The impact of Covid-19 on unethical practices in global supply chains

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The economic fallout from the COVID-19 pandemic and related government restrictions have impacted global supply chains across many industries (SEDEX, 2020). Social distancing measures and lockdowns have prompted some of the largest drops in production rates ever recorded. China's production rate fell by 13.5% in Jan-Feb 2020, this was worse than both the SARS epidemic of 2002/03 and the global financial crisis of 2008/09 (Seric et al., 2020). India's 2020 GDP growth of 1.9% is the lowest in nearly 30 years (ILO, 2020). 43% of business across all industries stated at the beginning of the COVID-19 crisis that their biggest challenge was disruption to supply chains (SEDEX, 2020). Production capacity of business within global textile value chains was an issue with 69% of business reporting reductions (September 2020), however, only 23% of these businesses reported reductions –of 30% or more (ITMF, 2020c) suggesting that the impact is less extreme for most companies.

There has been widespread criticism in the media and from NGOs regarding the cancelling of orders, even ones already in production (McNamara, 2020). Early reports on the COVID-19 crisis showed that 77% of suppliers had their orders cancelled without receiving payment (Anner, 2020). It was calculated that close to 6 billion US dollars' worth of orders had been either suspended or cancelled from garment manufactures in Bangladesh (WRC, 2020b). Due to the backlash of brands cancelling orders without paying, many have pledged to honour all orders completed and in production (WRC, 2020a). Yet, of the suppliers originally reporting having orders cancelled only 27% have had most or all their orders paid in full, 47% have received under 25% of their full order payments (Anner, 2020).

In addition to orders being cancelled or not paid, there have been major reductions in new orders being placed as demand for clothing is low. New orders for Indian manufacturing fell at a sharper rate than the 2008 global financial crisis (Markit, 2020). According to the International Textile Manufacturers Federation (ITMF) there has been a year-on-year drop in the placing of orders going from -8% in mid-March to -42% in June, and the impact of order reductions is felt throughout the supply chain, with figures ranging from -26% to -34% in all tiers (ITMF, 2020g; ITMF, 2020b). As suppliers report decreased order volumes compared to last year, they fear that if this continues many will face having to close their business (Anner, 2020).

Not only does it appear that some brands are not paying for orders, but the crisis is also giving rise to unethical buying practices. Utilising the crisis in order to receive goods at a lower price and delaying payments (Anner, 2020). Yet, although the report by (Anner, 2020) shows that 65% of buyers are demanding price cuts of 12%, it also states that the price cuts are being demanded by buyers throughout the supply chain. This raises the question, is this solely an issue of brands or the whole system choosing to act unethically? Alternatively, is this a problem created by brands with a cascading effect throughout the whole value chain?

An issue within the supply chain that has been either highlighted or exacerbated by the pandemic is the lack of flexibility buyers are willing to accept on receiving orders from suppliers. At the beginning of the crisis SEDEX (2020) reported that 48% of suppliers within the textiles, clothing, leather, and footwear industry requested longer production timelines and a pause on delivery fines. However, 33% of buyers are still not allowing for any flexibility and incurring fines or cancelling orders if there is any delay (Anner, 2020). More positively, the same report shows that the majority (51%) of buyers are being flexible and 15% are being entirely flexible (Anner, 2020). The report from Anner is more recent but does come from a small sample size, of 75 respondents, whereas the study by SEDEX (2020), from earlier in the crisis, received 469 respondents and found that 40% of suppliers stated that their buyers were allowing for flexible deadlines. the conflicting data makes it difficult to establish a clear picture of who is still being affected by a lack of flexibility and whether Covid-19 has amplified an issue within the industry or brought attention to a pre-existing problem.

The speed at which things are changing throughout the course of the COVID-19 pandemic makes it difficult to understand or predict industry effects. Early in the pandemic it was clear that clothing and footwear, and the construction industries were the worst effected economically (SEDEX, 2020). 68% of SEDEX respondents within the textiles, clothing, leather, and footwear industry reported that their revenue had dropped to a significant or critical level (SEDEX, 2020). Projections for turnovers were very bleak with the predictions at the end of April for the global textile industry being down -33% for 2020, changing to -32% by June (ITMF, 2020a; ITMF, 2020b). However, figures released for November 2020 show the expected loss more than halved to -12%, with 21% expecting turnover to return to pre-COVID-19 levels by the end of 2020 and 52% by 2021 (ITMF, 2020d; ITMF, 2020c; ITMF, 2020f). Unlike order cancellations, the drop in turnover is not as evenly spread throughout the supply chain, with garment manufacturers experiencing -16% turnover compared to finishers and printers with -30% (ITMF, 2020e). This is interesting as brands primarily only deal directly with Tier 1 manufacturing and garment manufacturers. This demonstrates that the manufacturers who brands traditionally interact with have not been as financially impacted as those businesses further up the supply chain.

