



committee
on workers'
capital

investor brief

Reputational Risks and the Bangladesh Safety Accord: the case for investor action

The tragic Rana Plaza factory collapse in Bangladesh shocked many institutional investors and led to a series of joint statements from investors calling for concerted action by publicly traded apparel brands and retailers to address supply chain labour and safety standards. Instead of concerted action, however, what has emerged is a schism between two processes: the Bangladesh Safety Accord has broad international support from industry, civil society and global agencies while the Alliance is led by a group of US retailers and industry associations. The Global Unions Committee on Workers Capital is encouraging institutional investors to support the Accord. This brief focuses on the reputational risks faced by companies that have not signed the Bangladesh Safety Accord and outlines why pension trustees should be concerned about this issue.

Reputational Risks: Why Should Pension Trustees Care?

In recent years, consumers and investors have held corporations to an increasingly high standard of accountability regarding health and safety issues, decent wages, right to collective bargaining and other working conditions in their supply chains. Consumer-facing companies such as clothing brands and retailers are regularly scrutinized by NGOs and student and consumer groups and publicly criticised when they fail to respect basic international labour standards. Campaigns led by these groups have cost companies in staff time spent investigating and responding to negative media coverage or legal action and in some cases translated into reduced sales revenues because of consumer boycotts or the withdrawal of licensing agreements.

The fate of international sporting brand Adidas is instructive. Following a two-year international campaign led by the European Clean Clothes Campaign and US-based United Students against Sweatshops, in April 2013 Adidas agreed to



What is the Accord on Fire and Building safety in Bangladesh?

The “Bangladesh Safety Accord” was signed by IndustriALL Global Union, UNI Global Union and more than 90 major clothing and retail brands in the aftermath of the Rana Plaza garment factory building disaster which left a death toll of more than 1,100 at the end of April 2013. It sets up a legally binding agreement of independent fire and building safety inspections, public disclosure of results and mandatory building renovations to eliminate hazards among other things.

pay \$1.8 million in severance to 2,700 Indonesian workers following the closure of the PT Kizone factory, an Adidas sub-contractor in Indonesia. The company announced that it would pay the workers after the US student movement successfully convinced 15 university administrations - including Cornell University and Penn State - to terminate licensing contracts with the company. In addition, the University of Wisconsin filed a lawsuit against Adidas in a federal court claiming a failure to comply with contractual provisions regarding labour rights in licensing agreements. The loss of these lucrative contracts (retail sales of collegiate licensed merchandise reached \$4.3 billion annually in 2009) along with the lawsuit is an example of how failure to ensure respect for worker rights can have a material impact on companies.

Given the worldwide media and consumer attention focused on Bangladesh after the Rana Plaza disaster, companies face even higher reputational risks if they contract production in Bangladesh irresponsibly, and judging by the international response, the standard of responsible behaviour is weighted heavily in favour of the Bangladesh Safety Accord. With the majority of factories in Bangladesh considered unsafe and the reputation of existing social auditing programs tarnished by their failure to identify fire and building safety issues, the Accord represents a unique consensus among unions, companies, NGOs and international organisations about the measures necessary to remediate factory fire and safety issues. As a result, those who have formed the opposing Alliance initiative such as Wal-mart and VF Corporation, or non signatories to either the Accord or the Alliance such as Nike, risk facing Adidas-style student and consumer campaigns. Getting companies to sign the Accord likely will be how campaigning groups measure their success.

If consumers and student groups target companies for not doing enough in the aftermath of the Rana Plaza tragedy, the financial impact may be felt by pension funds that hold companies unresponsive to pressure in their portfolios. Trustees that understand this risk are in a unique position to protect the interests of plan beneficiaries by ensuring that their funds press all companies concerned to sign the Accord.

What is the CWC Secretariat doing?

The CWC Secretariat is working with various investor initiatives to scale up international pressure on companies that have not signed the Accord. Among the actions currently being pursued by investors, we find the following:

- Shareholder engagement with non-signatories to the Accord
- Trustee engagement with asset managers over the steps they are taking to encourage portfolio companies in the garment and retail sector to sign the Accord
- Filing of shareholder resolutions in favour of the Accord during proxy voting season 2014.

For more support regarding the actions that their fund can take, trustees are invited to get in touch with the CWC Secretariat:

info@workerscapital.org



The CWC brings together representatives of the international labour movement to share information and develop strategies for joint action in the field of workers' capital. CWC works on shareholder activism, corporate and financial market governance, pension trustee education and economically targetted investments.