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DATABASE of BUSINESS ETHICS

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**Newly appointed PhD working
on the Database of
Business Ethics**

**The impact of COVID-19
on workers in the
apparel industry**



Newly PhD appointed to work on the Database of Business Ethics

Sarah Vandenbroucke started working at Leiden University as a promovendus in March 2020, in the department of Business Studies and Labour Law. Her PhD research entitled “*Compliance with fundamental labor rights through codes of conduct in the global supply chain*” addresses the topics of Corporate Social Responsibility and Business Ethics by investigating the effectiveness of corporate self-regulation. With this PhD in Empirical Legal Studies, Sarah intends to analyze big data using the Database of Business Ethics. The Database will expand and be fueled by a large-scale data collection adapted to the research questions raised in the PhD. Information such as company characteristics and codes of conduct content will be gathered and progressively published on the website.

- Which industries have most developed corporate social responsibility tools and policies?
- Which labor rights are often included in codes of conduct?
- To what extent are codes of conduct binding?

These questions will be addressed in Sarah Vandenbroucke’s research based on data compiled in the Database of Business Ethics.



With this Newsletter, you can be regularly updated on the milestones of this research.

Stay Tuned... A Newsletter will be released every quarter starting from September 2020!

The impact of COVID-19 on workers in the apparel industry

The coronavirus (Covid-19) pandemic has generated extensive damage and disruptions in the global economy, interfering with the daily activity of countless businesses of all kind. These disruptions not only put some companies at the risk of extinction but also revealed profound vulnerabilities in company operations and supply chains with regards to working conditions, employment stability and disaster readiness.

While the [Organization for Economic Cooperation and Development](#) emphasizes the need for a closer collaborations between companies to strengthen the responsible business conduct concept and suggests a few approaches to be followed such as social dialogue and stakeholder engagement that will ensure worker support, environmental, health and safety management to address short-term threats by avoiding accidents as well as protecting workers and consumers, the reality displays a different pattern. The financial hardship and liquidity problems of companies often result in the reduction or cancellation of business activity which in turn projects on worker's employment security and income, endangering the livelihood of thousands of families across the world.

According to the latest edition of "[ILO Monitor. Covid-19 and the world of work](#)" from June 30, in the second quarter of 2020 there was a 14% drop in global working hours (an equivalent of 400 million full-time jobs based on a 48-hour working week). This numbers are much worse than [previously estimated by ILO in May](#).



An example of this ripple effect can be observed in the apparel industry. Since the outbreak of Covid-19, the big fashion brands found themselves in a difficult position as the retail shops began to close and online sales were slowed by movement restrictions and state lockdowns. In response to the crisis, fashion brands started to cancel their orders from factories and suppliers as well as withhold payments of finished and in-production goods. In the fashion industry it is commonly accepted that brands pay their suppliers weeks or months after the delivery of goods, rather than in advance which means that suppliers typically pay upfront for all the materials and textiles they use to make the final goods ordered by brands. In the light of the pandemic, such an arrangement proved to be catastrophic for the suppliers as brands and retailers not only cancelled pending orders but also ceased payments for the goods that have been already manufactured, taking no responsibility for the consequences and impact of their actions on the thousands of workers at the bottom of the supply chains.

One of the most affected countries by the ripple effect in the supply chains is Bangladesh. A [media report from July 8th](#) reveals that during January-June 2020, the apparel exports fell by \$5.12 billion due to work order cancellations or stalling orders by global apparel buyers.

As the world's [second largest](#) readymade garment (RMG) exporter, Bangladesh has suffered a dreadful shock when by mid-March one by one, buyers in Italy, France, Canada and the US put all the shipments on hold stating in generic e-mails that the goods ready to be shipped would not be collected and the winter 2020 orders are to be cancelled, [tells the CEO and the Founder of Project Work Force](#). A few days later around 80% of autumn/winter orders were canceled even though the production was already in progress. As a result over 1 million garment workers, in the formal sector, would not be remunerated. By the end of March 64 factories were forced to close leaving over 15,000 workers out of job, many without a safety net. Some of the brands reached out to restart production for winter goods after receiving stimulus packages and interest free loans from their governments but only if the prices were lowered by 20-30% than previously agreed. Most of the factories in the formal sector will not be able to accept such terms from buyers because they have high fixed costs, therefore, will risk to go bankrupt. On the other hand, buyers can turn to the informal sector where wages and working conditions for employees are simply determined by demand and supply. Workers within the informal sector will accept pay-cuts simply because they do not have another choice but to take any remuneration available in order to sustain themselves and their families. Having said that, after the factories in the formal sector close, workers will be pushed into the informal sector where the conditions and the wages are far below acceptable.

