The impact of Covid-19: the PLWF's observations from the garment and footwear sector

A vulnerable sector

The efforts of the PLWF in 2020 cannot be discussed without examining impact that Covid-19 has had on the garment industry and as a consequence, their global supply chains. McKinsey predicts that the global fashion industry's profit will have fallen by around 93% in 2020 with certain sub-sectors and geographies being more particularly exposed.[1]

The impact of Covid-19 on the apparel sector has meant store closures and changes in consumer preferences away from discretionary spending which has had a direct impact on global supply chains with companies re-shuffling their inventories, slowing down production, and canceling orders to suppliers.

Global suppliers have felt the consequences of these actions and in particular areas of low cost manufacturing where workers lack appropriate social protections. Just as how workers ultimately pay the price for a lack of living wage in supply chains, poor purchasing practices to account for the Covid-19 pandemic are ultimately felt by workers.

Workers in global garment supply chains have been exposed to sudden termination, lack of severance pay, as well as inadequate social security and health insurance. For example, in Bangladesh alone, over £2.4bn worth of orders were cancelled or suspended in March 2020 dealing to over a million Bangladeshi garment workers either losing their jobs or being furloughed without pay.[2]

Those that are able to work must also protect themselves from Covid-19. Factories often have poor ventilation in close quarters preventing workers from adequately social distancing and protective measures against the virus. Limits to collective bargaining in many sourcing countries have prevented workers from effectively responding to Covid-19 measures and raising issues they may have concerning worker protection and welfare.

Covid-19 has led to an increased focus from calling for responsible purchasing practices. The real possibility of the next global pandemic was speculated for some time, and yet, the sector was unprepared to handle it. Overall sudden shift in demand put a under strain the entire

[1] https://www.mckinsey.com/industries/retail/our-insights/state-of-fashion
[2] https://www.unido.org/stories/will-covid-19-accelerate-transition-sustainable-fashion-industry

industry from brands and manufacturers to workers. Business strategies that involve low margins and high competition to offer customers the best prices means that any economic downturn leads to a massive disruption in bottom lines, ultimately putting the burden on global garment workers.

For the PLWF, Covid has reinforced the need to accelerate the payment of living wages in global supply chains but has also necessitated the broadening of our scope to account for the impacts of Covid-19 on garment workers globally. To do so, the PLWF created a supplementary methodology to evaluate how investee companies under PLWF engagement were responding to Covid-19 in their global supply chains while taking into account the business challenges posed by the economic situation.

One of the key ways the PLWF sought to influence company management of Covid-19 was to encourage brands to publically endorse the ILO Call to Action. This statement created by the ILO called on actors including brands, retailers, financial institutions and other stakeholders to take immediate actions to protect garment workers' income, health, and employment to survive during the Covid-19 crisis. The PLWF itself also publically endorsed the Call to Action as it was deemed a crucial platform to help the industry rebuild after the impacts of Covid-19.

To respond to the Call to Action, the PLWF sent out an investor expectation letter to brands under engagement between April and May 2020, emphasizing our expectation that brands should publicly commit to a range of actions outlined in the ILO statement including:

- paying manufacturers for finished goods and goods in production
- maintaining effective and open lines of communication with supply chain partners about the status of business during the pandemic
- direct financial support to factories when possible
- promoting core ILO labor standards as well as a safe and health workplace; and
- continuing to strengthen social protection systems for workers globally

After our expectations were made clear, the ILO Call to Action became the foundation for the PLWF methodology to evaluate brand performance on managing the impacts of Covid-19 on both direct employees and workers in global supply chains.

Key Findings

Of the brands under engagement, 50% of brands, publically endorsed ILO's Call to Action. In addition, 77% of brands responded to the PLWF's Covid-19 response letter.

It was observed that companies scoring 'Embryonic' in our 2020 living wage assessment provide significantly less disclosures on their Covid-19 response compared to those in the 'Developing' & 'Maturing' categories. Those in higher categories who have stronger practices to build solid business relationships with suppliers (such as more stringent codes of conduct and long term supplier relationships) also demonstrated more robust measures to reduce the impacts of Covid-19.

Concerning the financial position of investee companies, none of the companies under the PLWS scope had severe liquidity issues and 72% of the companies assessed implemented measures to safeguard their financial position such as reduced dividends and/or reduced executive compensation. With Covid, companies are beginning to take more conservative stances to preserve their financial situation. Companies reported that they are becoming more prudent when it comes to forecasting and placing orders, however, the overall decrease in volumes across the industry is having a direct impact on jobs in global supply chains.

In regards to health & safety, 89% of companies disclosed how they prioritized H&S measures for employees either in their own operations and/or across their supply chain.
While most companies covered both their own operations and supply chain, several failed to disclose whether H&S measures are being implemented by their suppliers such as those in the PLWF's embryonic category.

