



TRADEOFF BETWEEN BUSINESS PROFITABILITY AND SUSTAINABILITY INITIATIVE - A CASE OF BANGLADESH GARMENT INDUSTRY UNDER PANDEMIC SITUATION

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Abstract

Short-term profitability and long-term sustainability have become a tradeoff for business for a long time. While evidences show the ultimate success of business depends on sustainable competitive advantage, business houses exhibit a myopic vision focusing on current profit forgetting long-term sustainability. Moreover, business ethics and corporate social responsibility have become major issues in today's business. The Coronavirus pandemic has created a new and unprecedented situation for business all over the world. This paper addresses this issue in respect to the garment manufacturers of Bangladesh and their Australian buyers. The cancellation of orders, delay in payment and asking for big discount by the buyers have put the manufacturers on a shaky ground risking loss of millions of jobs and lesser pay to workers. These workers are already on the brink of poverty and the lack of empathy would put them to hunger and death. The pandemic has given an opportunity to look back to the way businesses were done across the globe in the pre-pandemic era. The issues of profitability, sustainability, business ethics and social responsibility all are involved in this particular scenario. Further studies can be undertaken in other sectors involving the role of participants in the value chain.

Keywords: Business Profitability, Sustainability Initiative, Garment Industry, CSR, Business Ethics

INTRODUCTION

Global economy has been worst affected by the sudden outbreak of the Coronavirus and its fast spreading across the world resulting in a pandemic situation. As estimated in 2017, the total size of global economy is 80.27 trillion US dollars in nominal terms and approximately 127.8 trillion US dollars in purchasing power parity (PPP) terms. The global share of the apparel industry, as stood in 2016, is less than a trillion (US\$785.9 billion). However, this industry was experiencing a compound annual growth rate of 4.4% and was expected to reach 992.2 billion US dollar by 2021, an increase in growth by 26.2% since 2016.

Bangladesh is one of the four largest countries in Asia-Pacific Region alongside China, India and Vietnam- that manufactures and exports apparels to the global market. These four countries are also the four largest garment manufacturers in the world. According to global statistics the Asia-Pacific Region accounts for 61% of the global apparel manufacturing industry. Australia is one of the top 10 countries that sources Bangladeshi suppliers for Ready Made Garments (RMG).

The pandemic has turned many tables upside down. The global economy has been forecasted to shrink by 7 percent in advance economies (Global Economic Prospects, 2020). World Bank (June, 2020) predicts global economy to shrink by 5.2% in 2020, plunging most countries into recession. This will negatively affect the apparel industry; signs are already showing up.

Background of the Problem

The pandemic has affected both the end of the value chain – the seller and the buyer. Garment being a labour intensive industry, achieves its competitive advantage on low cost production. The source is cheap labour, which are abundant in the Asia-Pacific Region. Bangladesh workers are paid the lowest salary among all countries that manufactures apparels. Australian apparel giants together constitute one of the top ten buyers of Bangladesh garment. However, during the Coronavirus pandemic situation leading Australian retailers have been exhibiting disagreeable behaviour with garment suppliers. This include asking for discounts and pushing back orders from struggling suppliers overseas. Kmart has backflipped on its request for a 30% discount it forced on its Bangladeshi suppliers, but is still enforcing tight turnarounds. Mosaic Brands, which owns some labels like Crossroads, Millers, Noni B and more, has told its suppliers in Bangladesh, that it won't be meeting some of its payments for eight months. "The behaviour is nothing short of bullying, business ethics" (Martijn Boersma, 2020).

While all business sectors are struggling, large multinational companies are trying to cut costs where profit margins are already very low (Martijn Boersma, 2020). He viewed that

smaller local suppliers cannot afford to see large multinationals take their business elsewhere, hence they are essentially being compelled into delayed payment terms and discounts. Professor Martin has further reiterated, “For these large multinationals, it’s not a matter of survival - trying to cut costs where margins are already thinnest is pretty unsavoury.” Such kinds of practices are probably widespread in all sorts of industries, but big names flash quickly in the public and social media.

Purpose of the Study

The purpose of the study is to critically analyze the tradeoff between long-term sustainability and short-term profitability of business in the context of garment industry of Bangladesh under the worldwide Coronavirus pandemic situation.

LITERATURE REVIEW

Most organizations put much consideration in the maximization of its profits more than effectiveness which may be expressed through corporate social responsibility. It is becoming a norm for organizations to give reports on their corporate social responsibility without demonstrating the robust outcomes that the plans will have on the society. The companies are bent on utilizing the resources without considering the availability of the resources to the forthcoming generation. The shareholders of many firms stress on the earning per share on their investments rather than developing sustainable initiatives that will see the company thrive and survive in the future or within a given context (Von der Osten et al., 2017). Thus, the corporate social responsibility initiatives are mostly connected to organizational profitability and not on the sustainability of the business for future business.

