

## **Stakeholders as a Component of Corporate Social Responsibility: Leading to Sustainable Development of Readymade Garments (RMG) Sectors in Bangladesh**

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**Abstract:** Bangladesh is a developing country. RMG sector plays an important role in our export income. According to BGMEA (Bangladesh Garment Manufacturers and Exporters Association) statistics Garment industry in Bangladesh has grown from USD811.00 million in 1983-84 to USD27, 018.26 million in 2012-13 financial years (Trade Information, 2013). In recent years labor unrest is a common phenomenon in RMG sector of Bangladesh. Main reason behind the labor unrest is low wage, unsafe working condition and absence of CSR (Corporate social responsibility). Labors are the key success factor in garments factory, and one of the valuable components of stake holder. This paper relates to Mendelow's (1991) stakeholder matrix- a simple yet powerful tool to understand stake holders in our industry according their power and interest, how it is related to CSR and what responsibilities should perform to all stake holders and aims at obtaining sustainable development through CSR.

**Keywords:** corporate social responsibility (CSR), stakeholder, sustainable development.

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### **I. Introduction**

Organizations should perform CSR (Corporate Social Responsibility) for sustaining in the long run. CSR concept is not clear to laymen, as many of them think it means philanthropic activities. They also think it is a compliance. But the concept is totally different. CSR is important for all types of organization. This paper mainly emphasizes CSR in RMG sector in Bangladesh because the ready-made garment (RMG) sector has experienced an exponential growth since the 1980s. The sector contributes significantly to the GDP. It also provides employment to around 4.2 million people which alleviate poverty, women empowerment and promotes the development of other key sectors of the economy. But nowadays this RMG sector faces several remarkable tragedies (On 24 April 2013, Rana Plaza, an eight-story commercial building, collapsed in Savar, a sub-district in the Greater Dhaka Area, the capital of Bangladesh. The search for the dead ended on 13 May with a death toll of 1,129. Approximately 2,515 injured people were rescued from the building alive. The 2012 Dhaka fire broke out on 24 November 2012, in the Tazreen Fashion factory in the Ashulia city on the outskirts of Dhaka, Bangladesh. At least 117 people were confirmed dead in the fire, and at least 200 were injured) which indicates the need of CSR in this sector. CSR is a relatively new and rapidly developing phenomenon. "It is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" [1]. Different organizations have framed different definitions - although there is considerable common ground between them. 'Firms have responsibilities to societies including economic, legal, ethical and discretionary (or philanthropic)' [2]. CSR is an increasingly important tool to maximize the positive development impact of corporations and commercial activity in the developing world [3].

CSR means fulfilling responsibilities to the people who are related to the organization or running a business in a proper way where development is possible of each component. No organization can run its business alone. There includes different parties "Suppose a small entrepreneur starts business (furniture business). He gets loan from bank, collects raw materials from supplier, produces final product. Then finished product sells in the market. There are also other competitors in the market. In this business there are different parties like financiers, employees, supplier, competitors, customers etc. If the owner thinks the development of all parties then we can say that he performs CSR. The CSR product bears the certified quality that preferred by customers. It makes a good profit and good will in that business." CSR is a win-win game and no chance to defeat of any parties. Maximum think that CSR is costly but in the long run it gives a fruit-full result. At last it can be said that CSR means to perform responsibility to its society, to its environment and to its stakeholder in a business.

