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Pioneering a New Approach to Improving Working Conditions in Developing Countries: Better Factories Cambodia

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DISCUSSION PAPER SERIES

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MARCH 2020

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ABSTRACT

Pioneering a New Approach to Improving Working Conditions in Developing Countries: Better Factories Cambodia*

The rise of global supply chains over the last three decades intensified international attention to the conditions endured by workers in poor countries. Collapsed buildings, fires and death created an imperative to address poor conditions. Consumers, non-governmental organizations, inter-governmental organizations, international buyers and governments began seeking ways to improve working conditions in exporting factories in developing countries. The goals of this chapter is to describe the birth and growth of the Better Factories Cambodia (BFC) program, review the academic literature that has focused on both the BFC program and its descendent, Better Work, and identify some of the key aspects of the program that have been shown to be particularly successful.

JEL Classification: F16, F66, F23, J8

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Introduction

The rise of global supply chains over the last three decades increased the demand for labor in developing countries and, with it, employment and wages (Robertson et al. 2009, Lopez-Acevedo and Robertson 2012). Rising imports from developing countries also intensified international attention to the conditions endured by workers in poor countries. Collapsed buildings, fires and death caught the attention of global media and created an imperative to address poor conditions. Consumers, non-governmental organizations, inter-governmental organizations, international buyers and governments began seeking ways to improve working conditions in exporting factories in developing countries (Elliott and Freeman 2003; Jammulamadaka 2013; Sinkovics et al. 2016).

Lead firms in global supply chains, mostly headquartered in developed countries, responded by taking steps to assess and improve working conditions in their supplying factories. The approaches were heterogeneous, including corporate codes of conduct and international framework agreements (Lee 2016). The wide range of approaches has had a wide range of success.

The Better Factories Cambodia (BFC) program stands out as one of the most heralded and praised approaches to improving working conditions in developing country exporting factories. The goals of this chapter is to describe the birth, growth and maturity of the program, review the academic literature that has focused on both the BFC program and its descendent, Better Work, and identify some of the key aspects of the program that have been shown to be particularly successful. Polaski's pioneering work on Better Factories Cambodia (2004, 2006) argues that looking closely at the BFC experiment will reveal important lessons for other attempts to improve working conditions in global value chains in particular and in developing countries in general. In particular, she argues that Cambodia deserves special focus because it presents an experiment with external validity in the sense that it is a successful approach with both important analytical lessons and the opportunity for replication. Cambodia represents a unique example because it was one of the first to incorporate many features that allowed it to address the complex roots of poor working conditions in developing countries that are described briefly in the next section.

The Complex Roots of Working Conditions in Developing Countries

To understand the pioneering approach of Better Factories Cambodia, it is important to first understand the complex roots of poor working conditions in developing countries as they relate

to global value chains. This section therefore, briefly describes the rise of global value chains - particularly in apparel-exporting developing countries - and how they relate to working conditions in developing countries.

The Rise of Developing-Country Exports

The 1980-2000 period was a renaissance of sorts for globalization. Falling computing prices and the rise of the internet allowed corporations to expand production and purchases from factories around the world. At the same time, developing countries implemented economic reforms that encouraged markets to flourish. Together these forces brought the developing countries “on-line” and allowed them to integrate with the global economy. In many cases, this integration happened in the form of global value chains (GVCs). In some countries, apparel exports had played an important role in development (Korea, Singapore), but the poorer countries, for the most part, started to produce apparel for exports during this period.

The attraction of developing countries included capable labor forces whose market wages were very low compared to developed-country standards. Multinational corporations realized tremendous cost savings by shifting production to developing countries. This development was especially acute in apparel. To get a sense of the significant changes in the apparel market as developing countries increased their exports of apparel, Figure 1 shows the US consumer price index (CPI) of apparel both as a raw index (the dotted line) and relative to the overall CPI (the solid line). The dramatically declining global price of apparel is apparent in both series. In particular, the raw index falls precipitously near 2000 and stays low until the end of the decade. US apparel prices relative to the CPI (i.e. the real price of apparel), continued to fall into the mid 2010s (see figure 1).

-----Figure 1 about here-----

Working Conditions in Developing Countries

The opportunity to produce in low-wage countries brought the tensions between major stakeholders into sharp relief and generated considerable debate (e.g. Fung et al. 2001, Powell and Skarbek 2006, Gereffi and Loo 2012, Powell 2014). In this environment, buyers, suppliers, governments and workers have competing incentives and, as a result, different perspectives about the causes and consequences of low wages. Low wages in developing countries, associated with low per-capita gross domestic product, are largely a function of institutions, capital and technology (Solow 1988, Acemoglu et al. 2005). Being a low-income country generally means that many of the institutions developed countries have developed to protect workers (such as occupational safety, health regulations and enforcement) are missing in

developing countries. In addition to low wages, workers in these countries often experience long working hours, high temperatures, insufficient access to sanitation and water, unpaid benefits and other similar concerns. In some cases, poor conditions lead to death.

Although better paid than domestic alternatives (Robertson et al. 2009), interviews and surveys show that families hope for better than apparel jobs for their children (Dominguez et al, 2010 and Record et al., 2012, 2014). Families express a preference for less strenuous and better-paid opportunities than those found in the assembly-for-export sector (Fontana & Silberman 2013).

The Complex Roots of Poor Conditions

Poor working conditions in developing countries are difficult to address because so many stakeholders play a role and actions of no single actor are sufficient to improve conditions. Moreover, the interests of the various stakeholders can be in conflict, though the degree to which that is true is often exaggerated. Figure 2 illustrates the overlapping influence of relevant stakeholders.

-----Figure 2 about here - ----

At the center are the workers and their representatives (Arnold 2014). By organizing workers and promoting freedom of association and collective bargaining, unions address worker concerns within factories and contribute to improving working conditions. Unions build relationships between international labor organizations (such as IndustriALL) and local affiliates that increase the negotiating power of local unions.

