

An ethical analysis of the high cost of low-priced clothing

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ABSTRACT

This article examines from an ethical perspective the factors that led up to the deaths of over 1,100 workers in a Bangladesh garment factory. It also explores the measures that are currently underway by Americans and Europeans to improve safety in those facilities.

Keywords: Bangladesh, apparel, workers, safety



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INTRODUCTION

Much has been written in the popular press in recent times about the poor working conditions in overseas garment factories. In particular, Bangladesh has been the primary focus of attention due to the collapse of the multistory Rana Plaza building that housed about 5,000 workers. That building collapsed on April 24, 2013. Over 1,100 workers were killed and others were seriously injured or permanently maimed. This article will examine the circumstances that surrounded one of the most serious industrial accidents ever by using a framework outlined by Treviño and Nelson (2011) in *Managing Business Ethics (Straight Talk About How to do it Right)* since their work is a major resource for analyzing ethical issues and concerns.

STEP ONE: GATHER THE FACTS

The off-shoring of garment manufacturing has been steadily increasing over the decades as Western retailers seek to offer a wide selection of clothing to customers. According to a survey conducted by an advocacy group named Save the Garment Center (Hsu, T., 2013), less than 5% of apparel sold in the U.S. is made here as compared to 95% in 1960. Moreover, Commerce Department data indicates that in 2012 clothing accounted for about 3% of Americans' spending as compared to around 7% in 1970, and a much larger 13% in 1945 (Zimmerman, A., & Shah, N., 2013). A sluggish U.S. economy and stagnant wage growth have contributed to retailers pressing factories to keep the lid on costs. Many European countries have also faced similar economic problems and resulting pressures. That is significant since European Union nations buy 60% of Bangladesh's apparel exports (Greenhouse, 2013, June 28). So plentiful low cost workers in overseas locations where labor laws are less restrictive or basically non-existent make outsourcing especially attractive. And Western shoppers enjoy the privilege of being able to buy the latest fashions at affordable prices. Those factors were driving forces in the expansion of garment manufacturing in Bangladesh (Zimmerman, A., & Shah, N., 2013). This led to a race to establish more low-cost garment manufacturing factories which, in turn, set the stage for a series of deadly accidents. Although this has contributed to Bangladesh becoming the second largest exporter of garments, second only to China, serious concerns have been raised over safety violations, poor working conditions, and buildings that fall woefully short of acceptable building standards. Big retailers such as Walmart, Sears, and others both in the U.S. and Europe are aware of the problems and the resulting bad publicity. It should be acknowledged at the outset that a number of firms have undertaken corrective measures by hiring independent factory inspectors to conduct safety audits and audits of working conditions inside manufacturing sites and have delisted violators. Some firms like Nike have moved operations to other nations (Bustillo, M., Wright, T., & Banjo, S., 2012) but, overall, the actions undertaken thus far have been inadequate or ineffective. The issues are complex and it is apparent that it will take time and the cooperation of many parties before substantial improvements can be achieved.

Consider the following information from a *Wall Street Journal* article (Fairclough, 2013, June 22-23) that profiled a Bangladeshi woman garment worker named Mahinur Akhter who was trapped in the Rana Plaza garment-factory building that collapsed in April 2013. She was dragged from the building bloody and barely conscious and subsequently spent five weeks in the hospital. She ended up losing only one toe. In many ways she was one of the lucky ones as over 1,100 other workers lost their lives or underwent amputations of a more serious nature. However, her circumstances as a garment worker in Bangladesh are fairly typical and clearly show how easily these workers can be exploited. Excerpts from that comprehensive article follow: "Bangladesh is a desperately poor country, and it still needs these factories," said Salman Zaidi, economist in the World Bank's Dhaka office. "We need better safety, better treatment. But these are still better jobs than most of the other possibilities." (p. 11) 80% of