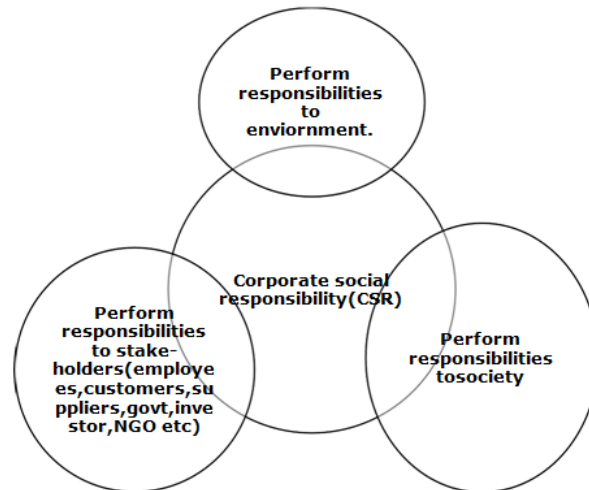


Figure: Designing definition of CSR

**Research Design:**

“There is a natural fit between the idea of corporate social responsibility and an organization's stakeholders. The word social in CSR has always been vague and lacking in specific direction as to whom the corporation is responsible. The concept of stakeholder personalizes social or societal responsibilities by delineating the specific groups or persons business should consider in its CSR orientation. Thus, the stakeholder nomenclature puts names and faces on the societal members who are most urgent to business, and to whom it must be responsive” [2]. By definition, stakeholders are the individuals or groups that have an interest in the organization and are affected by its actions. Stakeholders are customers, employees, and suppliers, board of directors, owners, shareholders, government agencies, unions, political groups, the media, and others [4]. This paper emphasizes stakeholders of RMG sector among the components of CSR. If any company can perform all responsibilities to stakeholders it covers maximum responsibilities. Stakeholders means all parties who involve to run a business. It can be employees or customer or suppliers or government or investor or NGO. Organization should think about the life of employees, to provide CSR quality product to customer, to make co-operative relationship to suppliers, to provide tax to government in right time, to pay loan to investors, to equal distribution of profit. These are the basic responsibilities.

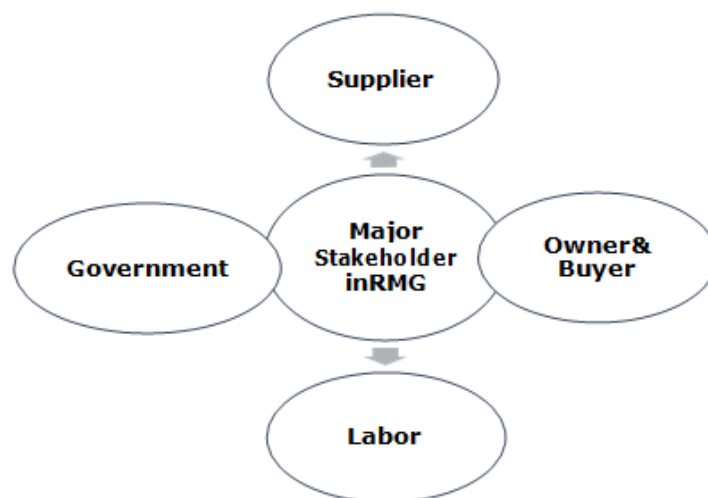
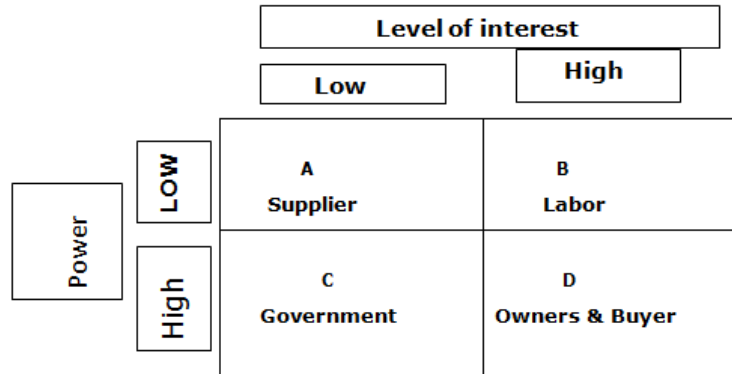


Figure: Major Stakeholder in RMG

Mendelow's (1991) stakeholder matrix is used to address the component of CSR: This is a power-interest grid where stake holders are mapped according to their interest in the organization and power to implement CSR. The power-Interest can be categorized in the following four ways:

- A. Low power-lowinterest
- B. Low power-highinterest
- C. High power –lowinterest
- D. High power –highinterest

We can map the stake holders as per the matrix which is shown in the next diagram



(Source: Mendelow’s Power-Interest Matrix and stake holders in Garment Industry)

**Literature Review:**

This section deals with details of relationship between power grid matrix and components of CSR mentioned in research design.