However, the changing trends are forcefully making the companies to reconsider their sole objective of maximizing profits and involve other initiatives, which will create a tradeoff between the sustainability and profit. As much as the companies are making profit, a certain percentage of the profit should be put into sustainable initiatives of the company. This is because of the changing consumer preferences, government regulations, scarcity of resources, political pressure, and stiff competition that have resulted to difficulties in creating profits in unsustainable manner (Von der Osten et al., 2017). These factors form a mainspring of the robust pressure organizations will adapt fast and decisively in their business activities. It is also becoming evident that the organizations’ profitability is gradually decreasing endangering the companies’ existence and its investment (Holland & Nitsche, 2015). It has come to the attention of the companies’ knowledge that profit maximization does not need to be their sole

consideration in business, other factors such as the quality of services and products the consumers use should be right to enhance the welfare of the consumers.

The scarcity of natural resources for economic exploitation has led to continued focus profitability and sustainability trade-off strategies leading to innovative frameworks that enable companies to recycle materials. For example, the Carpet Manufacturer Interface Company invented the *CleanBlue* technology, which gave the company the opportunity to recycle the old carpets to make new products (Osten, Kirley, & Miller, 2017). This has also led to saving costs on the materials used in production, maximizing the profits and still be sustainable. Another initiative is the use of renewable sources of energy in the production of products. Organizations are continuously embracing renewable sources of energy such as wind power generated electricity and solar energy to reduce the carbon emission to the environment (Osten, Kirley, & Miller, 2017). Gas emissions are due to the over reliance on oil as source of industrial energy and such has been a point of attracting a business focus on strategies that can lead to sustainable business approaches.

Diverse organizations have been developing initiatives that requires companies to pay for the carbon they emit to the environment. Thresholds are set on the acceptable levels of carbon organizations are permitted to emit to the environment (Lu, Teasdale & Huang, 2003). Exceeding the set limits lead to the payment of the contamination to the environment. For instance, the European Union introduced emissions trading scheme (ETS) to make the Airline pay for the carbon they emit to the atmosphere (European Commission, 2017).

The initiative makes the companies to be keen on implementing the environmental regulations for the protection of the environment. There is also an initiative of the organizations such as the United Nations Sustainable Goals, which has environmental protection as one of its goals (Bebbington & Unerman, 2018). The governments receive incentives that enable them to enact legislations aimed at protecting the environment. The government enacts environmental laws, which the manufacturing companies should comply with in safeguarding the environment and ensuring sustainable development is achieved.

On the other hand, organizations and industries have adopted quality monitoring systems which enable them to produce high quality products that are fit for the consumption. The companies ensure they provide quality specifications on the materials and products they source from suppliers and third-party companies (Brockhaus et al., 2016). According to Brockhaus et al., (2016), it is apparent that organizations have well-developed quality inspection systems to ensure the products manufactured meet the set quality. Another initiative linked to establishment of sustainable initiatives is adopted in the use of organic farming as an option addressing climate change. This is whereby farmers do not use fertilizers hence eliminating

water and soil pollution. The companies will incur high costs of implementing the organic farming practices but will in turn generate returns and contribute to enhancing sustainability.

ANALYSIS AND DISCUSSION

The Coronavirus Pandemic has hit the global economy very badly, more so the third world where labor intensive industries like Garment exists. Garment factories, being labour filled, are quite crowded place. The risk of contamination from work place is higher in such congested and crowded factories. While the garment factory owners are bent on keeping the factories open to meet their commitments to buyers and to ensure the flow of money, the government, more concerned about public health, urged them to keep factories closed. The demand for clothing, which is a necessity, has not declined, rather increased with the demand of new kinds of wears like Personal Protection Equipment (PPE).

But the pandemic has also led to the closure of outlets selling garments. Customers stopped coming to shopping malls for health reason and because they are also closed. The pandemic has kept both the end the manufacturer and the buyer at risk of economic loss and business failures. However, with the reopening of businesses and life returning to normal in some of the developed nations, like Australia where the pandemic has subsided, the buyers are eager to get the supply. Manufacturers, on the other side are also keen on supplying maintaining health safety measures, because the pandemic is still on the rage in developing countries like Bangladesh.

