Corporate Leadership on Modern Slavery

How have companies responded to the UK Modern Slavery Act one year on?
Authors

Hult International Business School is the world’s most global business school. Our research is focused on the issues that are uppermost in global business leaders’ minds.

Quintin Lake, Research Fellow
Jamie MacAlister, Faculty and Consultant
Matthew Gitsham, Director, Ashridge Centre for Business and Sustainability
Nadine Page, Research Fellow

Ethical Trading Initiative (ETI) is a leading alliance of companies, trade unions and NGOs that promotes respect for workers’ rights around the globe.

Cindy Berman, Head of Knowledge and Learning

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This report is the result of a partnership between the Ethical Trading Initiative and Hult International Business School. The research focuses on the role of corporate leadership in addressing modern slavery, and highlights examples of what companies are doing, what they are learning, and what they regard as leadership in addressing this problem in complex global supply chains.

This report provides the first in-depth analysis of corporate perspectives on tackling modern slavery one year on from the introduction of the UK Modern Slavery Act.

Companies that took part in in-depth interviews were selected because of their reputation as leaders on ethical trade or companies that have been public about their commitment to address modern slavery. Those taking part in the in-depth survey all had established policies and strategic commitments to ethical trade before the Act was passed.

The findings presented in this report reflect the insights and practices of this group of companies who are more advanced in their approach to addressing modern slavery, and not the practices of all companies required to report under the Modern Slavery Act.

This summary report highlights the research findings in 6 key areas.

1. The Modern Slavery Act has been a game-changer

2. Addressing modern slavery is becoming a business-critical issue – for credibility with customers, investors, NGOs and the general public

3. Companies are making significant progress in addressing modern slavery

4. Companies face numerous barriers, challenges and dilemmas in addressing modern slavery

5. Senior leadership engagement is crucial

6. Collaboration and partnerships are the way forward
Introduction

Participants in the research

25 leading brands and retailers were interviewed, with a further 46 brands participating in an in-depth survey.

Which sectors were involved?
- Apparel & Textile
- FMCG
- Food & Drink
- Both Food & Drink / Retail
- Retail
- Hardgoods & Household
- Travel & Hospitality
- Building and Construction
- Technology
- Entertainment

Customer type
- Consumer Facing
- Both B2B / Consumer Facing
- B2B

What size of company? (Annual turnover)
- £1bn plus: 50%
- 0-£200m: 35%
- 200m - £1bn: 15%

Where were they headquartered?
- UK
- Germany
- Spain
- Sweden
- Switzerland
- New Zealand

Who did we speak to?
- Board member
- Senior Director of Sourcing
- Director of Workplace Rights
- Director of Labor Standards
- Head of Responsible Sourcing
- Head of Corporate Responsibility
- Director of Public Affairs
- Head of Ethical Trade
- Head of Sustainable and Ethical Sourcing
1. The Modern Slavery Act has been a game-changer

“The Modern Slavery Act has created more of a level playing field, hasn’t it? It’s brought a focus, and helped us to put what we’re doing into the public domain - we wouldn’t have put it there otherwise.”

On the first anniversary of the passing of the Modern Slavery Act, with its Transparency in Supply Chains clause, our research demonstrates that the Act has already had a significant impact on companies, including:

- **CEO engagement with modern slavery has doubled.** Twice as many CEOs and other senior executives (COO, CFO, Chairman) are actively involved in addressing modern slavery since the Act came into force. Twice as many people from Legal, HR, procurement and quality/technical roles are also involved. Interviewees highlighted the need for this engagement to be for the long-term, not just a short-term reaction to the Act itself.

- **The responsibility of ethical trade within companies has escalated.** Ethical trade managers increasingly report to and advise CEOs or Board members, where previously they had less access to senior decision-makers.

- **New activity to address modern slavery risks has significantly increased in companies.** The main areas of activity respondents are doing as a result of the Act are:
  - training and awareness raising for board members and senior executives (67%);
  - carrying out risk assessments (45%);
  - implementing policies and systems to manage their approach (39%).

- These new activities closely mirror the government guidance on what should be included in an annual Modern Slavery Statement. Whilst activity has increased, there does not appear to be an increase in available resources.

- **Communication between companies and their suppliers has increased.** 58% of companies have dramatically increased communication of their expectations on actions to address modern slavery to their suppliers, with many now communicating directly with Tier 2 and beyond (53%). There is also an increase in communication with third-party audit firms (77%).

- **Enhancing collaboration.** 50% of companies are collaborating more with peers, NGOs and multi-stakeholder initiatives since the Act was passed.

- **More companies are seeking help from others.** 50% of companies are seeking external advice and expertise since the Act was passed.
2. Addressing modern slavery is becoming a business-critical issue
- for credibility with customers, investors, NGOs and the general public

“There is an absolutely vital principle, which is if you find something that’s really wrong and something quite shocking, that you will always act on it. No matter how small.”

