

Consumer pressure, labour standards and the Ready-Made Garment sector

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Question

- What evidence tells about the effect of consumer pressure and improvement in labour standards on business outcomes in RMG sector?

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1. Overview

This rapid literature review summarises the existing evidence on labour standards and business outcomes within the global Ready-Made Garment Sector. This report provides a review of academic papers, policy briefs, and other reports on the topic.

Ready-Made Garment (RMG) manufacturers are driven by the global pressure to continuously attain lower costs. Nevertheless, ‘sweatshop’ circumstances (i.e. poor labour standards) are not necessary conditions for the profitability of garment suppliers. Unfortunately, poor working conditions may continue as a result of a lack knowledge of best practices in human resources management, e.g. positive motivational techniques or multi-dimensional pay packages (BW, 2016; IILRF, 2019).

The use of verbal and physical abuse to elicit more effort from workers has been shown to be detrimental to their productivity, contrary to the conventional wisdom of factory managers (BW, 2016). On the other hand, **higher productivity and profitability are not guaranteed by better management practices of labour conditions.** In cases where garment factories gain profit by coercing more effort from workers (e.g. via harsh treatment, low pay or excessive overtime, etc.), they may not have the commercial incentive to change their ‘sweatshop’ model.

So far, the **empirical evidence of a ‘win-win’ business outcome** (i.e. enhancing labour standards for workers while boosting profit margins of garment suppliers) **has largely been anecdotal** (BW, 2016; p. 30). Some recent impact assessments on the nexus between better labour standards and business outcomes (e.g. gains in productivity, competitiveness and profitability) are establishing much-needed evidence on the subject (BW, 2016; Adhvaryu et al., 2016; Macchiavello et al., 2014; World Bank, 2012). Some of these examples include the following:

- **Vietnamese RMG factories** engaged in the **Better Work project** (run by ILO and World Bank) improved their compliance with ILO core labour standards and national labour laws.
 - **Positive changes included enhancements in compensation, contracts, occupational safety and health and working time.**
 - There were **decrease in excessive overtime** – where the proportion of factories operating excessive overtime hours fell from 90% at the beginning of the programme to 50% by the fifth year of Better Work’s operation.
 - There was a **rise in the take-home pay** of workers, as seen in survey reports.
 - The RMG factories with better working conditions (from the viewpoint of workers) were found to be up to 8% more profitable (BW, 2016).
- **Bangladesh enacted a series of national labour laws** in recent decades to better govern labour standards in its burgeoning RMG sector.
 - **Following the enactments** of the ‘Bangladesh Labour Law’, ‘Bangladesh Labour Welfare Foundation Act’ and ‘Bangladesh Building Code’ in 2006 - **compliance to labour standards increased.** This is because RMG supplier firms that are caught infringing these laws were subject to penalties.
 - While comparing a set of compliant and noncompliant garment firms, World Bank (2012) found that the **profit-to-initial investment ratio of compliant firms was higher than non-compliant firms.** Specifically, the average profit-to-initial investment ratio of the compliant factories was 2.58, while the same figure was 1.94 for the noncompliant factories.

- In **Bangladesh, the Managerial Capital and Productivity Training Programme** was designed and implemented by GIZ to upgrade the skills and labour standards for operators on the sewing lines.
 - The **programme was mainly intended to increase the proportion of women in management positions in RMG supplier factories**. The evaluation of the project by Macchiavello et al. (2014) showed that **female trainees are less likely to be promoted**.
 - **Female trainees outperformed the male trainees in the management simulation exercises they conducted**. Evidence from survey responses suggested that female trainees face initial resistance as supervisors.
- In **India, the Personal Advancement and Career Enhancement (P.A.C.E) programme** was implemented by Gap Inc., particularly for female RMG workers.
 - The evaluations of the project (by Adhvaryu et al., 2016) reveals that **workers' involvement in the programme yielded sustained positive effects on productivity**, rise in staff retention and promotion rates of programme participants.
 - There were sizeable spillover effects on labour supply, **productivity, and career advancement for non-programme participant workers who frequently worked closely with programme participant workers**.
 - Estimates from data show large return on investment (i.e. over 170% by the end of the programme period) and a return 4-5 times this magnitude by the end of the study's 9-month post-programme tracking period.

2. Poor labour standards in the RMG sector and rising pressure for improvements

2.1 Poor labour standards

The sourcing practices of brands and retailers (i.e. how major brands deal with their garment suppliers in developing countries)¹ strongly influences the working conditions at the factories – even if the global brands are usually not direct employers of the workers manufacturing their garments (ILRF, 2019; Anner et al., 2012; Ross, 2004).