Unions interact directly with domestic and foreign employers who shape working conditions through human resource policies. Employers interact with international buyers through supply-chain relationships. While the share of corporations that have internal codes of conduct that govern their supply-chain relationships has risen significantly since the turn of the century (OECD 2002 reports that at the turn of the century only about 20% of corporations had such codes), scrutiny remains. Hoang and Jones (2012), for example, argue that the lack of incentives to sufficiently enforce their own codes of conduct hinders effective improvements and having suppliers at “arms-length” puts enforcement of such codes effectively beyond the reach of the lead buyers. In addition, the tension between purchasing practices (in which corporations seek the highest quality at the lowest price) and desires to have well-paid workers in favorable conditions can be difficult to resolve. Nevertheless, Oka (2010a, 2010b) and Ang et al. (2012) find that buyers that are more reputation sensitive (in the sense of having a known brand

name, for example) are often associated with factories that exhibit higher compliance with national and international laws.

Public opinion may also affect working conditions in developing countries, often being channeled by the dozens of non-governmental organizations advocating to improve working conditions. The Workers Rights Consortium and the Fair Labor Association are just two of the most notable in the United States. These organizations represent consumers by focusing their concerns into action.

Foreign governments and inter-governmental organizations (such as the International Labour Organisation (ILO) of the United Nations) also shape working conditions in developing countries. European governments in particular have been developing National Action Plans to align with the United Nations Guiding Principles on Business and Human Rights (also known as the Ruggie Principles). In addition, trade agreements have increasingly included labor provisions that until recently mostly focused on domestic labor law enforcement and give each country the right to challenge the partner's protection of labor rights (Brown et al. 2011). These labor provisions may affect firm-level performance, labor costs and comparative advantage (Bakhshi and Kerr, 2010; Kucera and Sarna, 2006; Dehejia and Samy, 2004; Bonnal, 2010) but studies often find mixed results. For example, Flanagan (2003) finds no significant relationship between ratification of labor standards and labor costs but Huberman (2012) shows that standards related to wages and hours induced factories to improve conditions through changes in production techniques.

Since multiple stakeholders contribute to shaping working conditions in developing countries, a multi-stakeholder approach may be necessary to align their interests in improving working conditions in developing countries. The Better Factories Cambodia takes a multi-stakeholder approach that addresses many of these complex roots. Its birth, growth and maturity are described in the next section.

The Birth of BFC

Cambodia turned from its violent, closed-economy model of the 1970s and 1980s and began to implement reforms to encourage exports and attract foreign capital, such as converting the nationalized apparel factories into exporters (Polaski 2006). The strategy was successful. Capital flowed in from Taiwan, Hong Kong, South Korea and other East Asian nations.

Figure 3 shows the evolution of Cambodia's exports to the United States both in 2010 US dollars and as a share of total US apparel imports. Figure 3 is divided into 3 main periods that

correspond with the birth, growth and maturity of the BFC program. In the beginning of the first period (the early 1990s), Figure 3 shows that the US imported very little apparel from Cambodia. Following Cambodia's reforms, imports rose quickly.

Rapidly rising apparel exports caught the attention of US labor unions and government officials (Kolben 2004). Unions and government officials heard the Cambodian workers' complaints of poor conditions and the inability to effectively and freely organize. Poor working conditions are associated with a lack of sufficient institutions and enforcement in many developing countries and 1990s Cambodia was no exception. Corrupt labor inspectors, close ties between government and garment manufacturers and the possibility of losing jobs and foreign exchange if inspections increased production costs, were leading explanations for insufficient labor standards enforcement in Cambodia (Sibbel and Borrmann 2007, Kolben 2004 and Hall 2000). Likewise, international buyers could not improve the conditions on their own. On the contrary, they were wrestling with accusations of exploiting workers in Cambodia and elsewhere and found that their attempts at self-regulation were insufficient to dispel these concerns (Locke et al. 2007, Locke and Romis 2010; Hoang and Jones 2012, Locke 2013). In 1998, unions petitioned the US government to evaluate and consider working conditions in Cambodian apparel factories (Polaski 2006).

Altogether, there was a significant imperative to improve working conditions. On January 20, 1999, Cambodia and the United States signed the Agreement Relating to Trade in Cotton, Wool, Man-Made Fiber, Non-Cotton Vegetable Fiber and Silk Blends Textiles and Textile Products, more commonly known as the US/Cambodia Bilateral Textile Trade Agreement. Like many trade agreements, the agreement reduced Cambodian tariffs for US textile products. The agreement also established quotas for Cambodian exports to the United States. These quotas were similar to the limits imposed by the Multi-Fibre Arrangement (MFA) that developed countries established in the 1970s to limit imports of textiles and apparel from developing countries. The MFA formally ended December 31, 2004. Figure 3 hints that the rate of increase in US imports from Cambodia temporarily slowed around the time of the agreement, which may reflect the effects of imposing quotas.

Other provisions, however, made the agreement unique. Many of the problems Cambodia faced were universal and therefore Cambodia's experience represented the opportunity to implement an experiment with potentially wide applicability. Unlike other trade agreements, the US/Cambodia Bilateral Textile Trade Agreement directly linked improvements in working conditions in garment factories with increased access to the US apparel market (Wells 2005-2006). Specifically, the agreement stipulated that Cambodia's export quota could increase up to

14% annually if the Cambodian government supported a program to improve working conditions in the apparel factories. To meet these conditions, the improvements in working conditions would have to be documented.

The need for a reliable measurement of working conditions created additional debate. Kolben (2004) describes six different program proposals that came from either the ILO or the US government that roughly fall into two groups. The first group of proposals, advocated by the ILO, gave the responsibility for inspections to the Cambodian government. To address the concerns about domestic inspection capacity, much of the ILO proposal focused on improving the capacity of the Cambodian government's labor inspectors. Rather than focus on core labor standards, the working conditions that received most attention in the ILO proposal included wage payments, health and safety provisions and industrial relations (e.g. shop stewards and conflict resolution).

The United States countered with proposals that focused on both Cambodian labor law and core labor standards, which focus on labor rights, and, in particular, freedom of association. The proposal also shifted the immediate responsibility for monitoring from the Cambodian government to the ILO. The rationale for ILO monitoring was that the ILO had earned respect as a credible and impartial organization whose reports would be accepted by all of the relevant stakeholders.

The resulting compromise was that the ILO would develop and implement an interim program to monitor Cambodian working conditions with an eye towards developing the capacity of Cambodian labor inspectors. The ILO's program would certify whether or not Cambodia met the conditions described in the agreement (Kolben 2004). The program would focus on both international labor standards, including core labor standards, and Cambodian labor law. The ILO would help Cambodia build additional domestic capacity in terms of labor laws and regulations. The resulting program was Better Factories Cambodia, and, in 2001, BFC was born.