Addressing modern slavery is becoming a business-critical issue - essential for the credibility and legitimacy of a business in the eyes of all of its stakeholders.

Perceptions of prevalence of modern slavery
- Modern slavery is perceived to be more widespread – in particular, in the UK – and at the farthest reaches of the supply chain, in Tier 2 and beyond.

• 77% of companies think there is a likelihood of modern slavery occurring in their supply chains. This figure is increasing, up from 71% last year.

Drivers for addressing modern slavery
- 97% of companies cited reputational risk resulting from public exposure to worker abuse found in the supply chain or company operations as the biggest driver for company action on modern slavery.

The factors which underpin a company’s reputation such as the views of customers, investors, staff and the risk of litigation, have all significantly increased as drivers for action over the last year.
Addressing modern slavery is becoming a business-critical issue – for credibility with customers, investors, NGOs and the general public.

“There is NO business case for slavery, so if we find it, let’s just get rid of it.”

- **The human rights case is also a very strong driver** - 86% of companies recognize the abhorrent nature of modern slavery. The human rights violations faced by workers is the second most significant factor driving their response to modern slavery. They felt strongly that they would not want their company to be associated in any way with these illegal practices.

- **Customers are an increasingly strong driver.** Companies are experiencing a greater level of interest and engagement from their customers on responsible sourcing issues (85%, up from 76% a year ago).

- **Consumer-facing companies highlighted an expectation from customers that they provide a level of assurance** that they have done everything possible to mitigate exploitation in the supply chains that serve their brand. However, companies feel consumer choices are still primarily driven by price and quality, rather than perception of credibility in addressing modern slavery.

- **Business-to-business (B2B) companies are under growing pressure** from their business customers to provide assurance on what they are doing to address modern slavery as a standard part of doing business.

- **Investor interest has increased** as a driver for companies to address modern slavery. 25% now see investors as a strong driver vs 0% in 2015. For most companies, this is based more on considering how investors would react to a reputational crisis in the media, rather than receiving pro-active engagement from investors to understand their modern slavery approach.
3. Companies are making significant progress in addressing modern slavery

What is good practice in addressing modern slavery, and who is involved?

The engagement of senior leaders is the strongest enabler of corporate action on modern slavery.

Good practice in companies who are more advanced in addressing modern slavery:

- **Chairman**
  - Addressing business model or sector-specific conditions: 20%
- **CEO**
  - Engaging with governments, NGOs and trade unions: 50%
  - Due diligence: 15%
- **COO**
  - Involving workers in finding solutions: 20%
  - KPIs focused on impact rather than activity: 61%

Roles involved show % of companies where this role is actively engaged in addressing modern slavery.
Among companies with more experience in tackling labour exploitation, a high degree of consensus has emerged about the critical elements of an effective response to the risks and realities of modern slavery. More companies know what they need to do, but are finding some activities harder to put into practice than others.

There was a high degree of convergence between companies in what they cited as corporate leadership and good practice in tackling modern slavery:

- **Addressing fundamental business models and sector-specific challenges.** 82% of companies believe that addressing human rights within their core business model is the most significant strategic indicator of corporate leadership on modern slavery. Examples included sourcing decisions, pricing, last-minute changes to orders, short lead times and sector-specific issues such as seasonal labor recruitment practices. Companies are finding activities to address these issues particularly hard to put into practice.

- **Long-term, partnership-based relationships with suppliers.** 93% felt long-term relationships and working with suppliers to address issues would be far more effective in the long term than simply switching suppliers to manage short-term risk. The majority of companies were making significant progress on putting this type of approach in place.

- **Due diligence.** 90% of respondents saw due diligence on core labor standards as crucial. Leading companies are increasingly conducting human rights risk analyses by country, sector or type of labor and prioritizing their salient risks accordingly. 71% had these processes formalized and embedded in their operations.

- **Involving workers in finding solutions.** All responding companies are increasingly trying to directly involve workers who are most at risk of modern slavery. This means recognizing that workers themselves need to be actively engaged in mitigating modern slavery risks. Whilst some companies are engaging with trade unions to raise worker voice, only 31% see trade unions as critical stakeholders in addressing modern slavery.

- **Corrective action and remediation.** Once an issue of modern slavery is uncovered, 93% of companies highlighted that they have a responsibility not only to do everything in their power to address it, but also to ensure that workers most affected are protected from further harm and compensated appropriately. While companies were making strong progress on corrective actions with suppliers, only 40% of companies had clear remediation plans in place.

- **KPIs focused on impact rather than activity.** The majority of responding companies cited developing KPIs that are focused on impact rather than activity as key to improving conditions for workers, yet fewer than 37% of companies have managed to put these in place. All highlighted the need for greater effort to develop KPIs that drive the right kinds of outcomes.