Bangladesh garment workers are women... Ms. Akhter stated that she has to work as her family is desperately poor... her father was killed in a traffic accident... she is the sole breadwinner and works to provide food and shelter for her family and to pay for her brother's school expenses... she is likely either 15 or 16 years old... workers in Bangladesh who are 14 to 18 are permitted to engage in nonhazardous jobs with limited working hours... however, a relative helped her get a government certificate (easily obtained due to a lack of birth certificates) stating she was 20+ years old... that enabled her to get a higher paying job as a seamstress at \$45 per month... she is expected to sew 10 buttons or more on a shirt in less than one minute or attach buttons to waistbands of 500 pairs of pants in an hour... she has to concentrate very hard... she and others said that male managers sometimes hit them, use abusive and profane language, and sexually harass workers... she is afraid to go back to work but must do so. (Fairclough, 2013, June 22-23)

Deep cracks, severe enough to warrant a report on the local news, were observed in the Rana Plaza building the day before the collapse. However, workers were told by factory managers the following morning that the building would stand another 100 years and that they should go inside to work or suffer the consequences of lost pay which workers in this country could not afford to forgo (*Atlantic City Press*, 2013, April 25; Garjon, A., & Alam, J., 2013; Zain, S., & Banjo, S. 2013, April 25).

Factory owners in Bangladesh were feeling considerable financial pressure for the work to be completed (Zain, S. & Banjo, S., 2013, April 27-28; Zain, S., 2013, April 30). Political unrest and protests since February resulted in strikes and port blockades ahead of elections that were to be held the following year. Factory owners, including Mr. Rana, owner of Rana Plaza, often are local politicians and wield substantial political clout. The \$20 billion-a-year Bangladesh garment industry had lost \$500 million in export orders as a result of earlier turmoil so there was tremendous pressure to meet shipping deadlines in this fast fashion industry so managers coerced workers to return to their jobs.

The garment industry is very important to Bangladesh. It has helped fuel economic growth in the country. The industry employs more than three million people and accounts for about 80% of that nation's exports (*Atlantic City Press*, 2013, May 4). The multilevel factory that collapsed housed roughly 5,000 workers (Zain, S., & Banjo, S., 2013, April 25). Bangladesh was known for having a ghastly safety record as there had been other serious industrial accidents such as the factory fire that killed 112 garment workers the previous November (Alam, J., 2012). U.S. and European retailers had taken note of those problems and some companies like Nike had already begun to limit their exposure in that country (Bustillo, M., Wright, T., & Banjo, S., 2012).

STEP TWO: IDENTIFY THE PERTINENT ETHICAL ISSUES/POINTS OF ETHICAL CONFLICT

The European Union Trade Commissioner, Karel De Gucht, said to Belgian media outlets, "...these people are, well, we can't say underpaid, they are virtually, unpaid... they have to work in sanitary and security conditions that are totally unacceptable." (Zain, S., 2013, May 6, p. A8). The Bangladesh government sets the minimum wage for entry-level garment workers at \$38 a month which are some of the lowest labor costs anywhere. (Bustillo, M., Wright, T., & Banjo, S., 2012; Zimmerman, A., & Shah, N., 2013). The current minimum wage is barely enough to survive on and is only half of Cambodia's minimum wage. The secretary general of Cambodia's state-run Garment Manufacturer's Association spelled out the basic problem as one

of retailers demanding higher operating standards for factories but not wanting to pay more (Chu, K., 2013). He believes that if retailers would pay 10% to 15% more that would have a huge impact.

Another concern is that some manufacturers regularly take on larger orders than they can possibly manage. (Chu, K., 2013). Consequently, a myriad of subcontractors may be involved in the supply chain. Some of those factories may adhere to standards and codes of conduct that retailers have in place while others may not. There is also the strong likelihood that different retailers have differing views regarding appropriate work and safety standards for which they expect compliance. Moreover, given that there are 5,000 garment factories, an inadequate number inspectors, a local government that faces many serious issues, and great geographic distances between the buyers and the garment manufacturers, it is problematic to inspect and monitor factories as often as needed and to expect much in the improvements in working conditions. And doing so would encourage retailers to shift business elsewhere. These conditions make it easy to turn a blind eye to what is occurring and to shift blame regarding who should take responsibility for undertaking corrective measures.

