

# The Importance of CSR Practices in Business: A Case Study of RMG Sector in Bangladesh.

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**Abstract:** Readymade garments (RMG) sector plays the auspicious role in our economic development. Nowadays this RMG sector faces several remarkable tragedies which indicate the need of CSR in this area. Corporate Social Responsibility (CSR) is a relatively new and rapidly developing phenomenon. After the tragic incident Rana Plaza and Tazreen Fashions, the image of our garments industry is entirely damaged. But the scenario is changing day by day. Many good practices are implemented by the factory owner which is outstanding. The best three environment-friendly garment and textile factories in the world are located in our country these are Envoy Textiles, Remi Holdings, and Plummy Fashions. They have taken the garment and textile factories of Bangladesh to the new position to the world. The primary objective of this paper shows the present scenario of CSR practices and importance of CSR practices in RMG sector.

**Key words:** Corporate social responsibility, RMG Sector

## Introduction:

Readymade garments make up 80 percent of the country's \$24 billion in annual exports and 15 percent share of GDP.

Consultancy firm McKinsey and Company has said Bangladesh could double its garments exports in the next 10 years [1]

Textiles have been an incredibly important part of Bangladesh's economy for a very long time for some reasons. Bangladesh is the world's second biggest exporter of clothing after China [2]

Although Bangladesh is not developed in industry, it has been enriched in Garment industries in the recent past years. In the

field of Industrialization garment industry is a promising step. The sector now dominates the modern economy in export earnings, secondary impact and employment generated. It has given the opportunity of employment to millions of unemployed, especially innumerable uneducated women of the country. In less than a decade it increased its exports, foreign exchange earnings, and contribution to the GDP by 4.39 %. RMG exports reached a steadfast figure of USD 17.91 billion in the fiscal year 2010-2011; accounting more than 78% of national export earnings, which was about 4%-5% of the global total of such exports. It further contributes 10% to the country's

GDP. Bangladesh's garment industry employs about than 3.6 million workers which 2.8 million are women. Bangladesh's garment industry employs about than 3.6 million workers which 2.8 million are women [3]

Nowadays this RMG sector faces several remarkable tragedies which indicate the need of CSR in this sector. Corporate Social Responsibility (CSR) is a relatively new and rapidly developing phenomenon. Despite the phenomenal success of the RMG sector, poor working conditions in the factories and a lack of Corporate Social responsibility are serious concerns which, lead to labor unrest and damage to institutions and property. As a result, there is a rising fear in Bangladesh that the readymade garments sector may face a decline in demand.

Despite the phenomenal success of the RMG sector, poor working conditions in the factories and a lack of Corporate Social responsibility are serious concerns which, lead to labor unrest and damage to institutions and property. As a result, there is a rising fear in Bangladesh that the readymade garments sector may face a decline in demand. [4]

Corporate social responsibility has emerged as a major issue in the Bangladesh RMG sector. Despite the additional costs these compliance demands a place in the area, there are sound economic reasons why the Bangladesh garment industry should implement CSR. If the RMG Industry fails to implement CSR, it may lose its global markets. Lack of enough practicing CSR could harm Bangladesh's competitiveness as a supplier of ready-made garments. This could have dire results: the closure of most of the garment industry with millions of employees losing their jobs; the decline of economic growth

#### **Objective of the study:**

The primary objective of this study is to find out

- How our RMG sector plays a crucial role in our economic development and
- The concept of CSR and
- Importance of CSR in our RMG sector
- Scenario of CSR practices in our RMG sector

**Methodology:** This paper mainly based on literature review and some factory visit.

#### **The concept of CSR:**

The most common definition of CSR is by the World Business Council for Sustainable Development: "The continuing commitment by business to behave ethically and

contribute to economic development, while improving the quality of life of the workforce and their families as well as of the local community and society at large."

Corporate Social Responsibility (CSR) goes beyond philanthropy and compliance. It is about how companies take responsibility for their stakeholders and actions in the world at large. It is about investing in business growth while ensuring sustainability of markets, customer's and the environment.

