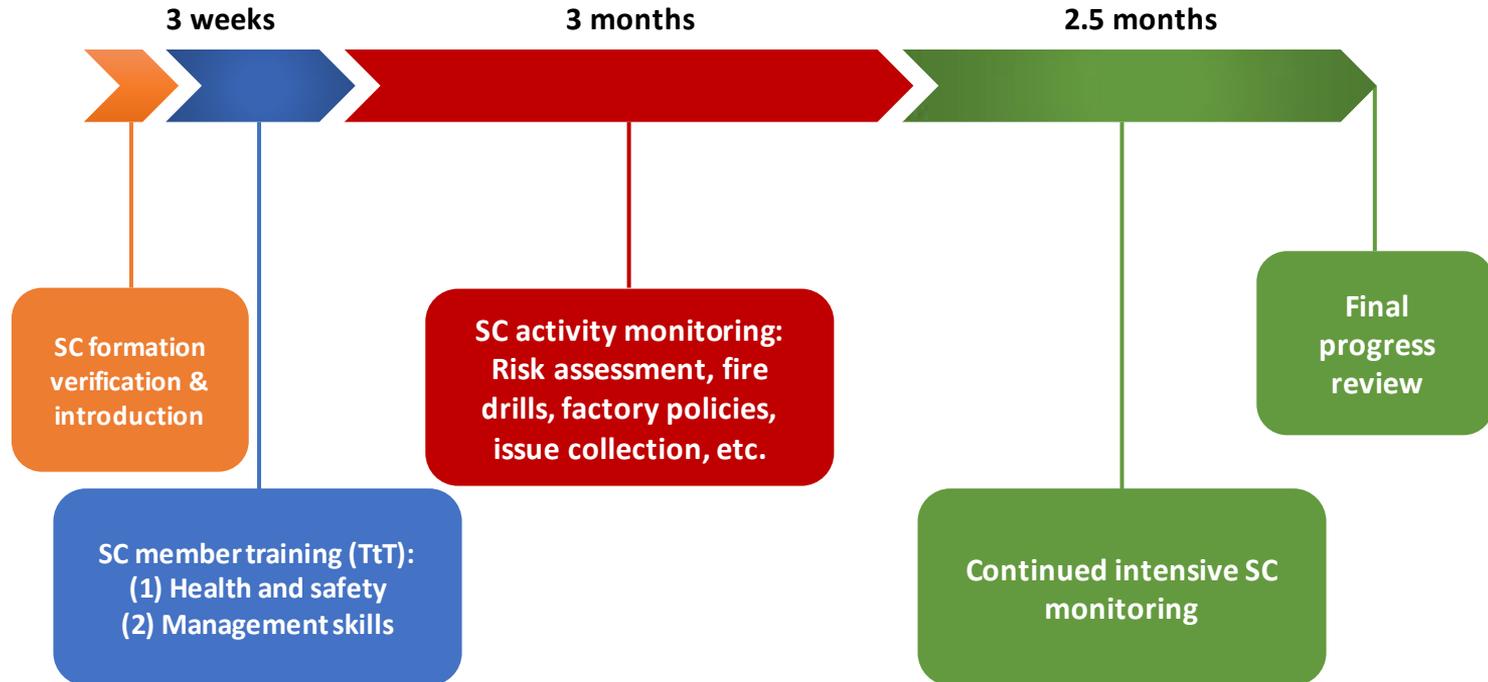


Alliance Safety Committee Program

- Objectives:
 - Bring supplier base into compliance with Safety Committee law.
 - Establish a platform to increase communication between workers and managers.
 - Empower workers to raise their voices related to their safety concerns.



