Committed to fair working conditions

DBL-Group: High labour and safety standards in the Bangladeshi garment industry pay off
This report is a result of DEG’s evaluation work regarding development effectiveness. DEG’s monitoring and evaluating team checks at regular intervals whether the transactions it co-finances help to achieve sustainable development successes and points to ways of making further improvements for DEG and its customers. To ensure the independence of evaluation results, external consultants regularly support the work of the team.

This study was prepared by Ulrike Dangelmaier, economist at DEG, to serve as a contribution for Let’s Work (www.letswork.org).

Let’s Work is a global partnership that unites organizations dedicated to providing effective solutions to the global jobs crisis by harnessing the potential of the private sector to help create more and better jobs that are inclusive. The work program of Let’s Work has three pillars – 1) designing and implementing country pilots, 2) developing methodologies to help private sector projects estimate and measure job impacts, and 3) knowledge sharing.

The present case study was done as part of Pillar 2, and aims to demonstrate that there is a business case for companies to provide better working conditions for their workers.

We sincerely thank DBL Group, in particular Mohammed Zahidullah, Head of Sustainability, for the great cooperation while conducting this evaluation.

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Company background

DBL Group is a family-run vertically integrated knit garment manufacturer based in Gazipur, which is located approximately 40 km from Dhaka in central Bangladesh. The Group started its business in 1991 and has grown to become one of the leading garment manufacturers in Bangladesh. With sixteen facilities for spinning, fabric knitting, dyeing and finishing, washing, printing and packaging, the group is able to export about 5.6 million pieces of clothing every month to customers worldwide. This volume is produced by a workforce of 21,000 of which 7,400 are women.

The garment industry in Bangladesh has flourished over the last 15 years and turned into the country’s top export sector. Ready-made garments accounted for 70% of total exports in 2014 and Bangladesh earned $22.4 billion in revenues by exporting garments to the West. With 12% average annual growth, clothing exports are the key driving force behind GDP development and the creation of formal jobs.

There are 4 million factory workers in ready-made garment factories. The increasing demand for higher-value garments from Bangladesh provides a promising perspective to foster sustainable economic and social development, as the sector combines numerous production steps, utilizing modern technology and requiring a higher qualified workforce. These higher qualified, better paid jobs will ensure that workers will be able to afford better education for their children, which will lead to an overall improved educational level. This effect should be particularly significant because of the high percentage of female employees.

Sectoral challenges with respect to working conditions

With 5,000 operating factories, Bangladesh dominates the ready made garments market in South-East Asia. Its three main competitive advantages are low operating costs, massive capacity and duty-free access to European markets. However, producers face strong competition from countries such as India, China and Pakistan which use their workforce more effectively. Taking China as the base case, India reaches 92% of China’s productivity and Pakistan 88% respectively in 2009. As of 2009, Bangladesh only reaches a productivity level which is 77% that of China.

The abundance of competitors in the region, the resulting price pressure in the market and the high speed of the industry’s expansion in recent years have led to a situation in which levels of working and safety conditions have lagged behind. The very low wage levels leave the workers in the industry with an income close to the poverty line and without much of a life outside of the factory walls. As a consequence of low wage levels workers take on long shifts and work great amounts of overtime, often exceeding legal maximums, to increase their salary. Occupational health and safety standards, including fire safety, are often low and hence accidents at work are frequent.

1 DBL co-financed its investments with support among others by DEG, FMO, IFC and OeEB.
5 While Bangladesh operates 5,000 ready-made garments factories, Indonesia has only 2,450, Vietnam 2,000 and Cambodia 260 (McKinsey&Company, Inc., 2011).
These circumstances led to a sad climax in the collapse of the Rana Plaza building near Dhaka in 2013, which left several hundred people dead. This accident drew worldwide attention to the inadequate safety and working conditions in Bangladeshi factories and triggered initiatives from Western companies to improve buildings’ safety as well as social and environmental standards. In order to meet these public demands and accompanying requirements set by the government as well as international agreements after the collapse, working and safety conditions are slowly improving.