II. The Growth of BFC

The BFC program has evolved over time to reflect changing conditions, domestically and globally. As shown in Figure 3, rapid growth of US imports from Cambodia resumed after the program was established. For much of the 2001-2011 decade, exports were very high. The Garment Manufacturer's Association of Cambodia (GMAC) noted that from the birth of BFC, producers realized that Cambodia had created a comparative advantage in safe sourcing that attracted both investment and buyers (Sibble and Bormann 2007).

During this period, BFC addressed several key issues. One of the first issues that the new program had to address was coverage. The trade agreement did not specify which garment factories would participate in the program. Initially, participation in the program was voluntary. The Cambodian government, however, realized that a voluntary program would create a free-rider problem. On March 28, 2001, the government issued Prakas (Ministerial Regulation) 108 making access to export licenses (which were required to export under the quota) conditional on registering with BFC. With GMAC support nearly all exporting firms registered for the program.

A second issue was how to manage factory visits and conduct audits. Between 2001 and 2005, BFC visits, which occurred every eight to twelve months, focused mainly on identifying significant violations and subsequent visits were used to identify progress in problem areas. Eventually, however, BFC realized that having comprehensive audits on every visit would be useful in many ways. In particular, the new system was designed to reduce the variance in compliance that emerged in the earlier audits. In December 2005, BFC launched an improved Information Management System (IMS) survey. The new system tracked factories more carefully and, importantly, initiated a phase of data collection in which all factories underwent full audits in every visit (Kotikula 2015).

A third issue was transparency. Initially, BFC made the results from audits at the factory level publicly available. In 2006, under pressure from factories, BFC decided to stop listing the compliance results for individual factories and instead issue summary reports. While discussed in more detail later in this chapter, Ang et al. (2012) analyze the changes in compliance patterns following the end of transparency. They find that the rates of improvement in compliance slowed markedly after the end of transparency. Separately, Merk's (2012) influential report concluded that BFC's auditing procedure was insufficiently transparent. BFC restored the policy of public disclosure in 2013.

A fourth issue was remediation. Specifically, around the world suspicions that audits alone were not sufficient for improving working conditions were spreading quickly. In 2004, BFC added a training component to help management and workers find ways to improve working conditions collaboratively. In addition, the ILO played a key role in developing the Labour Dispute Resolution Project, which evolved into the Arbitration Council Foundation, to help address union disputes. Throughout the period, BFC continued to revise and improve its advisory services and formally added the Advisory Services program in 2008 (Kotikula 2015).

Cambodia joined the World Trade Organization in 2004, in part motivated by the belief that it was establishing a comparative advantage in safe sourcing, and it wanted to strengthen that

position in preparation for the end of the Multi-Fibre Arrangement on December 31, 2004 (Beresford 2009, Miller et al. 2009). The end of the MFA was significant for Cambodia for two main reasons. First, the end of the MFA reduced restrictions on larger, potentially lower-cost countries and was expected to induce a shift in production to these countries and away from low-income late-arriving exporters such as Cambodia (Nordas 2003). Second, the end of the quota system would reduce or eliminate the incentives to improve working conditions that the original agreement put into place. Specifically, the incentive to improve working conditions in order to get larger quota allocations became irrelevant without quotas.

There is little evidence to suggest that Cambodia's fears about the end of the MFA were realized. Figure 3 shows that Cambodian exports to the United States continued to increase when the MFA ended in 2005. One reason for the increase could be that safeguard measures imposed on its major competitors, China and Viet Nam, remained in place until 2007 and 2008, respectively. Another possible reason was that improvements in working conditions improved factory performance and made firms more competitive. That is, if compliance increases the cost burden on factories, and factories only improved conditions to comply with the incentives in the trade agreement, exports should have fallen after the end of the MFA. The increase in exports after 2005, however, seems to contradict the idea that improving conditions increased total costs.

One way that BFC could have reduced the burden on factories was by reducing the number of redundant audits that factories had to complete. In 2005, at the first "Buyers Forum" convened by BFC, factories raised concerns about "audit fatigue" in which factories were forced to deal with many often-conflicting audit standards. By accepting a common audit standard, such as that conducted by the BFC program, factories could convey the same information about compliance with fewer audits, generating significant savings and efficiency gains.

In 2007-2008, the United States experienced a financial crisis that resulted in a large contraction in the demand for imports in general and apparel in particular. The contraction in the demand for imports was felt around the globe, including in Cambodia (Ruwanpura and Wrigley 2011). Figure 3 shows the drop quite clearly. The contraction was particularly worrisome for Cambodia where it was uncertain whether buyers feeling the pressure of falling sales would shift production from Cambodia to other, possibly lower-cost countries (e.g. Bangladesh). As it turns out, however, Figure 3 shows that recovery from the crisis was swift.

III. Maturity: Shaping Institutions and Addressing Deep Problems

Looking at Figure 3, it is clear that the period from 2011-2019 was different from previous periods. Key developments and challenges in this decade illustrate some of the issues intrinsic to working conditions in global value chains and the importance of institutional characteristics in Cambodia. The first key development was the birth of the Better Work program. For reasons explained in the last section of this chapter, BFC was deemed to be very successful and its model was exported to several other countries. The other key developments of the decade were the challenges that a fully mature BFC program could now try to address.

Better Work

In 2011, the ILO and the World Bank's International Finance Corporation launched Better Work, a global version of the BFC program (Rossi et al. 2014). In 2019 the program operated in Bangladesh, Egypt, Ethiopia, Haiti, Indonesia, Jordan, Nicaragua and Vietnam (see www.betterfactories.org). In 2012, a Clean Clothes Campaign report suggested that by improving working conditions in Cambodia's potential competitors, Better Work would make buyers less likely to shift production to Cambodia's neighbors in search of lower costs due to worse conditions. Alternatively, others worried that spreading the Better Work model would dilute the comparative advantage Cambodia had built as a source country with a successful compliance program. Using a gravity model, Kotikula et al. (2015) find that Better Work participation is positively associated with trade flows, but does not test whether or not expanding Better Work diverted trade from Cambodia.