It is a well-known fact that the garment workers are poorly paid and they live on the brink of poverty, earning each month's salary to live from hand to mouth. The closure of factories and absence of work has put the workers in double risk – the risk of infection and risk of hunger. Hence, they are eager to join their work and save their family and children from abject poverty.

In this backdrop and taking an advantage of the situation, Australian clothing brands like K Mart, Mosaic Brand are either cancelling or delaying payments or asking for big discounts on millions of dollars' worth of orders from Bangladesh. This has potentially catastrophic consequences for the women workers who make the clothes.

Specific Cases

Following is a discussion on some of the major Australian brands who have been in the picture and controversy:

Mosaic Brands

According to Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Australian retail company, Mosaic Brands, is delaying payment, holding or cancelling orders

worth a total of \$15 million. Mosaic Brands, which owns a number of labels, told Bangladesh suppliers that payments for some orders would be delayed by 8 months. Rubana Huq, President of BGMEA — which along with the Worker Rights Consortium is tracking data on the behaviour of brands towards suppliers — described the behaviour of some Australian retailers as "astonishing". She asserted that workers need to be paid and delaying payments by longer than six months is "unacceptable", and even with the delays, some money must be paid in the meantime. "It's not possible for us to survive for the next six months without being paid anything, and part payment must come in," (Rubana Huq, 2020). However, Mosaic Brands officials have reported that the company is committed to working with its suppliers that strike deals that are satisfactory for all parties.

Kmart

Kmart Australia's sourcing arm, KAS, asked Bangladesh suppliers for a 30 per cent discount on orders already made, before backtracking on the request. It emerged as Kmart revised its request for a 30 per cent discount on some orders already completed, after some suppliers said they could not withstand the price cut. A company spokesman told the Australian Broadcasting Corporation (ABC) that after conversations and feedback from those suppliers, Kmart had committed to taking the whole order and paying in full on the provision the suppliers could deliver the goods within a reasonable timeframe, given they were seasonal products. The company has warned suppliers that orders, which had previously been put on hold, must be delivered by the new deadline or they will be "cancelled without liability". Kmart Australia spokesman said the business was committed to sourcing its products "ethically" and purchasing responsibly.

One supplier in Bangladesh told ABC that his company would not be able to deliver all of his goods within Kmart's timeframe. He described the situation as "difficult but better" than Kmart's demand of 30 per cent off all goods, which he said would have been a disaster for his business. Cancelling orders without full payment for items already underway or completed is unprecedented, unless a business has gone into liquidation.

Cotton On

A third Australian garment buyer Cotton On has also backed down on its decision to cancel millions of dollars' worth of orders. Cotton On had told suppliers in Bangladesh that it would cancel products worth \$18 million, but that decision was recently reversed. "We are committed to honouring all existing supplier orders by taking delivery of stock that is already produced as

well as goods currently in production," the company said in a statement. "All suppliers have been paid on time and in accordance with agreed terms and pricing."

Effect on Workers Livelihood

The closure of factories across Bangladesh has forced the workers, who live on the brink of poverty, into 'no job, no pay' situation. The pandemic has become a lesser threat to millions of families who are facing poverty and starvation. According to a former child garment worker who lobbies for better workplaces and conditions for employees, an estimated 50,000 workers have already lost their jobs. A further one million employees were likely to be out of work in the coming months. "The brand and supplier, nobody is caring about the workers and workers' livelihoods, and nobody is doing any good things for them," she told the ABC.

The vast majority of garment workers are women and they were already living on the poor condition. This blame should go to the brand, because when they cancel orders, when they suspend, they are not caring about the workers and suppliers. Experts and protagonists demand that suppliers should have proper financial systems in place for emergencies like the pandemic. The suppliers also liable for this as they don't keep their social protection, emergency support, any money for any disaster management.

For these reasons the workers and human right activist associations have requested the Australian brands to pay the due payment and not to cancel prior order. If buyers ask for any discount that discount will affect the workers. Rubana Huq said that it was unrealistic to think suppliers had savings to draw upon during an emergency like the COVID-19 pandemic. "There is never enough [of a] buffer," she said. The reasons she mentioned are the fast growth of the industry requiring reinvestment of most of the capital generated to build world-class manufacturers facilities. According to her Bangladesh pays 423 million US Dollar worth of salary every month to workers.