STEP THREE: IDENTIFY THE RELEVANT AFFECTED PARTIES

One relevant element relates to stakeholder theory. Stakeholders are individuals and entities that have a vested interest in the activities of others. Clearly, the parties that are most directly impacted by the unsafe and poor working conditions inside garment factories in Bangladesh are the workers and their immediate families that have lost their primary or sole source of income. These families are dependent on their loved ones for providing basic essentials. Survivors who lost limbs may no longer be able to work in this industry and will likely encounter great difficulty in securing other jobs. Others who are physically able may be forced out of necessity to return to these poor working conditions despite still being psychologically traumatized by what they have experienced.

Retailers are also at the center of the issues at hand. They are competing in a global economy where they want to be able to keep costs down and profits up. The bulk of the sales from the Bangladesh garment factories end up in either the U.S. or Europe. Many of those countries have been contending with high unemployment rates and faltering economies. Moreover, consumers in those nations have come to expect attractive prices for the apparel they buy. Interestingly enough, a recent *Wall Street Journal* article (Passariello, C., Lahiri, T., & McLain, S., 2013), points out that it isn't just discount clothing that is being made in those factories. It seems that some designer brands like Giorgio Armani, Ralph Lauren, and Hugo Boss also have some (not necessarily all) of their garments made in Bangladesh factories. Factory owners indicate that their profit margins remain the same regardless of whether they're manufacturing discount or designer label apparel and a seamstress is paid according her skill level, not the brand of clothing being made.

Retailers, however, also face the prospect of consumer backlash if they fail to address the ongoing issues that have been raised. In earlier years, Nike faced boycotts of their merchandise at college and university campus bookstores when sweatshop labor conditions in overseas factories were made public. More recently, Apple has come under pressure for similar complaints. Hon Hai, also known as Foxconn, a Chinese manufacturer, makes electronic items such as iPods, iPhones, and iPads, among other items. Foxconn made the news concerning its rather high rate of worker suicides. Their response to this situation was to install huge nets around the perimeter of this multistory manufacturing site so overwrought workers couldn't

easily end their lives while at work by jumping to their deaths. Retailers such as Walmart and The Gap certainly don't want their names repeatedly splashed over media outlets for failing to address identified ethical problems of such a serious nature.

Powerful factory owners are also primary stakeholders. Substantial funds will need to be invested to attend to structural problems with the buildings. Plus, there are the added costs of paying higher wages and incorporating more humane working conditions. Higher standards at garment factories could also spill over to other industries in the area. Labor organizations, trade groups and human rights activists also have a vested interest in what happens. Workers have protested in the streets and local government officials must consider the impact on them and their jobs and the larger society if there is widespread dissent. Western governments are also involved as it is their businesses and consumers who are buying the output from these substandard facilities. In December, 2012, the U.S. government sent a list of areas for improvement to the Bangladesh government. On that list was a request for the government to stop harassing union organizers and to give workers more rights in Bangladesh's special export manufacturing zones (Greenhouse, S., 2013, June 28). Moreover, it should be noted that a prominent labor activist was found dead and the circumstances surrounding his death have raised many questions.

Additionally, engineers are front and center in this ethical morass. A survey that was conducted by engineers from the Bangladesh University of Engineering and Technology found worrisome results. Of the 100 buildings that had been inspected, around 60% were assessed as being vulnerable to potential collapse (Burke, J., 2013). Those buildings house more than 3,000 clothing factories. Furthermore, it seems that 30 engineering professors from that university are expected by the Bangladesh government and industry leaders to lead the inspection effort that is currently underway as well as attend to their usual teaching responsibilities (Yardley, J., 2013).

And, of course, there are the factory monitors or inspectors. Most large retail chains monitor contractors and subcontractors at least once a year and cancel orders at suspect factories (Bustillo, M., Wright, T., & Banjo, S., 2013). However, retailers rarely disclose substandard operations and simply shift orders to other low-cost factories. Inspectors do make recommendations to factory owners for improvement but they don't have the power to mandate change.