In any case, Figure 3 shows that exports to the United States fell after 2011, in part because of a shift towards the Europe Union after changes to a preference program made that market more attractive. Several persistent challenges emerged in the 2011-2019 period that may also have affected trade flows. Some of the most significant include the institutional environment [?] for independent unions, the limited enforcement reach of BFC, fainting spells among workers, overtime and the prevalence of short-term contracts.

Institutional Environment

Some academics note that BFC's inability to transform the broader environment limits its potential success because, as noted earlier, external factors (beyond BFC) play a significant role in shaping working conditions. For example, the government used force to counter garment worker protests in early 2014, which illustrates the challenging environment in which BFC operates. Many have therefore suggested that BFC continue to work with the government and

other external stakeholders to bridge the gap between monitoring, training and advisory functions within factories and decisions made by other stakeholders.

For example, Rossi and Robertson (2011) argue that the exclusive focus on employers' behavior has meant that BFC's findings of 97.5 percent compliance with questions concerning strikes do not mean that freedom of association is respected throughout the sector by all stakeholders. Oka (2016) and Salmivaara (2018) describe some of the challenges independent unions face in Cambodia. Others, such as Hall (2010), note that, although BFC has significant accomplishments in its factory-level campaign for labor rights, a decision to follow the Chinese model of government-dependent unionism would render BFC factory-level accomplishments somewhat moot. Union federation officials claimed that registration for most independent unions in the garment industry remained effectively stalled as of January 2015 due to onerous certificate requirements (HRW 2015). Others suggested that the BFC program could do more to empower and protect trade unions (Merk 2012).

Unions have also expressed concerns that BFC's model of dialog within the factory may be seen by some as a substitute for union activity, since unions traditionally have played a very effective role in working with management to address worker concerns. Partially in response to such concerns, BFC has worked with the ILO's project on Worker's Education Assistance to the Cambodian Trade Union Movement. These activities complement the ILO's Labour Dispute Resolution Project, which has worked with unions and employers since 2003. Partially as a result of these efforts, the government (through cooperation between the Ministry of Labor, employers and trade unions) established the Arbitration Council, which is an independent national institution for labor dispute resolutions. The main point here is that BFC has responded to concerns about freedom of association throughout the economy and has taken steps to address these concerns to the degree possible in a broader institutional environment increasingly marked by authoritarian tendencies. As a result of concerns about democracy and human rights, the European Union announced in early 2020 that it would partially suspend Cambodia's duty-free access under the Everything But Arms preference program (see Polaski in this volume). [OK?]

[Lack of Enforcement Power and Coverage of Subcontractors](#)

As with unionization, several other legal issues remain relevant for how working conditions are shaped that are beyond the direct mandate of BFC. For example, Hall (2010) argues that broader judicial enforcement and protection are critical for improving working conditions. BFC may help identify such violations but lacks the enforcement power of the government to hold factories accountable for these violations. Others, such as Merk (2013), agree that the

Cambodian government is ultimately responsible for enforcing labor law and also acknowledge the fact that BFC lacks the power to punish violations, which can generate frustration among workers. Workers who report issues to BFC but do not see remediation of violations may conclude that BFC is not as effective as it could be.

Similarly, as noted above, BFC only covers exporting factories. Often exporting factories subcontract with smaller units that fall beyond the purview of BFC and often have worse working conditions than BFC-covered factories (Merk 2013). For example, subcontracting units are more likely to employ casual or temporary workers and their employees face higher barriers to unionization (HRW 2015).

Fainting

Mass faintings among garment workers have occurred since 2011. On 7 September 2011, the BFC announced cooperation with 24 international clothing brands to try to explain fainting amongst factory workers and the Labor Ministry formed a committee in August 2014 to investigate the cause of these faintings (HRW 2015). Mass faintings continued, with episodes in 2012, 2014, 2016 and 2017. The mass faintings include up to several hundred workers at a time, reaching 2,400 workers fainting in 2011 alone (Merk 2012). Studies into the potential causes agree that some combination of nutrition (malnutrition, dehydration and food poisoning), working environment (inadequate ventilation, noxious chemicals and long work hours) and cultural factors are the most likely explanations (Eisenbruch 2017, Kawazu, E.C. and H. Kim. 2019). The faintings appeared in international news and remain a significant challenge for BFC.

Overtime

Unwanted overtime remains a serious issue in the garment industry (HRW 2015). The official Labor Law limits weekly work to 48 hours and overtime work (beyond the 48 hours per week) to 12 hours (2 hours per day). While many workers prefer working some overtime to increase take-home pay, Human Rights Watch officials found complaints that factory managers threatened them with contract non-renewal or dismissal if they did not agree to the overtime work demanded of them. Human Rights Watch found management retaliation against workers who did not want to do overtime work in at least 14 of 48 factories examined. Retaliation included dismissal, wage deductions and punitive transfers of workers from a monthly minimum wage to a piece-rate wage where income depends on the number of garments individuals produced.

Short-term contracts

Other studies find a persistent reliance on short-term contracts. O’Keefe (2013) finds that employers are increasingly signing workers to three and six month contracts that let them easily terminate workers if they seek maternity leave benefits, bonuses, or union membership. Short term contracts appear to be widespread. An April 2013 Better Factories Cambodia report found that 90 percent of the newly-registered factories it assessed had all of their workers are on short-term contracts. Cambodian Labor Law states that factory managers can issue short-term contracts and renew them one or more times for up to two years (HRW 2015). Beyond two years, this practice is both illegal and threatens workers’ rights. A Human Rights Watch report (HRW 2015) found that workers repeatedly hired on short-term contracts or on a casual basis are more likely to experience labor abuses, have a lower likelihood of redress and are at a greater risk of losing benefits and experiencing discrimination.

BFC: Accomplishments and Characteristics Contributing to Success

Although BFC continues to wrestle with the issues discussed above, as well as some of the institutional drivers of poor working conditions, the program has earned an international reputation as an unusually successful approach to improving working conditions in global value chains. This section explains some of the main accomplishments of the program and some of the key aspects of the program that contributed to its success.