Based on a survey of responses from 1,454 manufacturing suppliers in 87 countries, a recent study by the International Labour Organization (ILO, 2017) **identified the main purchasing practices that have a direct impact on working conditions and workers' rights**. These included:

- Contracts between buyers and suppliers that are unclear about price, financial charges for delays, and other financial obligations;
- Vague specifications of products and variations in sampling and specifications without extending product delivery deadlines;

¹ Their sourcing practices include short lead times on orders as well as last-minute changes in product design and specifications (BW, 2016; Reinecke et al., 2019)

- Inadequate lead times when placing orders. This pushes suppliers to resort to extreme use of overtime, outsourcing, subcontracting, and casual labour;
- Very low product prices that are unable to cover even production costs, thus, adversely affecting workers' wages and job stability;
- Buyers expect suppliers to meet social standards – while they do not provide support or incentives to suppliers to achieve them.

Workers in the global RMG sector are typically paid wages that keep them living in poverty. They characteristically earn minimum wages. Their earnings are not enough to cover basic needs - such as food, housing, transportation, utilities, education, etc. (Cowgill et al. 2015).

Workers in the garment industry work very long hours. Excessive overtime is a common feature of the industry. Because of low regular wages, employees of RMG supplier factories work overtime on a regular basis. Moreover, factory managers cope with jumps in production demands by major RMG buyers by requiring overtime from their workers. Conversely, the long work hours have a negative effect on workers' health and well-being, and at times lead to surges in accidents and injuries (ILO, 2014; Tucker and Folkard, 2012; Seo, 2011).

Contracts are commonly short-term in the RMG industry and they are the source of insecurity. They also constrain workers' ability to exercise their rights, particularly freedom of association and collective bargaining. Instances of retaliation against leaders of trade unions are common (ILRF, 2019).

Women in the industry typically earn less than men performing the same jobs – even though they make up the larger portion of apparel workers in many countries (Huynh, 2016). Furthermore, **sexual harassment is not uncommon** in the industry. Even so, it is seldom reported in corporate-led audits (GLJ, 2018a; 2018b; 2018c).

2.2 Growing consumer pressure for improvements in labour standards

Compliance with globally acceptable labour standards is becoming more and more important for consumers in the rich world, which are the main markets for RMG exports from developing countries. Compliance with labour standards is vital for all firms because it involves externalities. That is, even if one firm fails to comply with labour standards, the resulting bad publicity can have negative repercussions for the entire industry (World Bank, 2012). For instance, through consumer pressure, the appalling working conditions in the RMG sector gained global attention in 2013 following the deaths of more than 1100 workers in Bangladesh (Dickson, 2015). Retailers such as Primark, Matalan and Bonmarche as well as about 50 more retailers were sourcing their clothing from the collapsed Bangladeshi factory. In the aftermath of this collapse, retailers revisited their operational policy and made financial contribution worth £325,000 towards rigorous independent factory inspections and installation of fire safety systems (Butler, 2013).

Efforts outside of state agencies (i.e. public forms of governance) to regulate firm behaviour and compliance in the RMG value chain have involved diverse channels. These include voluntary efforts to expand corporate social responsibility (CSR) across the supply chain by supplier factories, independent activists, consumer pressure groups for ethical sourcing and clean clothes, investor movements to create markets for social responsibility, etc. (Mayer and Pickles, 2010). Some examples where consumer pressure led to improved labour standards are given below.

Consumer pressure supports the unionised bargain for improved labour standards in Indonesia (ILRF, 2019):

- **Pressure** created around the 2008 Beijing Olympics by the **Play Fair Campaign**² (i.e. international group of consumers, sports-fans, activists and workers) resulted in an agreement (i.e. **Protocol on Freedom of Association**)³ between **five Indonesian unions, six global sportswear brands (Nike, Adidas, Pentland, Puma, New Balance and ASICS)**, and four chief Indonesian footwear manufacturers. In December of 2017 three additional brands signed onto the Protocol.
- **Consumer groups/activists focused on Indonesia** for the campaign (i.e. for a multi-brand country-wide agreement on freedom of association) **since Indonesia is a global leading manufacturer of sportswear** and athletic footwear.
- The **campaign offered an opportunity to address the problems of labour standards** (i.e. sweatshop practices in the global garment and sportswear industry), involving various actors.
- The Protocol presented practical guidelines to make sure that apparel and footwear **workers in Indonesian factories** supplying the six major companies can organize and **bargain collectively for enhanced labour conditions in their factories.**

Consumer pressure leads to factory reopening, improved labour standards and increased productivity in Honduras (ILRF, 2019):