For supply chain management & protection of worker rights, 83% of companies implemented some of the aspects we consider strong practices in terms of supply chain management, but the breadth of measures implemented varied significantly. For example, a large majority of companies publicly disclosed that they paid their suppliers for orders in production or completed and many claimed to provide clarity to their suppliers on their business strategy going forward during the pandemic. However, most brands did not disclose details on whether there were changes in the payment conditions with their suppliers. Furthermore, only a few brands managed to confirm that discounts were not being requested to the suppliers (53% brands) and that they maintained the existing payment times (40% of brands).

In addition, some poor practices were observed. For example, 20% of the companies assessed actually extended payment terms which can put additional financial burdens on suppliers who likely had their own cash flow concerns. Also, concerning direct employees, 60% of brands furloughed or dismissed part of their own staff, with only 40% of those disclosing that they provided legally mandated benefits. The remaining 20% had implemented measures detrimental to workers like unpaid furlough.

Some companies did disclose how they supported their suppliers. Of the brands under our study, 13% of the brands including those in our developing and maturing category, disclosed providing financial assistance to their suppliers if their employees had been furloughed or dismissed, to ensure they received legally mandated benefits. Furthermore, 66% of brands disclosed that they provided financial assistance to some of their suppliers when their business was under severe financial distress (such as by acting as guarantors for commercial credits).

Conclusions

There is a strong link between companies implementing appropriate practices to improve wage levels in their supply chain and strong management practices to account for Covid-19 impacts. These practices include building long term, resilient relationships with manufacturers and greater collaboration with stakeholders such as global unions to facilitate workers in achieving collective bargaining.

However, Covid-19 made it clear that for many brands, efforts towards supporting a living wage can be quickly downgraded when faced with plummeting sales. The pandemic has highlighted major weaknesses in how garment companies operate and consequently view their own workers as well as suppliers. It is a sector ripe for disruption in regards to changing consumer trends, purchasing practices, how brands view suppliers, and as well how consumers view brands. Customers are becoming increasingly more knowledgeable concerning the impacts of fashion (both environmental and social).

To address these systemic changes, the new era of fashion needs to see suppliers and global garment workers as partners and not simply as an expendable. Some brands have discussed re-shoring manufacturing facilities to bring production closer to home, but that ignores pushing for real change when reshoring sourcing can have the same risks especially if it is not accompanied by a fundamental change in business model as was observed in 2020 with controversies around manufacturing in Leicester, UK.

It may not be enough to rely on the benevolence of brands to change their business models but there is a growing appetite for systemic change by various stakeholders. For example, the EU Parliament will vote on a proposed rule that could make EU companies responsible for due diligence failures in global supply chains, allowing victims to take EU companies to court.[3] Customers and investors are also pushing to change the current state of play. For consumers, McKinsey observed in 2020 that Covid-19 increased consumer sentiment around sustainability providing an opportunity for brands to re-engage with customers through a stronger, more transparent commitment to both environmental and social sustainability.[4] Investors as well are also becoming more cognizant of ESG risks related to poor purchasing practices. For example, after modern slavery conditions were discovered in Leicester in 2020, one company tied to those factories saw shares plunge by 23%[5] with some investors selling all or most of their stock to shed the associated ESG risks.[6]

Covid-19 might have been a wakeup call for many on the systemic issues with sourcing practices in the garment and footwear industry, but not for the PLWF. Covid-19 simply broadened the scope of the group's work to include Covid-19 impacts. What remained clear was that the fundamental practices that the PLWF members have pushed for to achieve living wages globally, are the same practices that can better address the ramifications of Covid-19 on workers globally. Now, even more stakeholder groups are waking up to the need for systemic change and the PLWF will continue to push to help improve the livelihoods of all who work in the sector.

[3] https://www.hrw.org/news/2021/01/21/eu-parliament-vote-critical-hold-companies-account#
[4] https://www.mckinsey.com/industries/retail/our-insights/survey-consumer-sentiment-on-sustainability-in-fashion
[5] https://www.ft.com/content/19f9c4e9-e1d6-41a7-a352-5884549fcc9a
[6] https://www.ft.com/content/84852c9e-c6be-11ea-9d81-eb7f2a294e50

About the Platform:

The Platform Living Wage Financials (PLWF) is an unprecedented alliance of 15 financial institutions representing over €2,6 trillion AUM that uses its leverage to engage investee companies from the garment & footwear, food & agricultural, and retail sectors to address the non-payment of living wages and incomes in their global supply chains.

Follow the work of the Platform Living Wage Financials at www.livingwage.nl