CSR is an evolving concept with many meanings. The definition used by the CSR Centre is: "CSR is about achieving commercial success in ways that honor ethical values and respect people, communities and the natural environment [5]

Corporate Social Responsibility assumes that the companies are socially conscious to discharge their social obligation for the well-being of the society. [6]

CSR is the continuing commitment by business to behave ethically and continue to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.[7]

CSR has long been a practice in the businesses of Bangladesh, in the form of traditional philanthropic activities, as in the case of other South Asian countries.[8]

It cannot be pinpointed when and how the current stakeholder notion of CSR entered the corporate sector of Bangladesh. It presumably entered into the businesses of Bangladesh in the 1990s.[8]

The necessity for the integration of this form of CSR was first felt by the export-oriented private corporations, namely, Ready-Made Garment (RMG) industries and shrimp product and processing companies in Bangladesh. Following the 1992 US Harkin's Bill[9] the RMG sector encountered the threat of boycott of their products from the US and EU buyers and consumers on the allegation of child labor employment in the industries. It was the first driving factor for the RMG to comply with international social standards, including the abolition of child labor, and the foreign buyers set a guideline for the RMG industries to ensure the standards.[8]

Civil society advocates question corporations' fundamental motivations for CSR, asserting that corporate programs to fund social and environmental programs are nothing more than public relations campaigns to boost their brand reputations, often disproportionately to the effort itself. This dismissal of CSR resides in a fundamental distrust of a corporation's legitimate intentions to do anything more than increase its profits. On the ideological right, critics reject the role of CSR in a capitalist society where the primary responsibility of business is seen as creating financial returns for its shareholders and the larger economy. A company's value, according to these critics, resides entirely in its ability to generate financial wealth for its shareholders, and any social or environmental initiative that does not simultaneously create profit for a company is deemed to be a waste of corporate resources [10]

#### **Why RMG need CSR:**

According to the IMF, Bangladesh's economy is the second fastest growing major economy of 2016 (Dec), with 7.11 percent Gross Domestic Product (GDP) growth rate where the growth rate was 6.12 percent in 2015. Contribution of industry to the GDP was 28.1%, where RMG sector donate the biggest part. Since 2004, Bangladesh averaged a GDP growth of 6.5%, which has been importantly driven by its exports of readymade garments [11]

Recent incidents like fire in the Tazreen Fashions factory 2012 that killed more than 110 and the collapse of the Rana Plaza garment factory building in April 2013 that killed over 1,100 people and more than 2,500 were injured in the disaster. It may be the second biggest industrial accident in recent history. The image of the garment's industry has been threatened by these accidents, showing the presence of severe structural challenges but also the lack of corporate responsibility in addressing issues related to labor practices, safety and security, environmental impacts, among others. There are many problems exist in this garments industry.

Working conditions in the RMG sector are below standard and do not meet the ILO standards. Labor standards and rights are commonly ignored in the RMG factories in Bangladesh: poor practices include the absence of trade unions, informal recruitment, and irregular payment, sudden termination, wage discrimination, excessive work, and abusing child labor. Moreover workers suffer various kinds of diseases due to the unhygienic environment and a number of workers are killed in workplace accidents, fires and panic stampedes. Absence of an appropriate mechanism to ensure the enforceability of the available laws for protecting workers' rights and maintaining workplace safety continues to be a concern in the RMG sector. As the sector is an important foreign exchange earning component, some changes are required. Working conditions in the RMG sector frequently violate international labor standards, and Codes of Conduct.[12]

Recruitment policies are highly informal compared to western standards and there are no written formal contracts and appointment letters. They are therefore vulnerable to losing their jobs at any time. However, fear of losing their jobs and lack

of alternative job opportunities compel workers to continue in unsatisfactory employment. [13]

Continuous work schedule, wage penalties, physical and verbal abuse are common. Women workers face physical abuse and sexual harassment inside as well as outside the factories, but management does not ensure the security of women workers. Regulatory measures and its strict implementation and monitoring by the government agency that could overcome work place in security problem of garments workers in Bangladesh [14]

Garments workers are concerned with long working hours or double consecutive shifts, personally unsafe work environment, poor working conditions, wage and gender discrimination. Indeed, employers treat the RMG workers as slaves, exploiting workers to increase their profit margins and keep their industry competitive in the face of increasing international competition [15]

There are many factors responsible for these problems. Given the dominance of the RMG industry in the overall economy of Bangladesh, protection of this sector is very important. Rather than basking in the glory everybody should work hand in hand to

retain sustainable growth and competitive edge of this industry

Corporate social responsibility has emerged as a major issue in the Bangladesh RMG sector. Despite the additional costs these compliance demands place on the sector, there are sound economic reasons why the Bangladesh garment industry should implement CSR. If the RMG Industry fails to implement CSR, it may lose its global markets. Lack of enough practicing CSR could harm Bangladesh's competitiveness as a supplier of ready-made garments. This could have dire results: the closure of most of the garment industry with millions of employees losing their jobs; the decline of economic growth.