However, with improving standards compliance and increasing wages, garment manufacturers need to offset rising costs with higher efficiency to stay competitive. In other words, Bangladesh needs to close the productivity gap. Analyses show that one of the major reasons for Bangladesh’s lagging productivity in textiles production is the lack of appropriately trained workers, not only for factory work but also for staffing middle management. This results from weak educational institutions in the country and emphasizes the need for employers to invest in on-the-job-training of their workforce. However, even with internal training offers, the high turnover of staff, due to a large percentage of migration workers and limited loyalty toward employers in the low-wage industry, keeps the average skill level of employees low and prevents them from performing higher productivity tasks and becoming more efficient. In this regard, employee retention can be increased by providing a safe working environment and an adequate remuneration. Moreover, a more efficient design of production increases productivity. This requires technology that uses available resources in the most efficient way, thereby cutting production costs.

To sum up, public awareness is forcing Bangladeshi garment manufacturers – including DBL Group – to address persistent concerns regarding working and safety standards in their factories. However, if manufacturers want to stay competitive while meeting this demand, they need to increase productivity by investing in a higher qualified workforce, increasing workers’ job satisfaction, thereby lowering turnover rates and increasing the technological efficiency of production.

**Intervention: What DBL Group has done to address challenges**

DBL Group has identified improved safety and working conditions as a crucial precondition of securing its market position in the future. Setting up its own policies and monitoring systems, the group goes beyond merely reacting on external initiatives and actually proves its strong social integrity as a company. In 2009, DBL elaborated a formal **Social Management System**, which defines a comprehensive code of conduct and company policies regarding compliance with national laws and regulations, international standards and buyers’ requirements, health- and safety aspects as well as procedures for recruitment and training of employees. DBL posts its policies on notice boards where they are easily visible for the workers. They are written in easy language and use many images, signs and symbols for the workers’ understanding. DBL’s Social Management System is in accordance with Business Social Compliance Initiative (BSCI) and Fair Labor Association (FLA) standards.

Furthermore, DBL has SEDEX and WRAP certifications for social compliance. The responsible departments overseeing social, health, safety and environmental compliance are currently staffed with twelve people. In order to integrate employees in the process of corporate development and establish a sense of ownership, the group commits to addressing concerns of employees regarding potential non-compliance with company policies and to take corrective actions wherever necessary. In

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this context, DBL has established worker participation committees and a grievance mechanism which allow employees to report concerns anonymously directly to the management.

Because of its holistic approach, DBL Group has by now become a role-model in Bangladeshi garment industry regarding environmental and social management in textiles production. Some of the most important interventions that characterize this favorable reputation and lay the foundation for DBL’s success in the market are described below.

**Good and safe working conditions for better employee safety**

Long before the sad incidents at Rana Plaza in 2013, DBL Group attached great importance to providing its employees with the basics of a decent workplace. These basics include adequate remuneration but also a safe working place. To provide their employees with a high level of safety at work, DBL invested heavily in **building, fire and electrical safety**. The group has taken extensive measures to improve fire prevention like installing central smoke detection-, sprinkler- and hydrant systems in its facilities and is constantly working to further reduce the risks. Already since 2005, there are four teams who are constantly participating in drills and are always prepared to counter fire – the fire fighters, the rescue team, the cordon party and the first aiders. Additionally, there are also workers in the production who are trained on fire safety.

In general, many minor changes with a considerable impact on working conditions were introduced, such as the instalment of cooling pads on every production floor, which effectively reduce the room temperature as well as blowers which remove dust. All of these measures do not only improve the working environment, but also lower risks of production interruptions, and can thereby increase productivity.