STEP FOUR: IDENTIFY THE POSSIBLE CONSEQUENCES OF ALTERNATIVE COURSES OF ACTION

Traditional utilitarian theory suggests that decision-making ought to be conducted in such a way that total benefits exceed total costs by the maximum amount possible (e.g., the greatest good for the greatest number of stakeholders). One possible course of action is to wait for the unwanted attention to die down and continue operations as usual. Benefits would include saving factory owners/operators and retailers substantial out-of-pocket money as there would be no need to fix structural problems at factories, raise wage rates, or undertake measures to improve working conditions. Retailers would be able to buy garments at a low cost and consumers would be able to purchase apparel at more affordable prices. However, human costs would be great. A continued loss of lives and livelihoods would occur and other workers would continue to live lives of quiet desperation. Businesses and governments who fail to act to improve this set of circumstances may suffer damage to their reputations which could lead to boycotts and other forms of protests. While some parties might view this as a desired alternative, it certainly does not reflect an ethical option.

A prudent and much more ethical response is to determine what Western retailers and governments, trade unions, labor activists and other concerned parties can do to help improve working conditions for garment factory workers in Bangladesh. European and American retailers have already begun to recognize that the time to act is now. Some firms like Walmart and Levi Strauss & Company have already backed away from factories run by multiple tenants housed in multilevel buildings (Kapner, S., Mukherji, B., & Banjo, S., 2013). Walmart has deemed those factories to be of high risk and has removed them from the list of authorized suppliers. J.C. Penney is following suit.

Moreover, in May 2013, a group of European-led retailers adopted a legally binding pact that does not require the participation of the Bangladesh government (Banjo, S. & Passariello, C., 2013; Kapner, S., & Banjo, S., 2013). Signatories are required to pay an estimated cost of \$600,000 per factory to improve safety conditions. So far 70 European retailers have signed this agreement including H&M, Carrefour, and Marks & Spencer. A few American companies such as PVH (the parent company of Calvin Klein and Tommy Hilfiger) and Abercrombie & Fitch have signed the European-led agreement as well as Sean John. Loblaw (a Canadian retailer that produces the Joe Fresh clothing line) and a few Asian and Australian retailers. A key feature of the plan is that if inspectors find a problem that could result in the loss of life or serious injury, the factory owner will be instructed to cease operations while an investigation and repairs can be conducted. Bangladeshi officials will be notified as will all signatory companies and factory workers. International teams of fire and building safety inspectors will work with counterparts in Bangladesh and will inspect all utilized garment factories within a nine month time frame. To date, not many American firms have signed this accord (Greenhouse, S., 2013, July 8).

Walmart, Gap, VF Corporation, Macy's and Sears Holdings have proposed a different plan that would establish a \$50 million fund to help defray factory upgrade costs. Under this plan participating firms would contribute no more than \$500,000 per year for each of the five year duration of the plan. Moreover, funding would be contingent on the Bangladesh government meeting certain criteria to ensure accountability for following through on safety improvements. American firms have been reluctant to sign the European-led agreement because they don't like the idea that it is legally binding, could subject them to lawsuits, and has some ill-defined potential obligations (Greenhouse, S., 2013, July 8). Critics believe this plan will be far less effective at improving worker safety.

While each of these plans reflect steps in the right direction, concerns have been raised about the adequacy of the proposed funding given there are 5,000 garment factories overall. Experts also question whether the Bangladesh government can be counted on to do its part to address the problems (Kapner, S., & Banjo, S., 2013). However, since the U.S. accounts for about 25% of Bangladesh's \$18 billion in annual apparel exports and Europe buys 60% (Greenhouse, S., 2013, June 28), it is hoped that the major retailers in these nations can move closer to a common accord as time passes. That would certainly go a long way towards making a substantial impact and leveling the playing field.