#### **Scenario of CSR practices in RMG sector:**

The discussions on CSR practices in Bangladesh in its modern global terms, is relatively new. In general, it is true that in Bangladesh, the status of labor rights practices, environmental management and transparency in corporate governance is not satisfactory, largely due to poor enforcement of existing laws and inadequate pressure from civil society and interest groups like Consumer Forums. Globally, as CSR practices are gradually being integrated into international business practices and hence is becoming one of the determining factors for market accesses, it is becoming equally instrumental for local acceptability. A focus on CSR in Bangladesh would be useful, not only for improving corporate governance, labor rights, work

place safety, fair treatment of workers, community development and environment management, but also for industrialization and ensuring global market access. By now, many CSR dimensions are practiced in Bangladesh [16]

**Many initiatives are taken by factories which are promising sign for Bangladesh:**

After the incident of Tazrin and Rana plaza, there was a misconception about the garments industries in Bangladesh. The working environment of knitwear and garment industries of Bangladesh faced stern criticism worldwide after Rana Plaza building collapse tragedy but the scenario is totally changed. The conditions will improve day by day. Many positive things are happening in nowadays. One of example is Denim Expert limited. The company has certifications WRAP, SEDEX, BSCI and has been accredited ISO 9001:2008 (Quality and Management System) and ISO 14001:2004 (Environmental Management System), with an in-house compliance management team. They think the employee is an important part of their company and without them they are nothing. That's why they provide many facilities to their employees and workers. They practice many CSR activities which really amazing.

The top three environment-friendly garment and textile factories in the world are located in Bangladesh, keeping pace with the growing demand of green factories worldwide.

Envoy Textiles, Remi Holdings and Plummy

Fashions have taken the garment and textile factories of Bangladesh to new heights.

These green factories have less carbon emission, higher production, and save more gas, electricity and water compared to other factories Bangladesh has a total of 32 green factories. More than 100 green factories thirty garment, textile and washing factories in Bangladesh have received LEED certificate.

Vintage Denim Studio is the first factory to get LEED Platinum certificate in 2012. Shruti Textile Mills achieved the LEED Gold Certificate.

Genesis Fashions and Genesis Washing received LEED Platinum Certificate. Osman Interlinings in Dhaka EPZ received LEED Gold Certificate. Tosrifa Industries of Northern Tosrifa Group achieved the LEED Gold Certificate.

Two factories of BITOPI Group have LEED Gold Certificate. These are Remi Holdings and Tarasima Apparels. SQ Group has three LEED Platinum Certificates for three of its factories-SQ Birichina, SQ Collblanc and SQ Celsius-2. SQ Celsius has an LEED Gold Certificate.

Envoy Textiles of Envoy Group has an LEED Platinum Certificate. Regency Garments (unit-1) of Chittagong EPZ has an LEED Gold Certificate. It is a US organization. Green Textiles has a certified recognition are under construction.[17]

Our media should coverage these positive stories to the world.

### **Benefits of CSR practices:**

For sustaining long term every company should practices CSR. Because this practices are deals with people, planet and profit.

Most importantly, findings from scientific research are becoming increasingly clear with regard to how CSR is essential for the long-term sustainability of a firm. Firms that blindly and narrowly pursue the profit motive, without concern for the broadspectrum of Stakeholders that are relevant to the long run, are increasingly shown to lack sustainability. But it's not only important to realize the importance of these groups. Firms must also be able to "connect the dots" and understand how various Stakeholders, and the satisfaction their needs, represent interrelated challenges. For example, the strategic management of human resources is related to customer satisfaction, and it is essential for firms to attempt to understand and deal with this connection [18]

Although many companies are motivated by giving back to society, an almost equal

number are motivated by the benefits CSR can bring about when integrated with core business strategies and operations.