- The **attention of international consumers** and consumer groups was drawn to **Honduras** after the **Worker Rights Consortium (WRC)** answered to the complaints of workers in Honduras by initiating an in-depth investigation to **Fruit of the Loom**⁴, a major RMG factory in the country.
- **Fruit of the Loom and its major brand, Russell Athletics, own nine factories in Honduras.** This business is the largest private sector employer in the country.
- **Fruit of the Loom had retaliated against its workers** by closing an entire factory (Jerzees de Honduras) to prevent them from unionization to demand better treatment and labour standards.
- After a year-long **campaign** about the company's **failure to comply with the codes of conduct**, Fruit of the Loom reached an **agreement with its workers** in 2009. It reopened the factory it closed, rehired the workers, and recognized the workers' union and engaged in collective bargaining to elevate labour standards.
- The **factory became highly productive.** As a result, both the workers and the manufacturer benefited.

The following section discusses different programmes and policies that have targeted labour standards and skill developments in the RMG sector of major supplier nations (e.g. Vietnam, Bangladesh, and India) and how (and if) this has translated into positive business outcomes – e.g. productivity and profitability.

² More information on 'Play Fair' is available at <https://www.ituc-csi.org/play-fair>

³ For a deeper analysis of the origins and impact of the Freedom of Association protocol in Indonesia, see Connor et al. (2016).

⁴ See <https://www.fruitoftheloom.co.uk/>

3. Compliance to improved labour standards and impacts on business outcomes

3.1 Vietnam: Better Work project

The Better Work programme is a joint initiative of the ILO and the World Bank/International Finance Corporation (IFC). It has been working since 2007 in a number of countries to advance labour standards and promote competitiveness in global garment supply chains.

Vietnamese factories that participated in the Better Work programme have steadily improved compliance with ILO core labour standards and national legislations (e.g. covering compensation, contracts, occupational safety and health and working time). This has meaningfully enhanced working conditions while improving factory productivity and profitability (BW, 2016).

The evaluation of the project in Vietnam by Tufts University⁵ found that:

- Factories engaged in Better Work improved their compliance with ILO core labour standards and respective national labour laws. These changes include enhancements in compensation, contracts, occupational safety and health and working time.
- In Vietnam (as well as other countries where the project operated), rates of aggregate non-compliance (to labour standards) diminished over time. This represented improving working conditions in the factories (BW, 2016).

Tufts researchers revealed multiple positive impacts credited to the programme in Vietnam. Some of these include:

- **Decrease in excessive overtime:** when Better Work carried out its first compliance assessment, workers in Vietnam reported working 59 hours per week. Overtime work fell to less than 55 hours per week by the fifth cycle of the programme. Moreover, there was a noticeable drop in workers' reported worries surrounding excessive overtime - by the time of the second and third evaluations completed by Better Work Vietnam (BW, 2016).
- **Better wage:** Better Work is showing a measurable effect on the take-home pay of workers, as reported by workers in surveys. This follows the programme's efforts in certifying compliance with paying wages according to law and as promised in workers' contracts. Generally, Better Work Vietnam is advocating factories to halt the use of low base pay strategies to force workers to work overtime. As a result of the programme (i.e. through both assessments and advisory services), factories acquire knowledge on best practices in contract use. This helps to stop the abuse of contracts to coerce workers into a precarious contract situation, where the threat of non-renewal or dismissal can push a worker into unsolicited overtime hours. The proportion of Better Work Vietnam factories operating excessive overtime hours fell from 90% at the beginning to 50% by the fifth year of Better Work's operation (BW, 2016).
- **Closing the gender pay gap:** Women usually constitute a large majority of the pool of workers across Better Work factories. However, their experiences tend to differ from

⁵ To further understand the impact of its work, Better Work commissioned Tufts University to conduct an independent impact evaluation. Since the programme's commencement, Tufts' has gathered and analysed nearly 2,000 responses from factory managers and 15,000 survey responses from garment workers in Vietnam, Haiti, Indonesia, Jordan, and Nicaragua (BW, 2016).

their male counterparts. They have fewer opportunities for career advancement at work, they earn lower pay and suffer higher levels of abusive treatment. The impact assessment notes that Better Work is helping to change these conditions of work for women, including in the areas of working hours and pay (BW, 2016).