“Worker participation is a key approach – you need to involve the actors for whom it actually needs to change – and I would say those approaches are the ones that have brought the most success.”
4. Companies face numerous barriers, challenges and dilemmas in addressing modern slavery

Key modern slavery risks and barriers for companies to address

Key risks companies are focusing on
Companies have identified key risks in these areas and are focusing most of their attention on addressing these.

- Migrant workers
- Child labor
- Recruitment fees and debt bondage
- Agency workers and temporary labor
- Working hours and wages
- Subcontractors

Risk areas companies are starting to focus on more
Companies are beginning to see risks in these new areas as they start to map their supply chains.

- Logistics
- Warehousing
- Cleaning
- Catering

Key barriers to companies addressing modern slavery
- Supply chain complexity
- Resources to support supplier improvements and due diligence
- Commercial priorities
- Cost and pricing pressures
- Transparency dilemmas
Companies face numerous barriers, challenges and dilemmas in addressing modern slavery.

“Companies face a number of barriers and challenges in addressing modern slavery. Respondents highlighted the need for new skills to grapple with these dilemmas and tensions.

- 51% of companies cited a lack of sufficient resources to conduct due diligence and to support supplier improvements on modern slavery as a key barrier. Commercial and cost pressures mean companies have to manage the tension between public concern and the corporate responsibility to prevent slavery on the one hand, and pressure for buyers to secure the lowest price with their suppliers on the other.

- 42% of companies see the length and complexity of supply chains as one of the strongest barriers to effectively addressing modern slavery.

- Companies are beginning to see risks in new areas as they start to map their supply chains, including in logistics operations, warehousing, IT procurement, catering and cleaning services, temporary and agency labor recruitment etc.

- One of the key tensions for companies is how best and how long to work alongside suppliers to improve working conditions, whilst also having red-lines in place when core standards are not met. All agreed that withdrawing from a supplier is a last resort, but want to ensure they do this in a way that protects the reputation of the business and doesn’t put workers at greater risk of abuse and exploitation.

- Leading companies are making their supply chains and modern slavery approach more visible in public reporting because they see this as a crucial factor in addressing the issue. It helps engage others in their sector through sharing good practice and areas of challenge.

However, most companies say there is a real dilemma around greater transparency. Companies are extremely cautious about how much they should share publicly about the risk of modern slavery, or report on modern slavery cases found in their supply chains. They worry that campaigning NGOs and the media will exploit this to ‘name and shame’ the company publicly.

Other barriers to corporate action included:

- insufficient leverage with suppliers to gain their engagement;
- dealing with commercial partners that deny the possibility of modern slavery existing in their sector;
- and a lack of urgency to address the risk – before a crisis in the media exposes the company to reputational damage.

“The degree of visibility that any company has at the lower tiers is still largely insufficient to make a credible and comprehensive claim that their supply chain is slavery free.”

“We don’t expect our suppliers not to charge us for improving their supply chain. We know that we have to pay more to help them be responsible.”

“Any worker anywhere, even if they’re not very well treated, probably has a smartphone. The reality is, you can’t turn a blind eye and think it probably won’t ever get picked up. That’s just not viable anymore.”
5. Senior leadership engagement is crucial

“An incident involving a child at a supplier site got to our CEO. He wanted to know, ‘What is going on here?’ And that was what broke the dam of resistance, because he said, ‘We’ve got to find a way to fix this. This is against everything that we stand for.’ Now when you get statements like that coming out from the Chief Executive, you move mountains very quickly, and the resources follow.”

The engagement of senior leaders is the strongest enabler of corporate action on modern slavery. It is seen by all companies as crucial in driving effective responses and overcoming critical challenges.

- **79% of companies cited senior leadership passion as a key driver of their modern slavery response.**
- **Senior leaders were most engaged when they had encountered an issue for themselves** – either by seeing poor working conditions first-hand, or being directly involved in the response to a media expose or NGO report that targeted the business.
- **More resources were allocated to address modern slavery when senior leaders were personally engaged.**
- **Most companies have made training and awareness raising for senior leaders a priority,** as the board, CEO and other executives are primarily responsible for signing off the company’s Modern Slavery Statement, strategy and budgets.

- **Culture change in companies was cited as extremely important in driving change in a company.** This involves communicating and clarifying the values, attitudes and understanding of modern slavery, to help embed policies and make them effective. But there was also a recognition that culture change can take time and patience.
- **At the strategic level, senior leaders have a key role to play** in formalizing objectives and KPIs, and ensuring that ownership and responsibility for the company’s modern slavery response is shared appropriately across the business.
6. Collaboration and partnerships are the way forward

“\text{I find that the industry really wants to collaborate and perhaps it's the space that I'm working in, but brands know we can't find solutions alone, we have to do it together.}”

Companies report greater levels of collaboration since the Modern Slavery Act was passed. Companies recognized their role as just one of many actors on modern slavery, and that they cannot deal with modern slavery risks alone. They are collaborating with, and want to partner more with other companies, suppliers, governments, trade unions and NGOs to develop effective solutions to address modern slavery.