**Improved working and living conditions for higher loyalty**

In addition to these basic measures, DBL has taken many additional innovative approaches to increase the well-being of its employees. This also improves worker’s identification with and loyalty to DBL, with the potential to lower absenteeism and turnover rates and increase productivity:

- **Fair prices for a higher real income**

On the factory site, the group established the **Bandhan Fair Price Shop**, where employees can, buy amongst others, food, cooking oil, tea and beverages, everyday goods for housekeeping and toiletries at wholesale prices which are about 15% lower than regular prices. Like this, the shop effectively increases the disposable income of workers. The offers of the shop are not only open to employees in the ready-made garment units but also for other workers in the factory.

**Welfare Officers**

DBL is very proud of their Welfare Officers who interact with the workers directly. The Welfare Officers are trained to handle situations very professionally when it comes to responding to workers’ concerns. When workers share their personal and work related concerns with the Welfare Officers, they immediately take actions to resolve the issues if it is within their scope of work. Matters where the higher officials need to intervene are referred to the factory HR, through whom the grievances are conveyed to the concerned people. DBL’s workers are emotionally attached to the Welfare Officers who are always there for them to listen carefully to all of their concerns.
those working in the other units.

One outstanding example of how this shop alters employees’ everyday lives and thus also strongly contributes to their well-being at work is its provision of subsidized sanitary napkins: When in 2012, DBL conducted a survey on health related matters among its workforce, survey results indicated that female workers were in need of low-cost sanitary napkins. At the time, most female workers could not afford to buy sanitary napkins elsewhere and many women did not show up at work for one or two days every month. Often, they also used scrap cloth from the factory’s production instead of sanitary napkins which frequently led to infections or allergies and resulted in additional significant production losses for the company. **DBL now provides low-cost packages of sanitary napkins (up to 2 packages at 8 pieces a month for each worker)** at subsidized prices of USD 13 cents per pack which are considered to be affordable by the worker participation committee. Each worker is allowed to take one extra pack for an extended female family member. Napkins can be bought in a separate unit of the Fair Price Shop where only female staff works.

- **Providing medical services for a healthier workforce**

  On the factory site, employees can not only purchase food and goods of everyday life at fair prices for themselves and their families, but also medicine. In addition, a **medical centre** provides basic medical care, including vaccinations and pregnancy health checks. **On average, an employee enjoys 55% savings per month as a consequence of buying medical products at the pharmacy and consulting the medical center on the company’s site** instead of consulting local doctors and buying at local pharmacies. In information courses organized in cooperation with the United Nations Population Fund (UNFPA) and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the group raises awareness for the risks of HIV/Aids and Tuberculosis.

  To raise awareness of the importance of general health and safety issues, new employees are educated on these topics and the whole workforce receives trainings on pertinent topics regularly. Furthermore, DBL covers all its employees under **social security** schemes.

- **Additional incentives to stay**

  Due to the high share of female workers in the groups’ factories, DBL offers its employees to release their children into the care of the company’s **day care center**. Providing this day care center gives women the opportunity to work even if they do not have the opportunity to leave their children with family members or at a friend’s or colleague’s place.

  To provide employees with a common place to meet, spend some free time together and enjoy themselves, DBL established a **cultural club** in 2005. For instance, the club offers music lessons with a professional music instructor twice a week and engages in industry-wide contests for music, song, dance, play and prose. Roksana Khatun, a sewing operator, has won BGMEA
Ganer Gorbo (a reality talent show exclusively for ready-made garment workers in Bangladesh, similar to the popular American Idol concept), first prize award of BDT 1 million (approx. USD 12,800). She has been promoted and now works as a Welfare Officer. The cultural club strengthens employees’ solidarity with each other as well as their identification with the company. Membership as well as participation in the club’s activities is free of charge. For employees working at DBL’s spinning unit, the company provides free of charge accommodation.

**Better training for higher productivity**

In order to meet the shortage of suitably qualified workers DBL needs in its state-of-the-art production process, the group provides structured in-house training for its employees. New workers are all provided with a complete set of trainings at the in-house garments training center. The trainings include training on sewing machines and quality controls for workers with no experience of working on a production floor. The unskilled men and women thus receive on the job trainings to develop technical skills required to perform their tasks as General Line Operators efficiently. After one month of training sessions and subsequent skill assessments, trainees start working on the production floors as General Line Operators. New workers coming from different districts also obtain trainings on different issues of personal development under an orientation program. Supplementary training for the middle management triggers further productivity gains as a consequence from improved leadership.