Benefits of BFC

Academic studies consistently find a positive relationship between program participation and working conditions (Adler and Woolcock 2010; Brown et al. 2014a, 2014b, 2014c; Miller et al. 2009; Oka 2010a, 2010b; Shea et al. 2010). Furthermore, as noted above, trade continued to increase for the first decade of the program – even after the end of the Multi Fibre Arrangement in 2004. Cambodia offered Western buyers an early haven of factories with independently-verified substantial labor-law compliance. As confidence increased, buyers returned to Cambodia. For example, Nike began the process of pulling out of Cambodia in 2000 due to concerns about compliance, but reentered Cambodia in 2002 after BFC began (Hall 2010, pg. 441). In this section, we explore three of the key positive results that are attributed to the BFC program.

Improved Compliance

One of the main benefits of the BFC program has been rising compliance with labor law and international labor standards. Overall the literature suggests that the effects of BFC are

positive. Using factory-level compliance data, Figure 4 shows that average compliance (across all questions and factories) has increased substantially over the life of the BFC program. In particular, compliance increased dramatically in the first decade of the program and then seems to have leveled off. Average compliance may be driven by new factories entering with lower-than-average compliance. Figure 4 therefore shows changes in overall compliance (averaged across all factories, questions and visits) and the average compliance of factories in their first visit only (the dashed line). The first visit compliance rates can be considered the “baseline” rates since they are the ones that have the least direct exposure to the BFC program. The dashed and solid line follow very similar paths, suggesting that there may be a growing “culture of compliance” in which new factories learn about higher standards before they begin producing, which could be an indirect effect of the BFC program. Overall averages in recent years are much higher for both new and established factories than they were in the early years of the BFC program. Eisenbraun et al. (2015) show that worker perceptions of improving conditions match the Better Work compliance data, suggesting that the trends shown in Figure 4 translate into improvements in worker well-being.

----- Figure 4 about here-----

Rising compliance raises the question of how often firms reverse previous improvements in working conditions. Brown et al. (2014c) show that reversals of improvements in labor conditions are rare. Defining “retrogression” as a change from being compliant to being non-compliant or a change from non-compliance to compliance and then back to non-compliance, they find that within-factory retrogression rates are overall quite low, even after the end of the Multi-Fibre Arrangement. The lack of retrogression implies that garment factories that begin the process of improving labor standards are highly unlikely to reverse course, especially when costly investments have been made to improve the work environment. This result is consistent with a positive learning effect in which initially uncertain factories try improving working conditions and then realize that the improvements at least do not harm factory performance. These results also suggest that the adverse changes in the apparel market may not cause factories to reverse improvements in labor conditions.

There are certainly areas in which progress has been slow. Figure 4 shows that compliance improved less, or leveled off, after 2010. Some take a more critical position. Merk (2012) argues that BFC made what they considered to be insufficient progress in wages, job security, collective bargaining and some elements of occupational safety and health. While wages and job security are probably driven by changes in the global apparel market (Robertson et al. 2019) and freedom of association may depend on the domestic institutional environment, it is

certainly true that BFC has not eliminated violations in particular nor poor conditions in general. Nevertheless, most studies acknowledge the positive benefits BFC has brought to both workers within factories and to the Cambodian labor market (e.g. see Merk 2012, Hall 2010, Brown et al. 2016, Berik and van der Meulen Rodgers 2010, Kotikula et al. 2015).

Plant Survival

New businesses close at high rates and garment factories seem especially delicate because they operate at low margins and have low start-up costs. Some have argued that improving working conditions would increase the failure rates of garment factories because they impose higher costs. On the other hand, if improving working conditions improves the performance of the factories, then improving working conditions may increase the probability of factory survival.

Brown et al. (2011) and Jetha and Linsen (2015) evaluate the relationship between factory survival and improvements in working conditions. Rather than being associated with widespread failure of Cambodian factories, the BFC program is associated with increased survival rates. Specifically, factories that improved compliance between the first and second BFC visit were less likely to close in future years.

One interpretation of the finding that closure rates for more compliant factories do not increase is that improving some working conditions may improve outcomes, such as sales to reputation-conscious buyers [OK?] or worker effort, that help factories survive. A very large literature finds a positive relationship between improvements in working conditions and factory productivity or other positive outcomes [? such as?] (Bloom and Von Reenen 2011, Combs et al. 2006, Croucher et al. 2013, Ichniowski et al. 1997, Judge et al. 2001, Grip and Sloben 2005, Lazear and Shaw 2011, Leblebici 2012 and Wright et al. 2015; in apparel specifically, Miller 2014). With full information, a positive relationship between working conditions and survival suggests that improving working conditions is a good decision that is made by good managers. Their results do not rule out the possibility that factories that expect to close, however, may refrain from making the investments. Results from related studies, such as Bloom et al. (2013), however, suggest that developing country factories do not have full information and that it is likely that a push to improve working conditions may have induced factories to try a new policy that turned out to be beneficial. Several studies, including Asuyama et al. 2013 and Asuyama et al. 2017, demonstrate that productivity improved in Cambodia's garment sector over the first decade of the BFC program and demonstrate how these improvements may be linked to improvements in working conditions.

Others have suggested that improving working conditions is associated with higher survival rates because improving working conditions increases worker effort. Such “efficiency wage” explanations date back to Alfred Marshall and seems to have emerged in other contexts. For example, work in the Dominican Republic by the Worker Rights Consortium suggests that paying higher wages and improving working conditions does not impede successful apparel production (Resnikoff 2014). Additional research in this area would be fruitful.

Improved Worker-Management Relationships

BFC works to improve worker-management relationships. Worker-management relationships are often listed near the top of concerns when workers discuss their own perceptions of working conditions (Domat et al. 2013). Rossi and Robertson (2011) analyze the changes in industrial relations by focusing on measures of shop stewards and liaison officers within the factories. Their results suggest that BFC’s monitoring and advisory services aimed at remediation have helped create an open environment for improved industrial relations. These improved relations facilitate additional changes in the factory. For example, they find that improved communication between management and workers was associated with subsequent improvements in crucial aspects of working conditions and workers’ wellbeing, such as occupational safety and health, wages, working time and weekly rest.

Key Features in BFC Effectiveness [?]

Better Factories Cambodia has generated many lessons that are widely applicable to attempts to improve working conditions elsewhere. The features of BFC seem to go a long way to address the complex roots of poor working conditions. We discuss several of these key features in this section by extending Polaski (2006).

