Bangladesh textile factory disaster highlights importance of corporate sustainability

The death of over 1000 people killed in a Dhaka factory collapse late April should come as no surprise to those who are familiar with Bangladesh's poor labor standards. Bangladesh has become one of the most important textile and garment manufacturing centers in the world. However, the secret of Bangladesh's textile sector boom has less to do with a tradition of quality, outstanding design and craftsmanship. No, the reason has far more, exclusively so, with the fact that major international garment producers can secure manufacturing at very low cost thanks to 'world beating' wages and poor safety and industrial practices – encouarged by the demand for cheap goods in rich countries.

The factory collapse – which between a propensity to fire and structural failure is just one of many and frequent accidents in the country's garment industry – serves as a reminder that the textile industry was one of the pillars of the industrial revolution in the West. Textile industry practices were at the end of the 19th century one of the main sources of labor grievances, fomenting the union movement in the United States and ultimately the very idea of workers' rights and safety. It was, indeed, a fire at a textile factory, the Triangle Shirtwaist Company in NYC, on 25 March, 1911, that killed over 140 workers, mostly young Italian and Jewish-Russian immigrant girls. They were killed because of an accepted negligence and the total lack of safety measures. The Women's Trade Union League staged massive protests in response, drawing crowds of up to 100,000 people and forcing a series of new labor standards into law.

The world remembers that episode every March 8, International Women’s Day, which was instituted in the memory of the women who lost their lives in the infamous Triangle Fire. Perhaps, Bangladesh will have its own equivalent of the Triangle Fire after this latest and deadliest of garment industry accidents. For that to happen, however, there must be a strong from international corporations based in the West, the very same that drive the sort of insane competition that leads to such gross violations of labor and human rights. Bangladesh is the world’s second largest garment exporter and it would be very difficult to list all the international brands involved; however, the ‘heat’ is on and Western governments have started to investigate the international corporate practices of some of the major players in the garment retail sector.

The Canadian Department of Foreign Affairs has already identified Loblaw Inc. as one of the companies importing Joe Fresh brand clothes from the factory that collapsed in Dhaka. Loblaw executives have already said they would intensify their scrutiny of working conditions to include building safety at the factories that manufacture their products worldwide – mostly in least developed countries (LDC). Walt Disney has announced it would no longer source its clothing from Bangladesh. While, it would be unfair to blame the companies alone, especially as many such retailers have made much progress in improving labor conditions in recent years, they are left exposed to massive sustainability risks in the form of reputation loss.

Clothing brands are especially vulnerable to this type of risk. And it would not be exaggerated to imply that the Dhaka factory collapse represents a textbook example of why corporate sustainability matters. Its implications are important for all business sectors because worker safety is at the root of the problem. The accident has highlighted the fact that lax labor and building standards and a ludicrous wage, which can be as low as USD$ 37 per month, have helped draw international ‘investors’, leaving a far higher expense in their wake. You do not have to be Leon Trotsky or Karl Marx to observe poor wages and poor standards may be cheap in the short run, but could end up biting your profit margins in the long run because of an international company’s exposure to enormous reputation risk. The chain of command between retailer and manufacturing source is complicated, featuring a number of parties in the supply chain from designers to subcontractors to contract negotiators. Because of the extent of the chain and the many links, it is impossible to distribute responsibility precisely. The brand, label and retail outlet ultimately bear the brunt of the problem.

Bangladesh is not unique in having a long list of grievances in the textile sector; it merely represents the most visible case. Turkey, China or Vietnam have also been cited – though Turkey with its proximity to Europe and European ambitions has been left better equipped to address issues related to labor standards. One of the reasons why the textile industry is so vulnerable is because consumers can react swiftly through the ‘consumer boycott’ method. Given the frequency of industrial disaster stories from Bangladesh, many consumers may even avoid products featuring the “Made in Bangladesh” label altogether. And that would be highly unfair because some four million people work as textile workers in Bangladesh and even their meager income depends on consumers in many developed countries buying the goods they make. One tool that corporations can adopt is to work with such NGO’s as the Fair Wear Foundation or similar NGO’s that have made it their business to inspect labor and factory standards in various parts of the world. Their certification on a product alerts the consumer that the item for sale has been made in accordance with fair standards.

A garment’s cost alone is not an assurance. The factory that collapsed produced garments for a variety of brands, some are inexpensive labels, others mid-range or higher such as the European brands Benetton and Mango. So, just because you pay more as a customer, there is no guarantee that the people who made the item were enjoying adequate working conditions. In order to protect themselves, corporations have to resort to a systematic approach and use of a variety of tools to inspect and verify anything from labor standards to safety checks and other parameters such as environmental management. In the more extreme case, some corporate sustainability advocates have proposed to check the sourcing of the raw materials used in a particular garment themselves. This is why the mining sector must also be careful about noting and ensuring their sustainability practices. Evidently, the risks associated with the so-called ‘blood diamonds’ and with conflict metals such as coltan have hurt important sectors of the mining industry, attracting unfavorable attention that have resulted in the public developing an unhealthy and unwarranted mistrust of the extractive sectors. This can hurt miners directly when they want to operate in parts of the world, such as South America, that have a history of exploitation and historical grievances, which manifest themselves in the form of irrational obstacles to mining projects, regardless of how much wealth a community is promised to receive.

Sustainability is also about quality. When consumers buy very cheap products, paying less than $10 for pants or a shirt, or maybe paying very little for a precious mining resource, one can only imagine that the workers (or miners) involved are being paid very little – too little. Yet, paying a lot for a garment, is in itself, no guarantee of ‘sustainability’. Finally, sustainability is having an increasingly growing value in institutional investment. Several public pension plans and investment funds (the ‘hedge’ and ‘sovereign’ ones included) have announced policies on Responsible Investing, reflecting continuing progress to address environmental, social and governance (ESG) factors with spillover effects to other asset managers on Wall Street, the “city’ in London and

Bay Street in Toronto. Increasingly, consumers, and in turn investors, are demanding responsible corporate behavior. This is no longer an option as respect for ESG factors can generally have a positive influence on long-term corporate performance, as investment analysis increasingly incorporates ESG factors in evaluating long-term risk and return. The size of the latest industrial disaster in Bangladesh has drawn worldwide condemnation and weeks after, continues to occupy the media headlines. It has become a call to action for all sectors, especially those such as mining and resources, which are at the heart of a complex supply chain system.