“The coronavirus pandemic impacted all manufacturing sectors for the third straight month. May appears to be a transition month, as many panelists and their suppliers returned to work late in the month. However, demand remains uncertain, likely impacting inventories, customer inventories, employment, imports and backlog of orders.”

[Institute for Supply Management](#),
June 1, 2020.

“The cruel reality is that the sufferer is our worker, they are the most vulnerable. The manufactures will be losing profit, but it is the worker who will lose their food.”

Kalpona Akter, Executive Director, Bangladesh Centre for Worker Solidarity, [source Forbes](#).

Photo: © Lieve Blancquaert / World Solidarity



Over the past month in six Bangladesh industrial zones [were registered more than 100 protests](#), mostly linked to unpaid wages. Around 1,004 businesses from which 436 are textile and RMG factories still need to pay the wages for the month of May according to the Industrial Police data. The senior vice president of Bangladesh Knitwear Manufacturers and Exporters Association commented that a large number of factories suspended their production due to order cancellations from buyers. Furthermore, small factories are in a critical condition as they do not get enough support from the banks while the stimulus package received by the big factories covered only for the payment of worker's wages in April.

Photo: Andrew Birai/REUTERS



“My life has turned into a disaster movie. I paid salaries to my workers and employees for the months of March, April and May as well as an Eid festival bonus by taking loans from bank, friends and family. But there is no possibility of getting further help. Every day the factory is getting closer to the brink of extinction.”

Mostafiz Uddin, Managing Director & CEO at Denim Expert Ltd., [source The Guardian](#).

Photo: FASHIONUNITED

As Bangladesh's garment sector deepens into chaos, [some factories have targeted pregnant women as first in line to get fired](#) without being paid maternity benefits. While it is illegal to fire pregnant women, the Bangladesh Center for Workers' Solidarity have received reports of the termination of dozens of pregnant workers. The numbers are most likely to rise dramatically in the upcoming weeks. As brands stopped carrying out social audits and factory inspections the workplace violations increased leading to worsening conditions for employees.



Photo: Mumit M/The Business Standards

#PAYUP

Photos: Remake.World



[Remake.world](#) has started a campaign demanding that brands take responsibility for the workers in the supply chains who face destitution and wage loss as a consequence of order cancellations due to Covid-19. The [#PayUp](#) campaign demands brands to pay their suppliers for all the orders that were cancelled or paused as a result of the pandemic as well as to pay in full amount

without asking for discounts within a reasonable timeframe. So far, 18 brands including Adidas, H&M, Levi Strauss&CO, Nike, Under Armour, VF Corporation have promised to pay while 17 others did not answer the call. The campaigners emphasize that some brands have been seen to pay large dividends to the shareholders while workers go unpaid (the US's giant clothing retailer [Kohl's payed \\$109 million in dividends](#) after cancelling orders in Bangladesh and South Korea worth of \$150 million.). Other brands are deleting #PayUp comments on their social media accounts trying to evade the conversation.

Amongst the brands that still need to pay are Primark, Arcadia (Topshop, Burton Menswear London), Urban Outfitters (Free People, Anthropologie), Gap (Old Navy, Banana Republic), C&A, Forever 21, Walmart. See full list [here](#).



An act of good faith in the midst of chaos

When everyone else [rushed to save their skin](#) bailing out from agreements with total disregard for the devastating consequences their actions bring upon those found at the bottom of the supply chains, the Swedish fashion retail Hennes & Mauritz (H&M) continued to honor its commitment to the suppliers despite its losses due to the Covid-19 pandemic. In the March-May 2020, the company has reported a loss of 559.4 million euros for the first time in decades compared to the 511.9 million profit in the same period of 2019. H&M is the largest buyer of RMG in Bangladesh spending last year around 3.5 billion on apparel goods which constitutes over 10% of the country's total apparel exports. According to the industry insiders, H&M collected the delivery of all finished products and made

full payments for the goods without delay. The managing director of the Fakir Fashion Ltd, a concern of the Fakir Group that supplies \$150 million worth of apparel to H&M annually confirmed that the Swedish retailer did not cancel the future orders and did not ask for discounts. Likewise, contrary to the expectations, they placed the same volume of orders for 2020 as previous seasons. Ulrika Isaksson, the press officer at the Communication Department of H&M Group stated that the company stands for responsible purchasing practices and contractual agreements. They are aware that garment workers are extremely vulnerable therefore, they aim to offer support to the suppliers by paying the original price agreed even if a discount is offered. Such a commitment is both admirable and inspiring. Read full story [here](#).



Do you have questions?

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