- **Impact on profitability:** Better working conditions and high profit levels can go together. More profitable firms of the project showed better working conditions, had better compliance with labour standards and followed more innovative human resource management practices. Factories with better working conditions, from the perspective of workers, were up to 8% more profitable. Compliance with core labour standards is linked with bigger levels of profitability. Higher profitability is driven by augmented productivity among workers in better working environments. Conversely, worker concerns about verbal abuse was associated with lower productivity and profitability (BW, 2016).
- There is a **negative relationship between verbal abuse and firm profitability**. Profitability (measured as revenue to cost ratio) declined as the number of verbal abuse reports rose – i.e. in factories where verbal abuse was more rampant. On the other side, high-performing firms were shown to have a low prevalence of verbal abuse (BW, 2016).

3.2 Bangladesh: reforms to labour laws of the RMG sector

In line with the country’s growing involvement in the global RMG sector in recent decades, **Bangladesh has enacted several national labour laws and acts**. These include the ‘Bangladesh Labour Law 2006’, ‘Bangladesh Labour Welfare Foundation Act, 2006’ and ‘Bangladesh Building Code 2006’. With the enactment of these laws and acts, compliance to labour standards is no longer an issue of ‘compassion’ and ‘moral urge’ but has become a legal obligation for RMG manufacturers in the country. Firms that are caught violating these laws are subject to penalty and/or legal action (World Bank, 2012).

A comparative assessment of five compliant and five noncompliant garment firms by the **World Bank (2012) found that the profit-to-initial investment ratio of compliant firms was higher than non-compliant firms**. Specifically, the average profit-to-initial investment ratio of the compliant factories was 2.58. The same figure for the noncompliant factories was 1.94. While noting that these findings were not conclusive, World Bank (2012) stressed that compliance does have positive and concrete payoffs, even at the level of an individual firm. Yet, the case for compliance can become stronger when the aggregate economic and social benefits of compliance are summed up – i.e. worker health and safety and the positive externalities for the sector as a whole (World Bank, 2012).

Table 1: Financial Information of Compliant and Noncompliant Factories (mill. USD)

Factory name	(A) Initial investment	(B) Initial investment for compliance (B)	(E) Annual Turnover (E)	(F) Annual Profit (=E-C-D)	(G) Profit-to-initial investment ratio (=F/A+B)
Compliant Factories					
Shine fashion	305.31	43.75	1000	836.58	2.4
Mascot Knit Ltd.	284.76	9.52	1000	716.4	2.44
Zaara Composite	280.88	3.57	917	676.76	2.38
Knit Plus Ltd.	274.82	0.71	875	789.75	2.87

Knit Asia Ltd.	273.83	0.29	950	768.52	2.8
Average	283.92	11.57	948.4	757.6	2.58
Noncompliant Factories					
Harun garments Ltd.	92.14		267	222.7	1.97
Alim Knit Wear Ltd.	113.1		250	185.57	1.23
Green Knit Wear	151.4		350	285.72	2.33
Step Two Garments	122.86		300	236.91	1.66
Texcon Textile Ltd.	142.75		375	310.32	2.49
Average	124.45		308.4	248	1.94

Source: Baral (2010) in World Bank (2012; p. 39). *Consolidating and Accelerating Exports in Bangladesh*. © World Bank. <https://openknowledge.worldbank.org/handle/10986/26887>. License: Creative Commons Attribution license (CC BY 3.0 IGO)

3.3 Bangladesh: Managerial Capital and Productivity Training Programme

The training programme was based on a project setup by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) in 2009. Six Bangladeshi training centres were themselves trained by GIZ to offer this programme. It was **designed to upgrade the skills and labour standards for operators on the sewing lines in woven/light knit factories in Bangladesh**. The training offered by the programme covered production planning, quality control, and leadership/social compliance (Macchiavello et al., 2014).

The programme was **developed by GIZ mainly with the goal of boosting the number of women in management positions in apparel factories**. The focus of the GIZ programme on women excluded training existing supervisors, since there were few women working as supervisors. Factories that participated in the programme agreed to give all trainees a ‘trial’ as a line supervisor after the completion of their training.

Data gathered from Bangladesh’s garment factories revealed that **four out of every five production workers were women. On the other hand, just over one in 20 supervisors was a woman**. Macchiavello et al. (2014) note that about 95% of the management talent comes from just 20% of the workforce. Their study (and the programme on which it is based) tackles this reality by providing training to four women and one man (i.e. 5 workers per plant) in a large group of factories (well over 700 as reported in their empirical tables, see Macchiavello et al., 2014; p. 34).

From their empirical analysis, Macchiavello et al. (2014) find that:

- **Female trainees are less likely to be promoted** even if they were as likely as the male trainees to remain at the factory – following their trainings.
- They found that **female trainees outperform the male trainees in the management simulation exercises** they conducted.
- However, they found some evidence that the male trainees outperform the female trainees when they analysed actual detailed data from production lines on which the trainees work as supervisors. However, these differences across gender were not found to be statistically significant.