Tripartite Participation and Aligning Incentives

As noted above, the coordination of multiple stakeholders plays an important role in improving working conditions. One of the key features of BFC is its ability to align potentially competing incentives. For example, having credible information available (transparency) from all factories allowed buyers to shift orders to more compliant factories and, as such, create an economic incentive for factories to improve working conditions. The international buyers used their market power to leverage enforcement of labor standards by choosing the factories with better standards. Many buyers conditioned their purchases on acceptable monitoring reports from the BFC. Wetterberg (2011, pg. 65) notes that the combination of the state’s regulatory power and the buyer’s economic power helps increase compliance.

As a result, more collaborative governance structures have begun to arise in other countries (Gereffi and Mayer 2004; Miller et al. 2014; Barrientos et al. 2011; Locke 2013; Gereffi and Lee 2014; Mayer and Pickles 2010, 2014; Oka 2014). National governments collaborate with domestic and international unions, factory managers and owners, non-governmental organizations, corporations (“buyers”) and employer associations (of both developing and developed countries) and inter-governmental organizations (e.g. the ILO). Better Factories Cambodia, and later Better Work, helped to illustrate how these collaborative approaches can contribute to improving working conditions.

In particular, scholars note that BFC represents a successful public-private partnership (Wetterberg 2011). The government successfully enforced universal participation. International buyers used their market power to incentivize factories to improve. Factory managers agreed to improve conditions in response to these incentives. Workers supported the efforts to improve conditions through improved worker-management relationships.

Monitoring

Monitoring is almost always at the core of any attempt to improve working conditions because it is important to first know what conditions are before they can be improved. Growing skepticism about the idea that self-monitoring and voluntary compliance are sufficient for improvements in working conditions has been fueled, however, by the BFC experience showing that a combination of features is necessary for a successful attempt to improve conditions. Monitoring alone suffers from either insufficient incentives (Kuruvilla and Verma 2006, Boiral 2007, Locke 2013, Rossi et al. 2014) or competing incentives if buyers do not change their behavior in response to audits (Barrientos 2013, Barrientos et al. 2011).

A proliferation of third-party monitoring programs seems to have been one of the responses to this rising skepticism, but the heterogeneity of these approaches seems to have created a web of competing standards--for example different codes might have different height specifications for fire extinguishers. Factories now often complain about “monitoring fatigue” because they have to meet many slightly different standards (Locke 2013) and this fatigue can distract factories from deeper issues in order to focus on meeting the terms of specific codes on inspection day.

In the sense that BFC started with monitoring, BFC is similar to other auditing programs. Each BFC factory receives a visit approximately every eight months. Unlike some programs, BFC’s audits are unannounced. BFC audits are also different from some other programs because auditors work in teams of at least two people who rarely assess the same factory twice. The

audit instrument contains over 200 questions that cover a wide range of conditions and standards. The results of the visits are compared to national law and international standards. Employing local assessors kept assessment costs relatively low. BFC was also able to mobilize the majority of its funding from user fees, which help demonstrate evidence of efficiency and sustainability.

One additional benefit of the tripartite approach was to reduce “monitoring fatigue.” The program encourages buyers to rely on BFC audits and the fact that the assessments had tripartite support meant that the assessments were widely accepted, which reduced the need for the buyers’ own monitoring programs.

Audits Plus

One of the leading controversies in global value chains is the value of audits alone. BFC recognized early on that audits alone were insufficient for improving working conditions. As a result, BFC added remediation services that include a range of training programs and advice aimed at improving productivity and firm performance more broadly. [OK?] Hall (2010) and others suggest that these additional services contribute to the program’s success. The 2015 Workers’ Survey from Cambodia suggests that, among workers who know BFC, those in factories that receive some services from BFC reported that their working conditions improved more than their peers in factories that only receive assessment services.

Universality

Unlike in most countries, the Cambodian government required BFC participation for permission to export. Therefore, the BFC program covers all exporting garment factories in Cambodia. This action helped address the “free rider” problem in which the factories with worse conditions would otherwise get the benefits of the rising quotas that were granted due to the efforts of the factories that improved conditions. Having the program be universal created the incentives for all factories to improve because the conditions in all factories were assessed and, therefore, known.

Transparency

Information plays a critical role in a well-functioning market (Stiglitz 2002). Nevertheless, there is some debate over the role of transparency in regulatory and market programs because academic studies have found mixed results from some transparency programs (e.g. Pozen 2018). Government transparency policies are common but are not always effective because transparency policies that produce incomplete or irrelevant information can be

counterproductive (Fung et al. 2007). Weil et al. (2006) argue that transparency policies are most effective when they produce information upon which decision-makers directly rely (especially if those decision-makers are corporations rather than consumers because corporations can directly shape conditions (Egels-Zanden and Hansson 2016)). Global supply chain transparency, however, is quite rare.

BFC started with a transparency dimension in which compliance in individual factories was publicly available, but stopped public disclosure in 2006 in response to pressure from factories. The end of public disclosure around 2006 seems to have adversely affected compliance. Specifically, Ang et al. (2011) found that factories with reputation-sensitive buyers still continued to improve compliance but at a decreasing rate and compliance rates in factories without reputation-sensitive buyers fell somewhat (but not as low as initial baseline levels). These results show that the presence of a reputation-sensitive buyer does make a difference, and, from a policy perspective, the BFC policy change seemed to have led to lower overall compliance levels than under the initial system of transparency.

In response to concerns about the positive relationship between transparency and compliance, BFC reinstated the original transparency policy. The policy change came with an online transparency database that contains data for compliance in individual garment factories. Monitoring reports became available to factories and subscribing buyers in December 2013 and became available on the BFC website in March 2014.

The BFC May 2017 Transparency Database Report (9th Cycle) showed an increase in factory compliance with critical issues from 30 percent to 46 percent between November 2016 and May 2017. Violations on 21 critical issues fell over the same period. Categories that demonstrated improvements included emergency drills, open emergency exits and having one complete and accurate payroll. The percentage of low-compliance factories fell fairly consistently between November 2013 and May 2017. Robertson (2019) shows that the 2014 change in Cambodia's transparency program was significantly and positively associated with improved compliance in critical areas that are associated with fundamental worker rights.