**A. Low power-low interest (Supplier):**

These are the supplier in the society who generally not too much interested in the company’s activities or performance. RMG industry should perform following responsibilities:

- Fair and equitable transactions
- Environmental protection
- Policies on supplier selection and transaction continuation
- Securing right price and quality

**B. Low power-high interest (Labor)**

This group of stake holders (Labor) has high interest in the company’s policy and performance. But they have very little power over the management. The policy and performance of any given garment is vital for the labors everyday life. Maximum labors are illiterate and living under poverty. Owner don’t think about their life. Recent two accidents Rana Plaza tragedy & Tazreen Fashions tragedy show the real condition of labor in our country. Organization must perform these responsibilities

- Safe work environment.
- On time payment.
- Predefined work hours.
- Training

**C. High power –low interest (Government):**

These stake holders are very powerful but less interested in the organizations. Managers must keep this stake holders satisfied all times by supplying necessary information. If the organization don’t do anything that draw attention to the government, usually the organization would be safe. Sometimes if this particular group becomes interested, the organization will be under greatest scrutiny and may concede heavy penalties or even change in regulation that is counterproductive for the organization.

It has already discussed in adequate addressing in group B of the grid may trigger this group to become interested.

The organization should maintain following responsibilities to government:

- Following environmental rules and regulations.
- Following labor law.
- Following safety & health issues.
- Paying taxes regularly.

**D. High power –high interest (Buyer & Owner)**

These stakeholders are the major drivers of change and could stop management plans if not satisfied. Management, therefore, needs to communicate plans to them and then discuss implementation issues. An owner

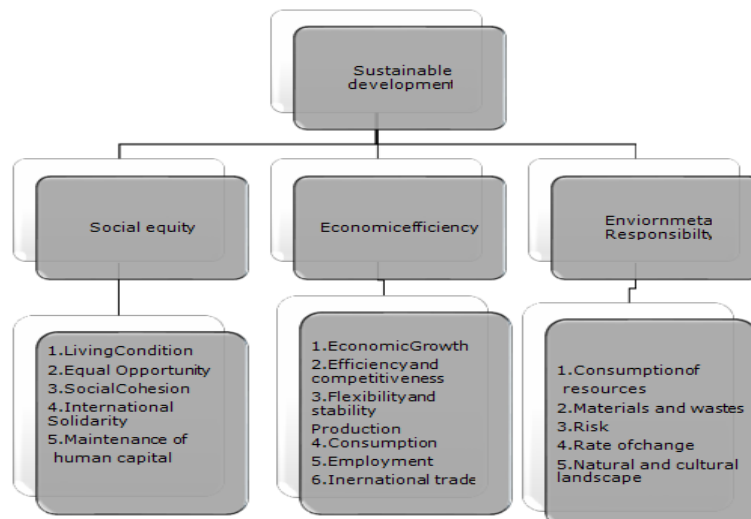
& Buyer usually falls in this group. Structurally most of the garment in Bangladesh is either partnership or sole proprietary. Care must be taken about over serving this group. Usually over serving this particular stake holders would mean under serving group B (Low power-high interest) which in turn activate Group C to be interested and thus make life harder for all.

- Providing ecoproduct.
- Provides information that is truthful, honest and useful Products and services.
- Maintaining proper leadtime.
- Maintaining compliance issues provided by the buyer.

What is the relationship between owner & CSR? Owner is in the middle of the CSR circle. He should do fair competition in the market and adopt CSR in his own organization for sustaining long run in the market.

