Control Risks

Managing labour welfare risk

Labour welfare risk comes with the issue of modern slavery and can impact in many ways: a trafficked Cambodian found on a Thai fishing boat hits the share price of a retailer in North America; a challenge arises to the reputation of a European construction company building a project in the Middle East or the clothing brand whose Chinese manufacturers have outsourced production to North Korea. But labour welfare risk also exists closer to home: in the city hotel where the housekeeper is illegally employed and in the car wash where the attendant is in debt to his gang master.

While the risk isn't new, in an era of complex, global supply chains, and unprecedented levels of global migration, it's a risk that most businesses are now exposed to. As a result, businesses are increasingly being held to account to ensure they play their part in tackling the scourge of modern slavery by safeguarding the welfare of workers in their supply chain. Extra-territorial legislation requiring disclosure of a company's progress on mitigating these risks is becoming common. Investors seek assurance from businesses at both pre- and post-investment stages that human rights risks such as modern slavery are being managed effectively, while general counsels and executive boards are keen to maintain corporate ethics and CSR responsibilities regardless of where they operate.

There are also many regulatory drivers such as OECD guidelines, ILO conventions, UN guiding principles and IFC performance standards.

How are businesses managing their exposure?

Most organisations seek to limit liability through supplier and partner contracts and then employ a programme of compliance audits for suppliers. Often these audits are based on self-certification, complemented with sample audits by the organisation or a contracted third party.

Contract agreements and audits are both tools that, in isolation, have been shown time and again not to work. A supplier audit may act as an indicator of underlying risks for further investigation. But when poorly administered, it is a 'tick box' exercise that a supplier may circumvent, providing an organisation with a false sense of security that a risk is under control. Modern slavery is a risk that cannot be managed at arms-length.

So if audits alone aren't the answer what does work? Below are five common learning points that we see when working with businesses to build risk management systems to address modern slavery in the supply chain.

Be clear on your mission and don't go it alone

It is almost certain that you will be exposed to modern slavery within your supply chain. Faced with this reality many companies feel pressure to make bold commitments to 'eliminate' modern slavery. But this can lead to impossible policy positions or statements that commit to change the world. Instead, set realistic, pragmatic goals based on addressing root causes within your chain and partnering with suppliers. Modern slavery is a shared risk and one that you can't afford to tackle alone.

The problem is global, but the solutions are local

"Are we really exposed to modern slavery in our supply chain?" This is often the first question asked by a company, quickly followed by the realisation that the true extent of the supply chain is not understood. One element that is common to those companies that manage their risk exposure effectively is in the use of targeted local knowledge to manage a global risk. This means looking at the supply chain map through the different lenses of international regulation, local labour laws, and data and trends on how modern slavery manifests from region to region. A partnership approach is critical in using relevant information sources to inform different supplier control strategies and engagement from region to region.

Communicating your supplier code is not the same as implementing it

You have your policy and supplier code of conduct. You've sent it to your supplier and planned your audit. Risk managed? No. The most effective policies are those that are developed with suppliers, where the intention of the policy is as important as its requirement. Provide training to suppliers on the root causes of risk, work with them to create an implementation road map, and encourage transparency through continual feedback. Only then should you audit.

Develop remediation that is sustainable

You've carried out a series of audits and have found items that conflict with your supplier code. But what is within the capability of your supplier to fix? Does the remediation address the root causes of the risk? Does it need multi-stakeholder engagement or add disproportionate costs to the supplier? Remedial actions often fail because they are unsustainable. Meaningful change takes time to achieve so be creative, focus on root causes and don't be unrealistic in your remediation requirements.

Procurement is a key part of the control strategy

A due-diligence process - particularly one based on self-certification - is only as good as its administration. If your primary due-diligence falls to the procurement team during supplier or contractor on-boarding, what supporting evidence is evaluated and how? Can the team spot the red flags of welfare risks in responses? Your procurement team are a key part of your risk management controls so support them by developing evidence-based self-certification, training them to evaluate responses and giving guidance to suppliers on preparing their evidence of compliance.