### **Motivations for Practicing CSR [19]**

- Community development / give back to society
- Business motivation / makes good business sense
- Responsibility to employee and community welfare
- Developing communities in ways that benefit business
- Create shared value
- Do business the right way / operate responsibly

IBM study 'Attaining Sustainable Growth through Corporate Social Responsibility': The majority of business executives believes that CSR activities are giving their firms competitive advantage, primarily due to favorable responses from consumers.

Better Business Journey, UK Small Business Consortium: "88% of consumers said they were more likely to buy from a company that supports and engages in activities to improve society."

### **Recommendations for improvement of the overall situation CSR in BD:**

Ideally, well-managed CSR creates social and environmental value, while supporting a company's business objectives and reducing operating costs, and enhancing relationships with key stakeholders and customers. It is therefore imperative that corporations establish a CSR unit whose primary responsibility is coordinating and integrating initiatives in all three theatres in

which a company is engaged in, even if responsibility for the various initiatives remains dispersed throughout the company. This CSR unit, however, needs to be headed by a person who has senior management rank and holds the position as his/her primary responsibility. It is not uncommon for CSR offices to be headed by managers who split their time between CSR and other corporate responsibilities, such as head of Human Resources or Operations. For example, the 2011 survey of CSR managers and executives revealed that in all three CSR domains, dedicated CSR executives spent an average of only about 35 percent of their time on managing and administering CSR programs, with some professionals devoting less than that percentage of their time to CSR responsibilities.[20]

In a country like Bangladesh international buyers are the strong stakeholder's for export-oriented manufacturing sectors. Their demands and expectations always get top priority in the activities of the companies. The prime consideration for this is business sustainability in the international market that has in many ways implications for the growth of a strong economic base of the country. The 'social compliance' requirements in the garment sector of Bangladesh are viewed from that perspective. In this regard a comment is noteworthy that 'the social responsibility activity is guided by buyers. From toilet requirements to child labor elimination, all sorts of social activities are now done by us under the influence of buyers' [21]

The question of business sustainability in the international market of RMG products and the question of national economy prompted a multiplayer move for the promotion of social compliance or labor and environment related CSR issues in the garment enterprises. Thus a partnership between stakeholders has been built up in the process of promotion, which is the key demand of the stakeholder approach of CSR. The major actors are: [22]

1. Business Associations (BGMEA and BKMEA);
2. Ministries and Departments;
3. Buyers;
4. Intergovernmental organizations and development agencies; and
5. Producers/Industries

Following recommendations for businesses in order to engage in CSR activities with an increased level of efficiency:[23]

- a) Achieving increased level of cooperation between the various departments of the business in terms of achieving CSR related aims and objectives;
- b) Engagement in strategic use of social investment budget;
- c) Introducing CSR aspects of the business at the initial stages of the project and integrating it with long-term aims and objectives;
- d) Specifying the activities of stakeholder identification and engagement as a continuous process;
- e) Ensuring the existence of CSR skills in all employees within the organization;



f) Implementing an effective audit/review system in terms of improving the quality of CSR.

A specific recommendation formulated in that aspect states that “governments have to foster accountability and transparency in CSR practices to prevent them from being used as smoke screens by corporations to hide their malpractices. Governments can do this by, for example, actively encouraging companies to disclose their social and environmental policies in their accounts on voluntary basis” [24]

Many garments owner don't have the clear idea about CSR. They think CSR is cost not investment. Awareness should be created by arranging seminar workshop. To implement CSR is not the easy task. It's not possible only for the government to implement CSR. All stakeholders should worktogether to improve the CSR practices in Bangladesh. Factory owner should prepare CSR report annual basis. The government should provide the reward to best companies who are practicing CSR. Media should highlight best practices

There is an old and very common assumption that companies implementing CSR often underperform but this statement is nothing but furthest from the truth. Numerous researches conducted of late by various firms suggest that organizations adopting CSR enjoy higher returns on investment as well as corporate growth and responsibility and that too in comparatively shorter span of time as compared to non-CSR organizations. As Niall Fitzgerald Former CEO, Unilever once said;

“Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it... because it is good for our business [25]

### **Conclusion:**

RMG sector is the significant area which creates lots of opportunity for the job. Many female workers get the chance to earn money. Women empowerment created through this area. Our living standard will improve day by this sector. This area can sustain long term in a competitive market by practicing CSR. So government should pay attention to implement CSR, and all stakeholders should act responsibly for ensuring sustainable development in this sector.

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