STEP FIVE: IDENTIFY RELEVANT OBLIGATIONS

Operating "over there" adds greatly to the complexity of business decision-making. Laws, regulations, policies and the overall culture may be substantially different from that of the home nation. As is the case here, differences are especially stark when industrialized countries have business relationships in developing nations. A fundamental question that arises is whether retailers (e.g., the buyers) have an obligation or duty to apply their ethical standards or those of the foreign nation (e.g., the sellers). The latter statement reflects the adage that states, "When in

Rome, do as the Romans do.” The former approach reflects a concept called ethical imperialism while the latter is described as ethical relativism (Donaldson, T., 1992 & 1996; Treviño, L. & Nelson, K., 2011). Neither approach in the extreme provides an ethically acceptable solution. On the one hand, making ethical decisions based on your own country’s ethical standards and beliefs shows an utter disregard for the culture and conditions present on foreign soil. On the other hand, adhering strictly to ways of conducting business elsewhere means that you can easily justify practices that clearly violate one’s own standards of acceptable working conditions. Therein lies the crux of the ethical dilemma. What is the proper balance?

For over fifty years now there has been movement toward establishing a number of normative guidelines for business conduct in international settings (Frederick, W., 1991 & Treviño, L. & Nelson, K. 2011). Four principles have emerged (Frederick, W., 1991): inviolability of national sovereignty, social equity of races and genders, market integrity in business transactions (e.g., no bribery), and human rights and fundamental freedoms. It is the first and last of these principles that are in conflict in the Bangladesh situation. In the process of trying to respect the state of Bangladesh’s social, economic and cultural development, human rights are being seriously violated. U.S. and European firms, in particular, must decide where to draw the proverbial line in the sand. While this will not be an easy task, it is one that must be undertaken in the name of justice, fairness, dignity and respect.

STEP SIX: IDENTIFY YOUR RELEVANT COMMUNITY STANDARDS THAT SHOULD GUIDE YOU AS A PERSON OF INTEGRITY

Key members of the relevant community include the various retailers who purchase the garments, the governments of the involved nations, and the factory owners. While the theory of comparative advantage provides justification for moving production to locations where the manufacturing process can be more efficient, multinational firms have often been accused of exploiting cheap labor that is available in less developed countries. While there is nothing legally wrong with doing so, this practice is ethically suspect when pushed to the extreme. That apparently has been the case in Bangladesh. Consequently, many big European and American retailers have recognized this and believe that there is a moral justification for taking steps to lessen the repercussions of operating as they have in the past. It seems that the Bangladesh government either cannot or will not undertake adequate measures to remedy the existing problem. It also seems that many factory owners will make the desired changes only if compelled to do so. As a result, the Obama administration has suspended trade privileges for Bangladesh over safety problems and labor rights violations (Greenhouse, S., 2013, June 28). While that represents a blow to Bangladesh’s reputation and the Bangladeshi government seriously fought against that action, it is largely a symbolic move as it affects less than 1% of America’s \$4.9 billion in annual imports from there and it has no impact whatsoever on output from the garment industry. However, the European Union is also weighing a suspension of trade privileges. That would represent a more serious blow as Europe buys 60% of Bangladesh’s apparel exports and their duty-free privileges include apparel.

STEP 7: CHECK YOUR GUT

It is encouraging to see that retailers in the U. S. and Europe recognize in their collective “guts” that they must engage in corrective action and that they are willing to meet, discuss, and attempt to achieve a common consensus on how to best proceed and that steps toward safety

improvement are already underway. It should be noted that leaving Bangladesh is not an optimal solution. While the problems in that country's garment factories are perhaps more severe than what is found elsewhere, there certainly are similar concerns in other Asian nations (Chu, K., 2013) and in other areas as well. And leaving would substantially negatively impact Bangladesh's economy.

STEP 8: WHAT WILL YOU DECIDE?

Ignoring these issues or simply moving operations elsewhere is not an acceptable answer. Pressure needs to be placed on factory owners and the Bangladesh government to engage in responsible measures for change. Representatives from European and American retailers, trade and labor organizations, internal and external monitors and any and all relevant parties must continue to meet and discuss alternative courses of action that will serve to lessen the likelihood and severity of factory problems that result in the loss of life, limb, and/or livelihood. Priorities must be established so that the more egregious problems can be addressed as soon as possible. Clearly substantial time and money will be needed as the problems are great. These issues did not develop overnight and it is not reasonable to expect a quick fix. But the serious nature of what has been occurring does ethically lead to a call for taking action now.

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