**Lower turnover rates and better training are important preconditions for increased productivity of the workers.** DBL states that a worker who knows the processes and structure of its company well can easily produce twice as much as a beginner – while knowing the colleagues around and feeling comfortable at the workplace. However, the group has also succeeded in improving the technological efficiency of its production significantly in recent years, thereby further increasing its productivity.

**Enhanced efficiency enables payment of higher wages**

To improve production efficiency and pave the way for moving towards the production of higher value apparel in the future, DBL recognizes the importance of lean manufacturing concepts as well as energy efficiency in production. The group therefore incorporates enterprise resource and production planning systems as well as continuous productivity monitoring. One example of production efficiency gains is the development of water usage at DBL Group: Water consumption has come down from more than 110l per kg of produced fabric in 2010 to 60l in 2015 which is far below industry average. Similarly, the Group cut the use of dyes and chemicals as well as its electricity consumption significantly, leading to substantial cost savings.

Thanks to its efficient production as well as the superior quality of its products, DBL is able to successfully tackle the challenge of complying with ever increasing working and safety standards in its factories while facing a highly competitive market. **Most importantly, for 90% of its employees, DBL is able to pay wages well above the legal minimum wage.** On average, wages are 20% higher than the national minimum of 5,300 BDT and are 6% higher than the industry average. Thereby, DBL acknowledges and appreciates their personal contributions to the company’s performance and im-
proves their living circumstances substantially.

**Investments: Costs associated with implementing these interventions**

The interventions described above are of very diverse nature regarding their associated costs of implementation and resulting benefits:

During the last year, the group invested substantially in modern **fire and electrical safety**: Costs for the new instalment of central smoke detection-, sprinkler- and hydrant systems amounted to USD 1,250,000 which is the same amount the group pays annually for the operation of the whole building and fire safety management. The investments associated with the resource savings of water, dyes and chemicals, gas as well as electricity amounted to USD 80,000.

However sometimes, a very small alteration of established circumstances has a huge impact on peoples’ lives and the company as a whole. In the case of DBL Group, one of these small changes was the inclusion of sanitary napkins in the range of goods of the **Bandhan Fair Price Shop**. Offering this support incurs costs of approx. USD 570 for DBL per year. Other interventions implemented to improve workers’ well-being and lower turnover rates, such as the cultural club, hardly cost DBL anything. In total, operating the **Fair Price Shop**, the **day care center**, the **pharmacy** and the **medical center** costs DBL USD 80,000 per year, in total for four interventions.

The **in-house training** for employees as well as the training for the middle management incurs total costs of about USD 17,000 per year. Annually, the costs for running the HR Management System amount to USD 340,000.

**Outcomes: Benefits to company, improved business outcomes**

However, these costs are associated with substantial benefits not only for workers but also for the company itself in terms of lower risks of working accidents and production interruptions, lower rates of worker absenteeism because of illness or their reluctance to leave their kids alone at home, and in general, a higher motivation and dedication of employees to their work and the company as a whole.

**Improved working conditions for less absenteeism**

Providing good and safe working conditions are key to employee retention. At DBL the number of accidents at work and production interruptions as well as operational risks in general could be reduced through improved safety precautions. There have been no accidents in the garments factory in the last two years. The last time the fire fighters had to intervene was in 2005, when a fire broke out in the garments finishing section. Due to the immediately response of the fire fighters, the fire caused zero damages.