- They also found evidence from survey responses and exercises, which suggested that **female trainees face some initial resistance as supervisors**. They note that this probably accounted for the lower initial performance on the line by female trainees.

3.4 India: Personal Advancement & Career Enhancement programme (P.A.C.E)

Similar to GIZ's programme discussed above, this **programme was designed and first implemented by Gap Inc. particularly for female RMG workers in developing countries**.

The programme was implemented by Gap (with the help of its local partner/supplier and one of the largest garment exporters in India). The programme was first implemented in five factory units in the Bangalore area, over the July 2013 to May 2014 period. (Adhvaryu et al., 2016).

The **programme intended to empower women via life skills training**. The training programme includes modules on communication, time management, financial literacy, execution excellence (e.g. goal setting and teamwork), problem solving and decision-making.

Women workers in the RMG sector were given the chance to enrol in a 'P.A.C.E' lottery to take part in the training programme. A total of 1,087 women were chosen to participate in training from about 2,700 workers signed up for the 'treatment lottery' (Adhvaryu et al., 2016).

- Results reveal mechanisms for **productivity and career advancement impacts** of the programme (e.g. through involvement in skill development and incentive programmes).
- Adhvaryu et al. (2016) also found **positive impacts on worker retention**, and some limited impacts on attendance, during the programme period. The main positive impacts (on workplace outcomes), nevertheless, are seen after the completion of the programme.
- They find that involvement in the **programme yielded sustained effects on productivity**, staff retention, and promotion rates (Adhvaryu et al., 2016).⁶
- Interestingly, the study also finds **considerable spillover effects on labour supply, productivity, and career advancement for untreated workers** who frequently worked together with treated workers.
- Using actual costing data, the authors estimate a **large return on investment** – over 170% by the end of the programme period, and a return 4-5 times this amount by the end of their 9-month post-programme tracking period (Adhvaryu et al., 2016).
- The study by Adhvaryu and his colleagues demonstrates that employer-based soft skills training can **generate large returns for both the employee** (e.g. enhanced labour standard) **and the employer** (e.g. productivity and profitability).
- The results from surveys also **reveal positive impacts** on use of government and firm entitlement programmes (e.g., pension, subsidised healthcare and schooling, and subsidised housing).

⁶ A similar study by Maitra and Mani (2012) investigated the impacts from a subsidized vocational education programme given to underprivileged women in New Delhi. In the short term, they find that trainees were more likely to be employed and on average work 10 hours more per week compared to the control group. The programme was found to be highly cost effective and there are substantial gains from replicating the programme.

4. Key lessons from the literature

1. The impact assessment research (provided in section 3) has established a **direct link between better working conditions** (i.e. better wage, better treatment of workers, investments in skills, etc.) and **higher productivity and profit** for RMG suppliers. For instance, the Better Work project showed that, as firms exhibit minimal levels of verbal abuse, sexual harassment and invest in the working environment of their factories, the positive impact on productivity and profitability will be larger, even while controlling for other external determinants such as industry wide trends (BW, 2016).
2. **Monitoring compliance has also been shown to greatly matter.** Regular monitoring of compliance with ILO standards and national legislation plays a pivotal role. It has been observed that some garment factories make improvements around the time of assessments, but these improvements may not increase continually (ILRF, 2019; BW, 2016).
3. Addressing **gender pay gaps**, having **female representatives** on worker councils/committees, and **training female supervisors** are important strategies for achieving **better working conditions** and **improving productivity** (BW, 2016; Adhvaryu et al., 2016; GLJ, 2018a; 2018b; 2018c).
4. There is robust evidence demonstrating that improving **labour standards is not a financial burden for a factory**. Quite the reverse, it is a **major determinant of success**. Factories where compliance is higher, where workers report better working conditions, and where supervisors are well equipped for their jobs have been shown to be more productive and profitable. Employers that are abusive of workers (e.g. verbal abuse or sexual harassment) are not only morally dishonourable but are also linked with poor business outcomes (ILRF, 2019; BW, 2016).
5. A **holistic approach is required to deal with global supply chain burdens**. Current sourcing practices create innate difficulties to provide decent work environments in supplier factories. They adversely affect worker wellbeing directly through long working hours and minimal pay. They also trigger supervisor stress and harsh management styles by generating unpredictability in production schedules. Finding **solutions across the global supply chain** and establishing a **successful ‘business case’** for high quality jobs in the RMG sector necessitates the **cooperation of diverse stakeholders – i.e. brands, retailers, factories, policymakers, NGOs, workers and workers’ representatives** (BW, 2016).

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