Conclusion: Pioneering a New Approach

Cambodia pioneered a new approach to the growth of its domestic apparel industry by linking improvements in working conditions with increasing exports. The Better Factories Cambodia program has not eliminated all concerns about working conditions; the roots of poor conditions

are complex and include many different stakeholders that shape the broader institutional environment . While not without critics, Cambodia’s BFC program has generally been considered to be not only a success but a model for other developing countries. In other words, the BFC program has been shown to have external validity. The model evolved into the Better Work program that by 2019 operated in eight other developing countries. In addition, the program has matured and has worked to leverage its success and prominent role in the Cambodian economy to help address some of the deeper issues in the Cambodian institutional environment.

The approach of BFC builds on the growing realization that audits alone, perhaps the most prominent tool used in global value chains to address poor working conditions in supplier countries, are insufficient to improve conditions. The BFC approach has been relatively successful because it combines many key features that are increasingly adopted in other countries, including having multi-stakeholder buy-in, remediation and advisory services, transparency, universality and incentives to improve working conditions that appeal to multiple stakeholders.

The success of the BFC program is reflected in the role it has played in the global debate about how to improve working conditions. First, studies of other Better Work countries have made important contributions. Bair and Gereffi (2014) explore the options for Better Work in Central America and Bair (2017) studies the Better Work’s Nicaragua program’s hybrid governance structure in particular. Pike and Godfrey (2012, 2014) describe important lessons from the now-ended Better Work Lesotho program.

Second, studies of Better Work as a whole are generating lessons for other approaches. Posthuma and Rossi (2017) study supranational supply chain governance using Better Work as an example and Rossi (2019) illustrates how the BFC program, and its successor Better Work, has shaped ILO policy beyond the specific activities of the Better Work country programs. Alois (2018) describes five lessons that have emerged from Better Work that are applicable to other attempts to improve working conditions.

The BFC experiment has been one that offers many lessons for those who want to improve working conditions in global supply chains and may well deserve to be viewed in history as a turning point in industrial relations in global value chains that led to an improvement in the lives of millions of workers in developing countries (Bair & Gereffi 2014).

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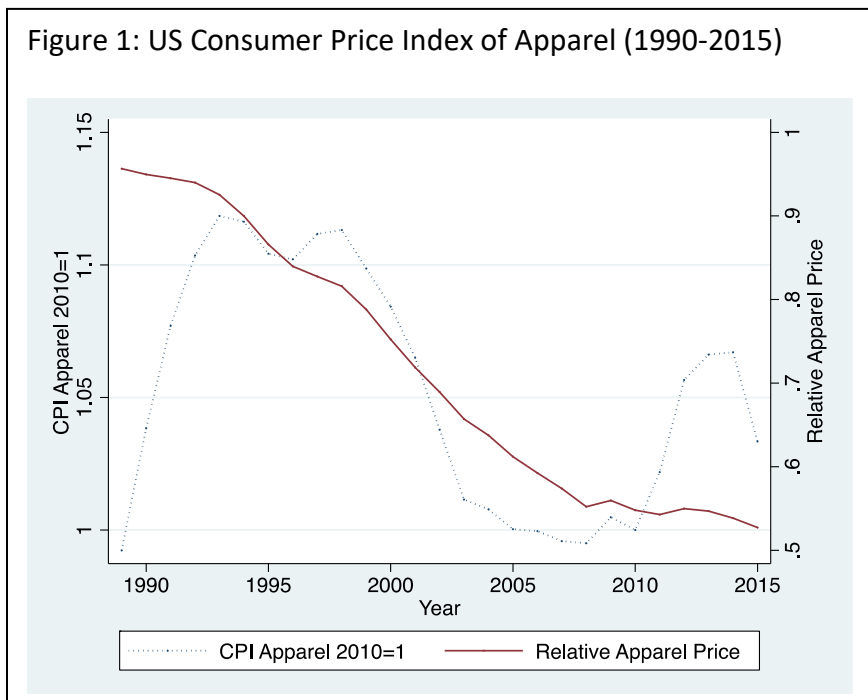
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Figure 1: US Consumer Price Index of Apparel (1990-2015)



Notes: Author's elaboration using data from the US Bureau of Labor Statistics. CPI stands for Consumer Price Index.