If garment supplier turnover is not as badly affected as originally thought then why is it that some major brands have still not committed to paying for all orders, or have committed but still have not paid? An answer may be apparent in sales figures. When we compare figures from 2020 to 2019 after the introduction of lockdowns in March, clothing sales figures saw a steep decline resulting in a low of -72.4% in April. Over the year they saw a steady growth but were still 13% behind in October, before falling to 30.2% behind in November with the reintroduction of lockdowns. December saw a monthly growth of 21.5%, however this still resulted in clothing sales closing the year 14.2% lower than 2019. (ONS, 2020b; ONS, 2020c; ONS, 2020d). All other industries, other than fuel, have made strong comebacks (ONS, 2020c). Decreased consumer footfall, as a result of restrictions on non-essential stores, affected clothing and footwear retailers the most with 85.7% of UK clothing or footwear stores reporting in August 2020 that they experienced a reduction in footfall over the course of the pandemic (ONS, 2020a). These difficult trading conditions continued. In October 2020, 78.9% of UK clothing and footwear retailers reported a further decrease in footfall in the previous 2 weeks (ONS, 2020c). The drop in footfall has impacted in-store sales (down 22.1%), and although other industries have seen an increase in online sales, clothing has struggled with only a 17.1% growth of sales online during the pandemic (ONS, 2020c). This suggests that clothing retail sales are struggling, at the height of the pandemic in April 2020 they were down 67.6% when compared to February 2020 and pre-COVID-19 restrictions.

We are starting to see the long-term effects of Covid-19 on supply chains and major high street brands. The immediate impact to the supply chain was supply disruptions caused by closures in alignment with social distancing measures (SEDEX, 2020). Supply disruptions usually have short recovery times, as once input materials are found there is still a demand for outputs (Tainton and Nakano, 2014). However, when there is a disruption to demand, recovery times are much longer (Tainton and Nakano, 2014). This is what we are seeing with the drop in UK clothing sales, which translated into the collapse of retailers, most notably Debenhams and the Arcadia group (BBC, 2020a; BBC, 2020b). Without sales and cash flow it is hardly surprising that Topshop (Arcadia) did not commit to paying for orders, and this could very well be a similar story for many other brands (WRC, 2020a). Although delaying payment to the supply chain is not desirable, if immediate payment of suppliers results in more retailers closing, this will only further decrease demand and increase the recovery time of the supply chain.

The impact to supply chains can also be examined in relation to their resilience to major events. Supply chain resilience is described as its ability to contain and recover from disruptions (Juttner and Maklan, 2011). Demand disruptions have a longer recovery time and if there is a decline in demand across multiple countries this removes the ability of suppliers to redirect their products to a stronger market, further impacting supply chain recovery (Quoreshi and Stone, 2019). Interestingly, this also has an indirect impact on domestic sales growth, often a saving grace when international demand drops (Quoreshi and Stone, 2019). Some of the key characteristics for ensuring supply chain resilience is: flexibility, collaboration and visibility (Juttner and Maklan, 2011). The data shows that flexibility is an issue for some brands and suppliers, and although visibility of the global fashion supply chain is difficult due to its complexity, many brands have been working in recent years to achieve this. Industry collaboration has been steadily growing in with the creation of initiatives such as the Accord after the Rana Plaza disaster of 2013 (Accord, 2018).

Further collaboration within industry because of the COVID-19 pandemic is likely, yet current reports are purely anecdotal. Another method of ensuring supply chain resilience is by retaining excess or 'buffer' stock for a 'just in case' scenario, yet with fast fashion brands operating with a 'speed to market' approach, this will have likely emphasised COVID-19's impact to their business.

Commitment to pay for orders may on the surface sound like the correct thing to do, however, due to the disruptions caused to the supply chain there is an increased risk of non-ethical practices. As unemployment rates rise in countries where textiles and garment manufacturing is based, and as orders slowly come back in, there is a heightened risk of worker exploitation (ILO, 2020; Anti-slavery, 2020). Evidence suggests that there has been a reduction in supplier audits being completed as well as suppliers requesting a delay to completing them (SEDEX, 2020). Therefore, concerns have been raised regarding worker safety and unethical recruitment practices - it is known that once supply chains get harder to track or monitor then these practices become more likely (Crane et al., 2019). A recent survey of garment workers found that even though 60% were still employed at their pre-COVID-19 factory they had experienced a 21% monthly wage drop from March – August 2020 (WRC, 2020c). More worrying still is that 75% reported having to borrow money or accumulate debt in order to pay for food, 43% of whom were still employed (WRC, 2020c). Accrued debt could potentially lead to bonded labour and exacerbate exploitation within the industry. With the increased potential for unethical labour practices, it is even more concerning that a survey from July 2020 reported 31% of companies' ethical trading budgets, which are in place to deal with these issues, had been reduced (Wright, 2020).

What is clear is that the entire fashion and textiles industry is in turmoil and the full extent of the impacts to the global supply chain are not yet known. It is hard to predict how the COVID-19 crisis will play-out and where the main casualties in the system will be. The increased risk that COVID-19 presents for exploitation or unethical employment practices for garment and textiles workers in emerging economies is mixed with the reduced budgets from brands to tackle this is cause for concern. The challenge the whole industry has moving forward from the COVID-19 crisis is to not squander the gains that have been hard won in in recent years in ethical and sustainable trade (e.g., Accord) with a race-to-the-bottom over price, but to build upon them and use the current disruption to bring further improvements.

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