## II. Discussion

Stake holder component must be considered for sustaining in the long run. All components of stake holder are equally important and they are inter-related. Garments industry should give equal importance to all party. Power of the different parties varies in the industry. Owner in RMG given preferences according to power. They only think how to maximize their profit and don't think of any other responsibilities which have to perform to all the parties. Owners aren't concern about labor safety. The Rana Plaza tragedy led to a decision in Washington by President Obama to suspend trade preferences to Bangladesh under the GSP (The Generalized System of Preferences, or GSP, is a preferential tariff system which provides for a formal system of exemption from the more general rules of the World Trade Organization). An action plan charts out steps Bangladesh can take to requalify for GSP. Since last July, the entire GSP program has been held in abeyance since the U.S. Congress has not reauthorized it [5]. Ignoring the interest of labor creates a bad image to buyer. "In terms of labor cost, Bangladesh is well positioned and compares favorably with other Asian countries. The per hour cost of labor in Bangladesh is \$0.25, compared to \$0.34 in Indonesia, \$0.34 in Pakistan, \$0.46 in Sri Lanka, \$0.48 in China and \$0.57 in India. This indicates that the buyers are eager to buy garment products from Bangladesh" [6]. This is our great advantage to attract foreign buyers. This is hardly possible because of lack of interest of the owners to labor development. If any component of stake holder will stopped to work total process will be stopped. "Maximization of shareholder value is also associated with the long term commitment and long term commitment is interrelated with general acceptance, reputations and good will in the society and general acceptance, reputations and good will could not be attained -without assuming the social responsibility, therefore in a long run the maximization of shareholder value is directly related with assuming the CSR. For every market, whether developed, developing, under developed and emerging market, there is only one formula for maximization of shareholder value in the long run is to perform the social due role or assuming the CSR" [7]. Keeping good relation with stake holder will help to earn profit, reputation and sustaining long term in the market. That's why this component is very important for RMG industry. "Maignan and Ferrell, (2004) they argue that CSR is a concept of Corporations to meet stake holders' interests effectively which has an impact on the company's success in the long run" [8]. To perform responsibilities to stakeholder is related to sustainable development (In 1987, the World Commission on Environment and Development define "Sustainable Development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs) which is a global issue now a days. It means doing business in a way that enables the company to continue for an indefinite time.



(Source: Adapted from: Swiss Statistics (2002) Measuring Sustainable Development, Insights into MONET, Neuchâtel, August.)

Sustainable developments includes: social equity, economic efficiency, environmental responsibility. These three components directly related stakeholder component in CSR. According to a report recently published in a national daily newspaper, the government has blacklisted almost 500 large, medium and small scale industries which are identified as the most pollutant industries in Dhaka city and around, including Gazipur, Narayanganj and Narsingdi in the local district areas. A government report reveals that the industrial wastes of these enterprises have caused pollution of the surrounding rivers resulting in the breakout of different of epidemics, insufficient drinking water, the death of river fishes, a scarcity of cattle grass and damage of plant diversity[9]. Sustainable development is possible if industry perform CSR to stakeholder. Owner should take raw materials from those suppliers who think of the environment and produce eco- friendly product for the customers. Profit sharing to all the parties who involve in the business. Stakeholders are the central point in the business. Organization should think their society, economic efficiency and the surrounding environment for next generation. Stakeholder can put pressure to the organization to do business in fair way and think of the sustainable development. Because this component are responsible for sustainable development. This development is possible by equal participation of all stakeholder. And stake holder work co-operatively when they are satisfied of their needs. That's why our RMG industry should perform CSR to all stakeholders. To address the responsibilities to stake holders RMG owner should first change their attitudes and thinking. They should follow all rules and regulation which imposed by government. And make a friendly relationship to all the stake holders. In our garments industry there is a lack of knowledge at mid to Top level management and no clear idea about the CSR. They think of returns immediately when investment is made for CSR. In our country we need a CSR team who will guide the management or owner of industry. We should make a CSR planning for the business and allocating enough budget for CSR. Periodically checking the consequences of CSR. Make a competitive business strategies and give priority CSR in this strategies. "The CSR team can't be relegated to the playroom while the real decisions are made in the boardroom. Human rights must be part of the criteria for how a company makes decisions and allocates resources, including choosing suppliers and whether contracts get extended or renewed" [10]. Owner should do business in a way that will earn a lot of profit to our country and create a safe environment for our next generation.

### III. Conclusion

Readymade garments are the largest export industry and determine the dynamics of total export earnings for Bangladesh. Implementing CSR ensures sustainable position in the global market and helps to develop countries' economy. There are no laws or no benchmark or standard of CSR. CSR concept helps to think of our society, environment and stakeholder. The recent tragedies demonstrate that CSR is more important than ever before. But we don't need more matching T-shirts; we need absolute CSR. We need to hear from the people promoting safer, more responsible practices inside companies. We should find out the root causes of failure. The term CSR and sustainable development is interrelated. This research tries to find out the power and interests of stakeholder in RMG sectors. This research allows to relevant proposition for future research. Research can be done further on stake holder importance and implementing more CSR components in RMG sector of Bangladesh.

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