The data proves that the products and services offered at the **Bandhan Fair Price Shop**, the **pharmacy** and **medical center** as well as the **day care center** are very popular among DBL’s workforce: Every year, the Bandhan Fair Price Shop registers almost 40,000 transactions; more than 2,000 employees use the products and services of the pharmacy and around 8,000 employees use the medical center. Daily, almost 30 parents leave their children in the hands of the well-qualified staff at the day care center. The offering of subsidized goods and health care at these institutions as well as the high

<table>
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<tr>
<th>Year</th>
<th>Absenteeism rate</th>
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<tbody>
<tr>
<td>2012</td>
<td>3.35%</td>
</tr>
<tr>
<td>2013</td>
<td>2.72%</td>
</tr>
<tr>
<td>2014</td>
<td>1.09%</td>
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safety standards in DBL’s production facilities significantly decreased worker absenteeism rates. Since 2012, the absenteeism rate has fallen by 2.3 percentage points to 1.09% which is far below the 10% absenteeism rate in average companies, which has been stated as general comparison rate by DBL Group.

By improving working conditions with simple and straightforward solutions, DBL was not only able to increase its productivity as workers are healthier and less likely to take time-off to visit a doctor off-site or less often leave the company to work somewhere else, but also to improve workers’ and their families’ health and well-being, which is worth much more than additional profits expressed in monetary terms.

Workers’ appreciation for DBL’s efforts became once more evident in November 2013: DBL workers did not participate in the general garment worker strike which focused on demands around higher wages and better working conditions.

**Better medical services for healthier employees**

DBL recognizes a positive impact associated with its work for higher awareness for the risks of HIV/Aids and Tuberculosis. A team from the Centre for Women and Child Health (CWCH) conducted Tuberculosis screening tests on all workers at Jinnat Complex. Of the 10,297 factory workers that under went screening, three were diagnosed with Tuberculosis and immediately sent for further treatment, free of charge. The team does a follow up every 6 months with all the previously screened workers and newly hired employees as well. By now, workers have become aware of Tuberculosis and its symptoms. In the long run, this benefits not only the workers themselves, but reduces their risk of infecting colleagues, or family members at home.

**Higher job satisfaction leads to lower employee turnover**

Sometimes, benefits associated with better working conditions reveal themselves at second glance: Paying above average wages and providing a safe working environment that is characterized by a respectful and inclusive treatment of employees as well as the consideration of the well-being of their families does not only directly improve workers' productivity by improving workers' health and reducing absenteeism. It also increases job satisfaction and hence employee retention – which has become an increasingly important aspect for employers in Bangladesh’s booming ready-made garments industry. As the sector is further expanding and companies compete for the best workers, retaining workers becomes increasingly difficult. Through the above described interventions, DBL Group was able to reduce its monthly staff turnover by 2 percentage points since 2012. In 2014, the turnover rate was only 2.99% per month compared to an industry average of 8-10%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average monthly staff turnover</th>
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<tbody>
<tr>
<td>2012</td>
<td>4.70%</td>
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<tr>
<td>2013</td>
<td>3.90%</td>
</tr>
<tr>
<td>2014</td>
<td>2.99%</td>
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Lower employee turnover leads to less costs for training and higher productivity

DBL estimates that it takes up to one month of full day training before newly hired workers reach full productivity. During this period, newly hired workers receive training from more advanced colleagues, which additionally binds resources that would otherwise be used for productive tasks. Hence, the cost of replacing and training a new worker are significant. Compared to 2012, DBL Group was able to almost halve its staff turnover rates. DBL estimates the cost savings associated with decreased turnover at approx. 33,000 USD per year. Furthermore, a lower turnover also means better skilled employees, which lead to higher productivity.

Enhanced efficiency leads to higher earnings

Investments targeted at increasing production efficiency in a technical way (i.e. lean production management implemented via e.g. the introduction of enterprise resource and production planning systems or energy efficiency monitoring) led to substantial cost savings by decreasing lead times and lowering resource costs. Altogether, increased resource efficiency led to financial savings of almost USD 1,900,000 in the last three years. Naturally, these measures have positive side-effects as they reduce the risks for the surrounding environment and society inherent in the production of garments. In June 2014, Jinnat Knitwears Ltd., a company of DBL Group was awarded the CPI2-Top Factory Award 2013-14 for its strong commitment to reducing the environmental impact of its production.