Alliance Safety Committee Program



Research Design



Research design

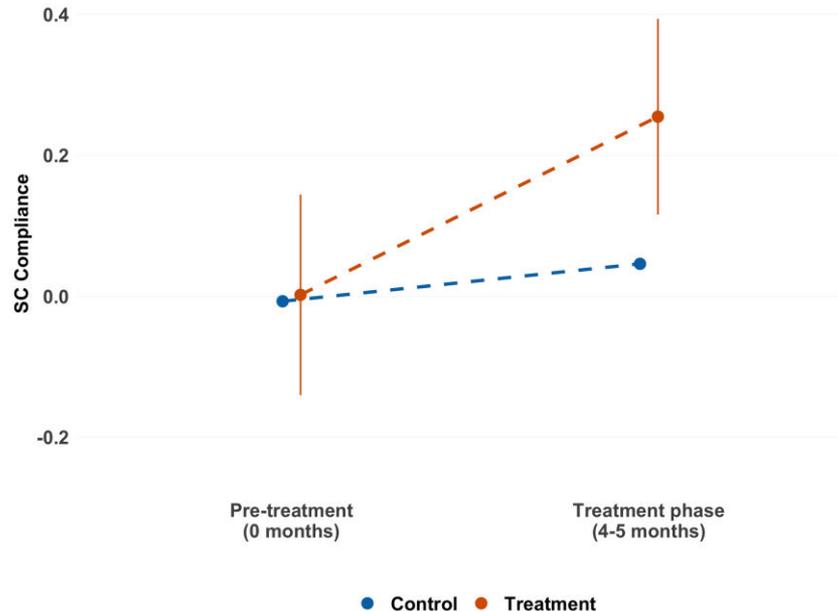
- Data collection:
 - 3 onsite visits: Baseline, treatment phase (4.5 months), post-treatment phase (8-9 months).
 - Factory questionnaire (retrospective, after final visit).
 - Alliance programmatic data.
- Measuring impact:
 - Multidimensional, multi-measure outcome categories.
 - Solution: Construct indices to capture effects on a broad category.
- Pre-specified and registered analysis plan:
 - Prevents data mining for statistically significant results.

Results



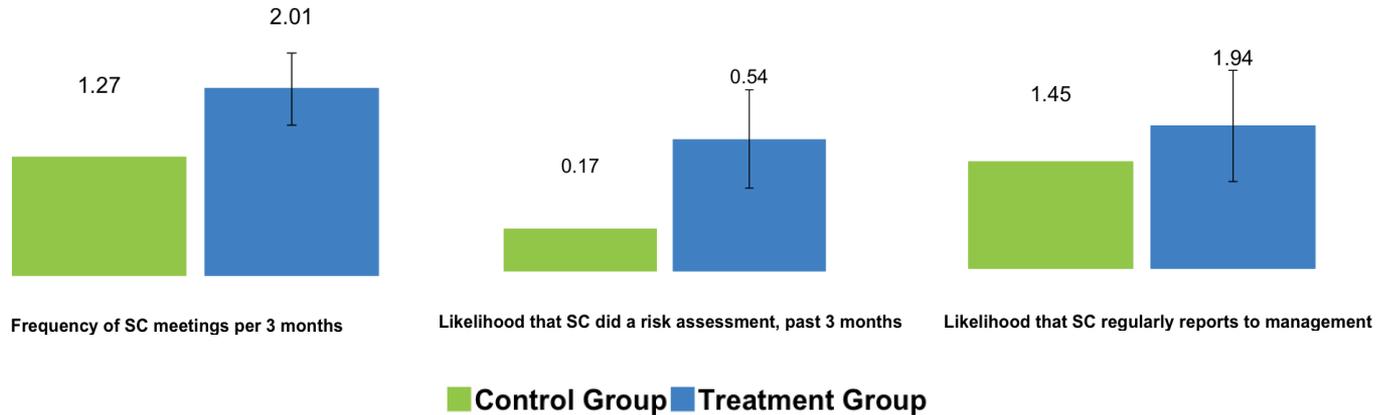
Buyer monitoring improves factories' adoption of compliant Safety Committees.

Compliance improves by 0.20 standard deviations. Statistically significant at 1% level.



What's driving the improvement?

