UNIVERSITY OF LIVERPOOL

Management School

TRANSPARENCY IN SUPPLY CHAINS (TISC):

ASSESSING AND IMPROVING THE QUALITY OF MODERN SLAVERY STATEMENTS

In this paper Dr Bruce Pinnington and Professor Joanne Meehan (Liverpool), and Dr Amy Benstead (Manchester), report on research into corporate responses to the UK Modern Slavery Act's reporting requirements.

In the underlying research, 190 modern slavery statements were subject to a detailed analysis to establish the extent to which the modern slavery statements report on substantive action taken by firms to find and eradicate labour abuse in their supply chains.

The research indicates a disappointing response in which firms are following each other's reporting standards and concentrating on the internal-focused elements that are easier and cheaper to address.

Firms report very little in the way of meaningful action, or even the necessary discovery processes that are precursors to effective action, with respect to their supply chains.

Key findings:

1. Modern slavery statements typically exhibit only a basic (low) level of quality
2. Of the six sections defined by government guidance, statements are typically stronger in those sections relating to internal factors: structure, processes and training
3. Fewer than half the firms analysed achieved even a basic level of performance for those sections relating to external actions: Risk, Due Diligence and KPIs
4. Overall, statements are failing to report on substantive actions taken to find and address modern slavery in their supply chains. Relatively few are reporting on their actions to discover which firms are in their chains; a necessary precursor to assessing risk or auditing labour practices.

Assessing the quality of modern slavery statements

The idea behind the annual reporting requirements in the legislation, is that if firms are required to report on their actions to combat modern slavery in supply chains, it will encourage them to take meaningful action that they can report.

Requirements

- Firms with a turnover exceeding £36m must submit an annual report on the steps they have taken to eradicate modern slavery in their supply chains.
- The statutory reporting requirements are laid out in the UK Modern Slavery Act 2015 (Section 54: Transparency in Supply Chains (TISC)).
- Guidance on what to include in these reports is provided by the Home Office and various NGOs including the Ethical Trading Initiative (ETI).

Approach

In this research we used the Ethical Trading Initiative's (ETIs) framework to assess reporting quality against 42 criteria in the framework, at 3 levels of performance. The research examined statements from a wide variety of sectors, for firms that are also government suppliers and may therefore, be expected to exhibit superior performance. In total, 190 statements were examined (95 reported in the published paper), to assess strengths and weaknesses. It then considered how firms' responses may be improved especially for the weakest aspects.

Reporting quality: *Of the six sections required for a Section 54 statement, firms pay the most attention to the internally facing sectors: structure; policy, and training. Responses to risk; due diligence and KPI requirements were generally poor. Even where firms did address these topics, responses were superficial.*

Transparency: *In relation to the principle of openness and transparency, only 9 of the 95 statements assessed achieved the basic rating, whilst 80 showed no meaningful transparency at all.*

Discovery: *The assessment framework includes an evaluation of how well firms report on their efforts to map their supply chains beyond tier one of their supply chains. This is a fundamental activity to enable risk assessment, discovery and remediation actions, yet 93 of the 95 assessed statements neither report details of previous supply chain mapping activities, nor report on future mapping plans.*

Disclosure: *Firms generally are willing to disclose information about their internal policies and their training and awareness initiatives, but are much less likely to disclose detailed information of actions relating to their supply chains. However, most firms listed their policies without establishing their relevance to modern slavery.*

Transparency policy implications

Transparency is achieved only when firms have **BOTH** adequate discovery processes **AND** are willing to disclose the results.

The paper argues that firms need to be given incentives to discover issues and to report on remedial action undertaken. Public contracting processes and ethical investors, need to recognise and reward firms taking action above those reporting 'no issues found'.

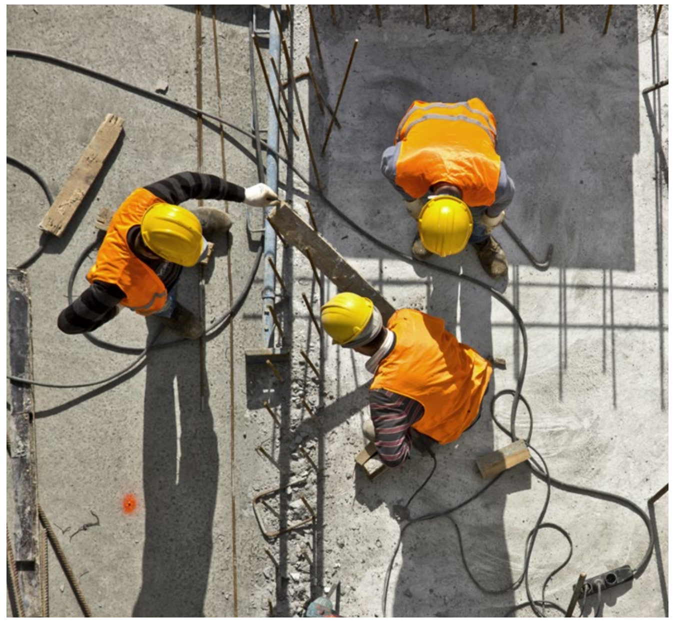
- Discovery is a precursor to disclosure.
- Discovery of supply chain members is a precursor to assessment of risks in those firms.

Firms also should be rewarded where they acknowledge the limitations of their current discovery processes and make timed commitments to address these limitations.

Discovery actions, such as mapping and auditing, are expensive. Risk averse firms, that are slow to disclose actions they are undertaking, will also be slow to receive the acknowledgements they deserve. Rewarding firms for early disclosure of discovery actions will provide incentives to firms to make early commitments to improving their discovery processes, before the major costs are incurred.

Policy makers, ethical investors and public administrators need to ensure that rewards for openness outweigh the perceived disclosure risks.

Firms need to recognise multiple advantages to be gained from improving discovery practices. Costs of supply chain mapping and factor auditing can be outweighed by efficiency improvements and reduction in operational and reputational risks. Improvements in reputation can become order-winners where suitably valued by buyers.



Implications for businesses

Businesses should not be tempted to follow each other's poor practices through herding tactics but should instead recognise the advantages to be gained from following best ethical business practices.

Businesses need to be aware that scrutiny of statements is increasingly being undertaken by NGOs, Universities and also investors.

Businesses need to consider that:

- Increased scrutiny of poor statements poses a reputational risk in addition to the risks posed by potential labour exploitation in their supply chains
- Investment in supply chain best practices may lead to efficiency improvements as well as reduced operational and reputational risks. Best practice may be recognised by both investors and contracting authorities
- Early action to improve supply chain practices will put businesses in a good position to address more stringent legislation that is already emerging, particularly in the EU.

The full academic paper is available from the publishers: https://doi.org/10.1007/s10551-022-05037-w An author version is available on request.

Using this research

Have you used this research to make a change?
To build a picture of how our research is making a positive difference, and to help shape future studies, we are collating evidence on how our research is being used. If this article has contributed to changes in practice, policies, or even just helped spark a new conversation, please consider emailing us to let us know how our research has impacted your work.

Would you like further discussion? The Centre for Sustainable Business is planning to facilitate a series of focused roundtable discussions, bringing together a range of stakeholders interested in a particular area of change. Please contact us if you are interested in taking part in a roundtable debate based around issues raised in this article.

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