Voices to Protect Workers' Rights

The human rights and workers rights protection organization has sharply criticized the unsavory actions on Australian buyers towards their Bangladeshi counterparts. Oxfam Australia, which has a long-running campaign for garment workers to receive a fair living wage, is calling on brands to commit to paying workers' salaries during the pandemic. Oxfam labour rights spokeswoman Sarah Rogan said the wage component of the production cost was very small. "Of the retail price of a garment, only 4 per cent of the garment goes to wages," she said in an interview with ABC. "For a \$10 T-shirt, that's only 40 cents, so there's no reason why big brands in Australia can't pay that amount to make sure the women who make our clothes receive their

wages." According to Oxfam, although workers were employed by factories, brands had to be accountable for wages being paid. "The power in this situation rests firmly with the Australian and international brand, Brands are responsible for what happens in their supply chain, that goes across the board." (Sarah Rogan, 2020)

What Oxfam is asking for is for the brands here in Australia to ensure that the wages are paid for a minimum of three months. This would ensure that the workers can receive their wage. Oxfam is asking that buyers pay for work in production to ensure workers don't go hungry. More than 2,000 people had used an online platform set up by Oxfam, to ask brands how they intended to deal with the COVID-19 crisis, none of the brands had responded to consumer requests. None of the brands had responded to Oxfam's requests for information about how they would deal with workers' salaries and whether they would honour their order commitments during the pandemic. This clearly shows their total reluctance to the misery of the workers and the economic conditions of the suppliers.

While companies might be appearing to amend their missteps, it's not always the whole picture, University of Tasmania professor Louise Grimmer said. She used Australia's beloved Kmart as an example. It withdrew its request for a 30 per cent discount on some orders that had already been completed, after suppliers said they would not survive adhering to such a cut. But it has kept up the pressure in another way. "The problem is that they are now demanding suppliers still deliver existing orders by new deadlines," Dr Grimmer said in an interview with TND. As a consequence, many suppliers are in the dilemma because they can't afford to not fill the orders, but the timelines are too tight and, in many cases, can't be met. "Retailers hold all the power in the supply chain." Dr Grimmer told. He predicted it is likely that the brands who are called out for poor behaviour linked to suppliers will be shunned by shoppers as consumers' increasingly favour ethical values in business. Faces of those helpless workers also flash at the backdrop of their minds.

Conclusion

The garment workers in Bangladesh are among the most poorly paid in the world – an average wage of 51 cents per hour – and working in appalling conditions. Last year *Deloitte Economics* assessed a meager 4% of the price of a piece of clothing, made in Bangladesh and sold in Australia, goes to the worker who made it. After the 2013 *Rana Plaza Tragedy*, that killed 1100 factory workers, global companies were appalled at the conditions in which garments are made. Ostensibly, they took on a more ethical appearance to their public profile – though they did not always hold on to that role and facing the stark reality.

Industry experts and human rights watch organizations believe that some of the world's lowest-paid garment workers are poised to be the biggest losers, as the industry deals with the "apocalyptic" fallout from the Coronavirus Pandemic.

"The "stunning hypocrisy" of companies that in one breath repeat the mantra of "people and profit" yet quickly reverse that order when push comes to shove" (Dr Boersma, 2020). According to Dr. Boersma "(Many companies) are willing to safeguard shareholder dividends by pushing garment workers further into poverty and destitution." In contrast, global brands, including Adidas, Nike and Uniqlo, Marks & Spencer and H&M have been appreciated for publicly committing to pay in full for orders completed and in production. The Bangladeshi Government has offered incentive packages in terms of soft businesses loans to help them stay in production and retain workers. But it all depends on the buyers keeping their commitments.

The Coronavirus Pandemic, as reflected in many practices across the globe, offers the developed world the opportunity to examine and change some of their global business practices, the unethical practice of building a global economy on the backs of low-paid and exploited workers of the third world countries. The short-term profit maximization goal should be balanced with long-term sustainability strategy keeping corporate social responsibility in the perspective. Australian retailers are in a better footing than the North American and European retailers, and their businesses are not as badly hit as those. One cannot travel safely keeping a bomb in the compartment. Moreover, the workers should be viewed not only as a peg into the system and manufacturer a link in the value chain, but as one integrated family that connects shareholders of large companies in the developed nations with workers of manufacturing countries in the third world.

This study has the scope to be further extended to other major garment manufacturing and exporting countries like China, India and Vietnam. Garment is one of the major labour intensive industries in several Asian countries who have low bargaining power and weaker economic status. On the contrary, buyers are mostly from rich and developed countries that can wield strong bargaining power and have strong economic status. Garment, being one of the essential products that satisfies the basic need of the people, is also have its own significance. Researchers may also investigate the tradeoff between sustainability initiatives and business profitability in other business sectors and industries which are affected by the current Coronavirus pandemic situation. The pandemic is a new phenomenon in recent years that has changed the global business scenario negatively affecting business, national output, income and employment all over the world.

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