Figure 2: The Complex Roots of Poor Working Conditions

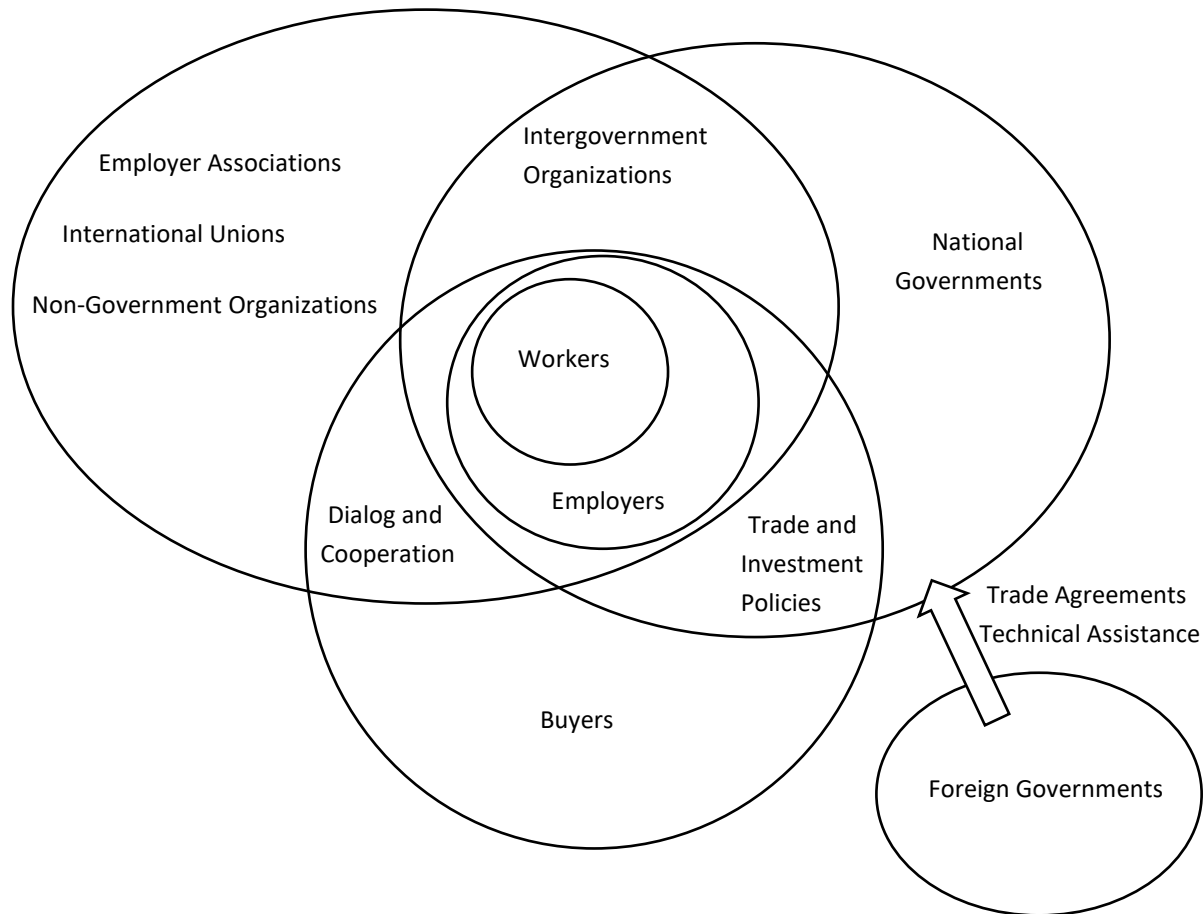
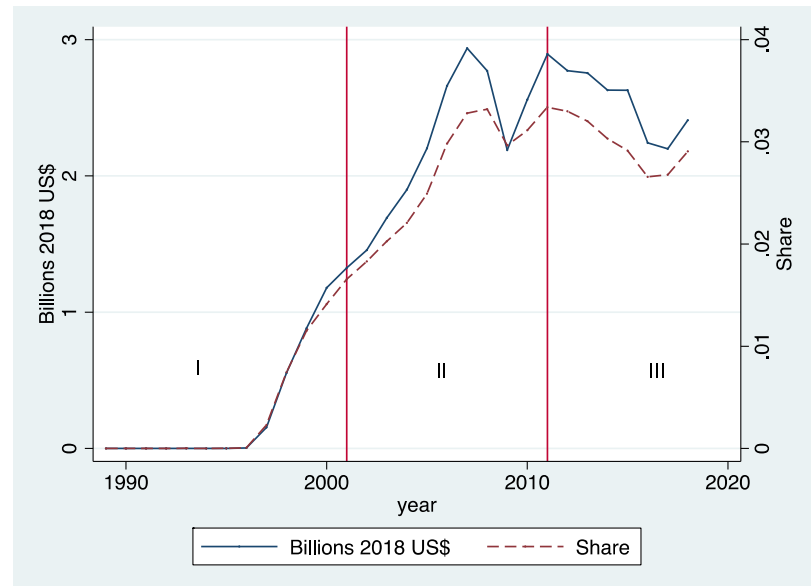
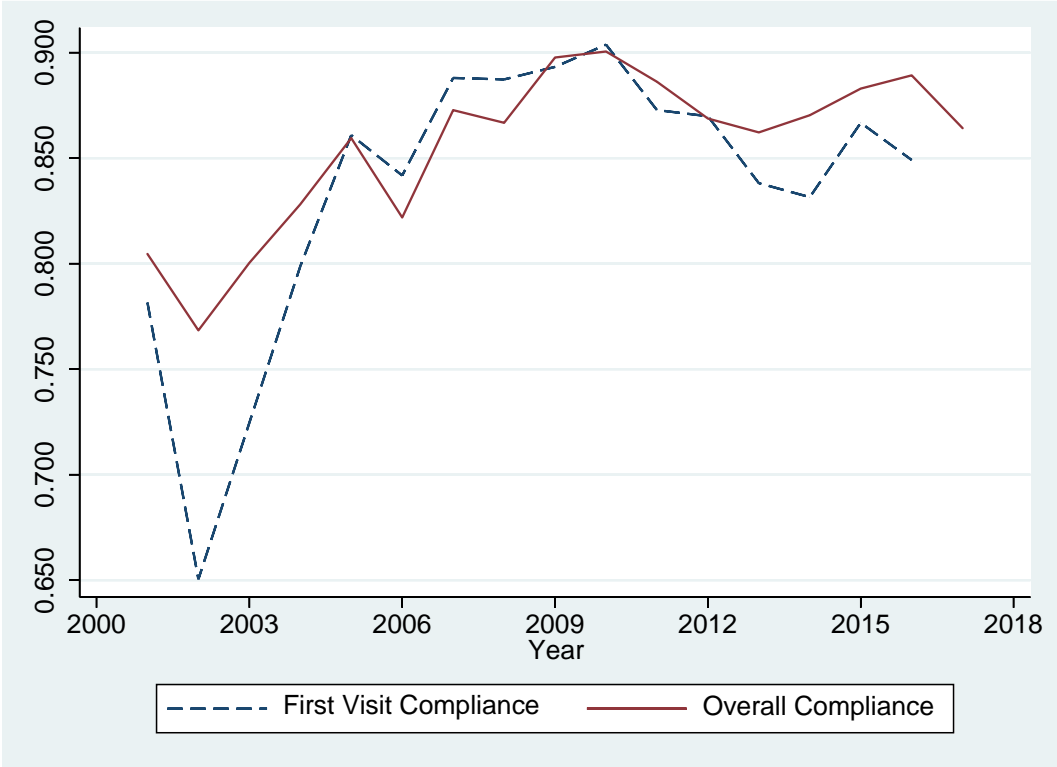


Figure 3: Evolution of Cambodian garment export to the US (value-left scale, share of US garment import – right scale)



Source: Author's calculation from US Import data from OTEXA. The value data are in constant 2018 US dollars using the United States Consumer Price Index (all goods, all urban consumers) from the Bureau of Labor Statistics. Period I corresponds to the Birth of Better Factories Cambodia section in the text. Period II represents the Growth of BFC section, and Period III presents the BFC Maturity section.

Figure 4: Average Overall Compliance in Cambodian Apparel Factories



Source: Author’s elaboration using factory-level compliance reports from Better Factories Cambodia. Both series represent the simple arithmetic average across all compliance categories. Note that “Compliance” means the absence of non-compliance as defined by Better Work.