By increasing productivity, DBL is able to produce and sell more and higher priced pieces per day, hence fostering its market position today and improving it in the medium term. This in turn secures the jobs of the 21,000 workers currently employed by DBL and creates opportunities to increase the workforce, providing even more people with a regular income and a safe and decent workplace. At the same time, these changes allow DBL to benefit not only by lowering costs but also by selling higher priced garment, because a more sophisticated production technology will make it easier to serve the currently perceived increasing demand for higher value products. This again will allow employers to pay higher wages, which will gradually improve the living conditions of their workers.

Conclusion and lessons learned

The experience of DBL Group described above shows that sometimes small changes can have a substantial impact. Due to good and safe working conditions, an effective communication with their employees as well as consistent action, the management successfully improved the working conditions in its factories, which resulted in lower employee turnover, higher productivity and cost savings. Taken together, these productivity gains and cost savings generate competitive advantages for DBL.

10 The “Carbon Performance Improvement Initiative” (CPI2) is an initiative of retailers and brands aiming to reduce the negative impact to the environment related to manufacturing of consumer goods by promoting energy efficiency improvements throughout the supply chain. CPI2 is supported by the German Federal Ministry of the Environment and the German Investment and Development Company (DEG). For more information see http://www.cpi2.org/cpi2-for-factories/.
which allows the group to pay above-average wages, thereby adequately appreciating the work of their employees and enabling them to lead a life free of the anxiety not to be able to pay the monthly bills in case of unforeseen circumstances.

The various interventions initiated by DBL Group established its sound reputation as a business partner and employer that is strongly committed to implementing high social standards in all of its activities. This branding will allow the Group to maintain its strong market position in the highly competitive and dynamic garment manufacturing sector.

From their experience with activities to improve productivity, DBL learned many lessons that may also prove valuable for other manufacturing industries:

- DBL strongly believes that providing good and safe working conditions to its employees pays off. In addition, keeping an effective communication with them matters to improve working conditions, which at the same time generate a win-win-situation for DBL and its employees. Only by having a workforce survey, DBL management became aware of the need for subsidized sanitary napkins by their female staff. Consequently, DBL’s welfare officers conduct such employee surveys once every month with the help of the Human Resources department to better understand the need of workers in order to improve their working conditions. On average, 8,500-9,000 workers participate in a survey.

- One of the most important lessons that DBL has learned over time is that the company’s women- and family-friendly HR policies and practices have been key to the company’s success. Since the day care center, the cultural club and the fair price shop were launched, monthly employee turnover rates have fallen significantly by 40% from 4.7% in 2012 to 2.99% in 2014.

**The way ahead**

DBL Group has always been strongly committed to the well-being of its workforce and recognized its responsibility towards the society of its country. Although a lot has already been done, DBL strives to continually improve its already high working and safety standards. For instance, the group is currently working on a financial literacy training program in cooperation with CARE which focuses on worker’s empowerment by providing access to bank accounts, cash machines and digital cash. By transferring salaries to bank and mobile accounts on subsidized cell phones, DBL wants to reduce the risk of theft for its employees and thereby help to ensure that they can actually keep the salary they earn. DBL is also exploring a communication channel via text messages for the dissemination of information, e.g. for health, education, sanitation and hygiene. It is expected that this simple intervention will also improve the working conditions of employees in the long-run.

DBL believes that setting-up industries and creating employment opportunities is the best form of serving society. Operating in Bangladesh, in a sector where competition is fierce, DBL has embarked on a growth plan that is expected to transform the company and the sector: the vision is to provide around 30,000 decent jobs by the year 2016 through further expansion.

“DBL Group strongly believes that a changed perspective of the society and environment as the major stakeholders, coupled with innovation, will be the key to its success.”

M. A. Jabbar, Managing Director, DBL