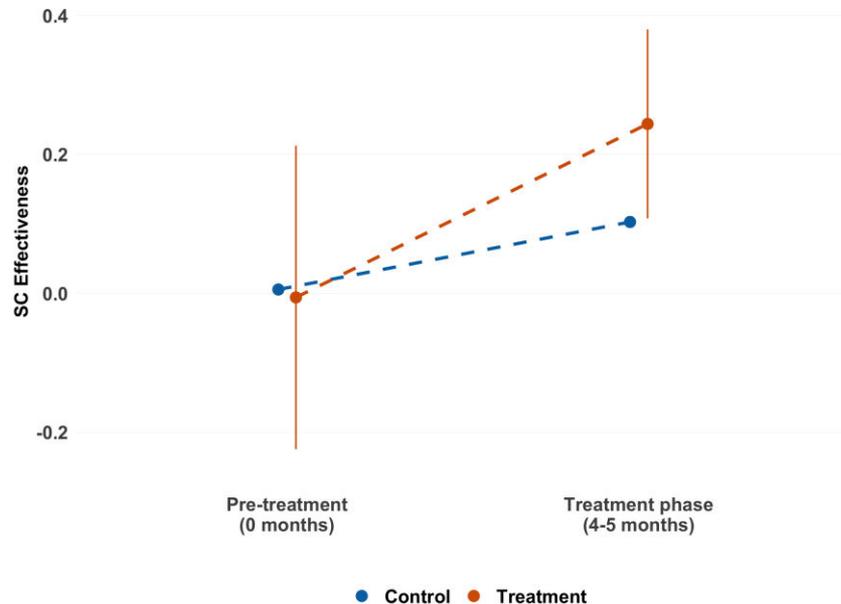
Mostly driven by the following effects:



Also, more aware worker SC representatives and consistent information from factory documentation, SC President, and SC Worker Reps.

Improvements in compliance translate into small, positive effects on cultural and physical safety indicators.

Indicators of factory safety improve by about 0.14 standard deviations. Statistically significant at the 10% level.



What's driving this improvement?

- Workers' awareness increases:
 - ↑ awareness of **SCs' role and responsibilities**;
 - ↑ awareness that factory **has a SC**;
 - ↑ **perception of SCs' effectiveness**.
- Factories' **performance on spotcheck of safety conditions** on the production floor improves.
 - E.G.: Increases likelihood of finding that workers found to be wearing required personal protective equipment (PPE) between 9-18%.



Better-managed factories dramatically improve. Little to no effects on less-well managed factories.

- Implement pre-specified heterogeneity test by managerial practices.
- Key findings:
 - Large improvements in compliance and safety indicators in better-managed factories.
 - Little to no improvement in compliance or safety indicators at less well-managed factories.



No evidence of negative effects on factories' business performance.

- No effect on labor productivity.
- No effects on employment or wages.



What happens when multinational buyers stop intensively monitoring?

Four to five months after the end of intensive monitoring:

- Improvements in compliance mostly persist.
- Improvements in workers' awareness and physical safety fade slightly.
- Control factories improve slightly (begin to adopt).
 - Likely due to expectations of future enforcement by multinational buyers.

Discussion

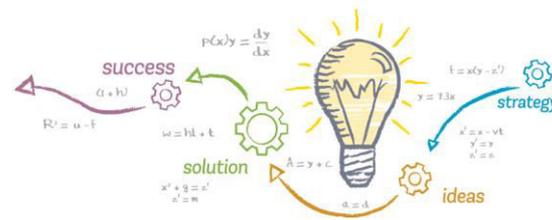
- Buyer monitoring increases suppliers' take-up of compliance with safety committee regulation.
- The improvement translates into a small, positive effect on actual indicators of safety at supplier factories.
- Take-up of compliance is high among better-managed suppliers, but little to no take-up by less well-managed factories.
- Continued monitoring to provide incentives for adoption appears to be important to maintain improvements.

Policy lessons

1. Monitoring by multinational buyers is not a substitute for state enforcement of local labor laws.
 - Buyers do not want to play this role indefinitely.
2. But, multinational buyers can play an important role in providing incentives for their suppliers to adopt improved labor standards/HR-management practices.
3. Improving compliance and safety does not necessarily come at a cost in terms of productivity.
4. Policymakers may want to consider complementary role of firms' organizational capacity when designing and enforcing labor laws.

FIRM UP PERFORMANCE

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Thank you!