- **83\% see other companies (which may include their direct competitors) as key partners, and their most significant source of advice and support.** They see collaboration with peers as a crucial means of driving change in their sector and in their own business. 53\% are more actively engaging with peers since the Act was passed.

- **Companies strongly believe effective engagement and action in partnership with governments, NGOs and charities, and other local stakeholders is critical for significant change, as many of the systemic, underlying challenges of modern slavery are linked to a lack of government policy or enforcement i.e. insufficient regulation or enforcement of standards to protect migrant workers.**

Most interviewees highlighted policy advocacy with governments as a key part of their strategy to address modern slavery, yet only 25\% are currently engaging in this activity.

- **73\% identified multi-stakeholder initiatives (MSIs) such as the Ethical Trading Initiative as their primary source of collaboration and 50\% are working more with MSIs since the Act was passed.**

- **Companies are less concerned than in the past about the risk of breaching competition law by collaborating with competitors, though it is still more of a barrier in the USA.**

- **CEOs or other senior figures have a key role to play in engaging with external stakeholders – from governments to NGOs – to communicate what the company is doing, to seek policy or other change with governments, or to garner greater industry-level engagement.**
We are most grateful to the companies that took part in this research and informed its findings.

In-depth interviews were conducted with 25 brands, retailers and suppliers, and 46 companies completed a detailed on-line survey.

The list below highlights the companies that were willing to be named as participants.

ASDA
British Airways
Coca Cola
Co-op
Gap Inc.
Hewlett Packard Enterprise
HP, Inc.
IKEA
Inditex
John Lewis Partnership
Li & Fung
Marks & Spencer
Marshalls
Nestle
Outerknown
Patagonia
People Tree
SABMiller
Sainsburys
Tchibo
Tesco
The Warehouse
The White Company
Key findings

- Twice as many CEOs and other senior executives (COO, CFO, Chairman) are actively involved in addressing modern slavery since the Modern Slavery Act came into force.

- 77% of companies think there is a likelihood of modern slavery occurring in their supply chains.

- 82% of companies believe that addressing human rights within their core business model is the most significant strategic indicator of corporate leadership on modern slavery.

- 53% of companies are more actively engaging with peers since the Act was passed.

- Companies strongly believe effective engagement and action in partnership with governments, NGOs and charities, and other local stakeholders is critical for significant change.

Full report and case studies

The full research report includes:

- In-depth findings in each of these key areas
- Case studies of good practice from leading companies
- How companies are internally structuring their response to modern slavery
- Additional factors that enable an effective response

- The implications for good leadership practice in organizations
- Reflections from a range of stakeholders on what these findings mean for company practices

Download the PDF and learn more about the research and full report at www.ashridge.org.uk/modernslavery and www.ethicaltrade.org.
“It is clear that the Modern Slavery Act has pushed modern slavery up the agenda and into the boardrooms of large businesses, which is a move in the right direction. Now, we need to see companies produce statements that both comply with the Act’s requirements and point to decisive action being taken, as opposed to merely being a ‘tick box’ exercise.”

Kevin Hyland OBE,
UK Independent Anti-Slavery Commissioner

“It’s good news that the Modern Slavery Act is raising corporate awareness and spurring action. But corporations can still do more. We need them to engage more with trade unions and to put more resources behind action. Progress would be easier, and slavery harder to hide, if multinationals reduced the complexity of their global supply chains.”

Frances O’Grady,
TUC General Secretary

“Corporate leadership is vital to addressing modern slavery, so we are delighted to see reflected in this report the proactive steps taken by businesses. The BRC and its members in partnership with ETI have led efforts to tackle unethical labour practices and promote greater transparency in our supply chains but labour abuses cannot, however, be tackled successfully by any one company or industry single-handedly. We need to drive greater cooperation between Governments, businesses and civil society to put an end to these deplorable practices once and for all.”

Peter Andrews,
Head of Sustainability at British Retail Consortium

“It is heartening to see the finding of an increased interest by business at the most senior levels of the issue of slavery, as well as a growing recognition of this as a pre-competitive issue that companies must work together to address. However, still too few businesses recognise the crucial role of trade unions in guarding their supply chains against slavery, and, despite some recognition of the need, there is little action to engage governments to work with businesses and trades unions to eliminate slavery.”

Aidan McQuade,
Director of Anti-Slavery International