

Implications of Covid-19 for modern slavery challenges in supply chain management

Research Summary

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Authors: Dr Bruce Pinnington, Dr Joanne Meehan and Dr Alex Trautrimis



Research by:

This is a summary of the report: *Implications of Covid-19 for modern slavery challenges in supply chain management*, a Modern Slavery and Human Rights Policy and Evidence Centre (the Modern Slavery PEC) research project, funded by the UK Arts and Humanities Research Council. The research was conducted by Dr Bruce Pinnington and Dr Joanne Meehan from the University of Liverpool Management School and Dr Alex Trautrim from the Rights Lab at the University of Nottingham.

The full report can be accessed at modernslaverypec.org/resources/supply-chain-management-covid.

The views expressed in this report are those of the authors and not necessarily of the Modern Slavery PEC. This project was funded through an open call for proposals to examine the impacts of the Covid-19 pandemic on modern slavery.

Background

Recent academic research indicates that the Modern Slavery Act (2015) section 54 reporting requirements, which require businesses in the UK with an annual turnover of £36 million or higher to report annually on what steps they are taking to address modern slavery in their operations, may not be achieving the envisaged degree of transparency in companies' modern slavery statements. At a time when many firms are yet to understand the structure and modern slavery risks in their supply chains, the pandemic resulted in operational disruption and supplier changes that threatened to undermine ethical sourcing initiatives. The Government's temporary relaxation of section 54 reporting requirements, announced in April 2020, may also have sent unintended signals on the priority attached to modern slavery during the pandemic.

The study therefore investigated procurement and supply chain managers' perceptions of the impact of Covid-19 on their firms' commitment to addressing modern slavery in their supply chains. In particular, the study examined how pandemic-related disruptions affected the prioritisation of modern slavery initiatives relative to other commercial priorities.

Research Design

The study employed a two-phase research design. In the first, two focus groups were held with expert practitioners, policymakers and influencers to reveal the extent and nature of supply chain disruptions experienced, and to inform the design of the survey. In the second, **a survey was conducted of nearly 500 managers** from UK-based firms falling within the reporting requirements of the Modern Slavery Act (2015). **Surveyed managers were in procurement or supply-chain-related functions, including senior managers responsible for one or more such functions.** The surveyed population covered operations rather than corporate social responsibility (CSR) roles and represents those business functions that are most crucial to the management of modern slavery risks in supply chains.

The survey was designed to reveal supply chain disruptions experienced by firms as a result of the Covid-19 pandemic, and to assess consequent impacts on managers' attitudes and practices relating to the prevention of modern slavery in supply chains. The survey was conducted in April 2021. As a study of firms' supply chains reporting obligations, the research focused on managers in relevant positions in firms falling within the Modern Slavery Act's scope, rather than people individually affected by modern slavery.

Findings

- Pandemic-related disruptions impacted all aspects of business supply chains, logistics and internal operations
- The priority respondents attached to modern slavery in supply chains increased during the pandemic but remained lower than commercial and operational concerns
- Other areas of concern identified by the research included the rate of supplier turnover, expedited due diligence processes, the impact of demand volatility, and drivers of supply chain visibility
- Covid-19 has improved firms' knowledge about their supply chains, presenting an opportunity for this knowledge to be applied in a modern slavery context
- 80% of supply chain and procurement practitioners believe stronger legislation is needed in relation to Modern Slavery Act's corporate reporting requirements

Disruption affected all aspects of business operations and supply chains

Covid-19 related disruption pervaded all aspects of firms' operations and supply chains with two-thirds of surveyed managers reporting that their firms needed to take on new suppliers to address operational issues. Volatility in consumer demand, and disruptions to firms' own operations as well as those of their suppliers and logistics providers, destabilised many supply chains. International logistics operations were heavily impacted by increased border controls, whilst maritime workers found themselves stranded between jurisdictions. Businesses' capacity to deal with social issues was affected by work-from-home directives, staff furloughing, and restrictions on travel. The pandemic increased modern slavery risks in supply chains as existing suppliers reacted to demand fluctuations whilst also being subject to reduced scrutiny, and new suppliers were taken on through expedited processes.

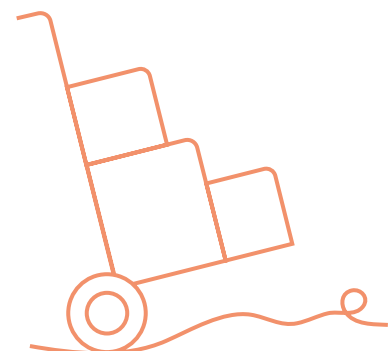
Survey insight

Two-thirds of managers reported sourcing from new suppliers but 36% reported issues in dealing with increased demand through supplier diversification.

Focus group insights

Worker conditions were impacted by illness, labour shortages, lack of sick pay, longer working hours, and fewer audits. Firms "... *had to continue the production*", the priority was "*just trying to keep the ship afloat.*"

Pressure was put on suppliers to keep producing, regardless of risk.



Modern slavery in supply chains increased in priority, but still lagged operational priorities

Despite the operational challenges experienced during the pandemic that may have been expected to deflect attention from social issues, managers reported a small but significant increase in the priority they assigned to managing modern slavery supply chain risks. The priority attached to modern slavery was higher for more senior managers in larger firms. However, **modern slavery remained a lower priority compared with commercial and operational concerns.**

Although the research suggests that managers regard modern slavery in supply chains as an increasingly important phenomenon, **commercial considerations still took priority for survey respondents.** Managers confirmed their top priorities were, securing competitive pricing (32%), ensuring consistent quality (29%), and meeting ordered quantities (12%). Only 14% reporting modern slavery as a top priority. 40% of managers stated that modern slavery was their lowest priority.

As a result of the pandemic, approximately three-quarters of respondents expect supply priorities to shift from cost to resilience, and two-thirds expect suppliers' social responsibility indicators to have greater emphasis in the future.

Covid-19 forced businesses to improve their understanding of their supply chains' structure, but process changes created new risks

Supply chain mapping increased during the pandemic as multiple disruptions and restrictions increased the need for supply chain visibility. Covid-19 related **operational issues were cited twice as often as ethical risks, as being the driver for increasing supply chain visibility.**

Managers also indicated that operational level collaboration was more important than policy and strategic initiatives in addressing modern slavery risks.

Regulatory compliance and the firm's reputation were both rated as more important than dealing with human rights and modern slavery. This finding is concerning in its own right, but also suggests that managers are not associating modern slavery risk management with compliance and reputational risk management.

Survey insight

62% considered modern slavery as a high or very high priority. 32% say priority increased during pandemic, but for 16% the priority decreased.

Focus group insight

"... [we] heard from quite a few companies having to change the priorities within the business and particularly human rights and modern slavery issues and environmental issues have had to take a back seat as a result."

Survey insight

67% of respondents undertook additional supply chain mapping activities during the pandemic

Focus group insights

".. we had to look at our upstream supply chain and distributions and ... frantically ... map an area of our supply chains that we didn't know anything about, where suddenly we had this huge risk of modern slavery"

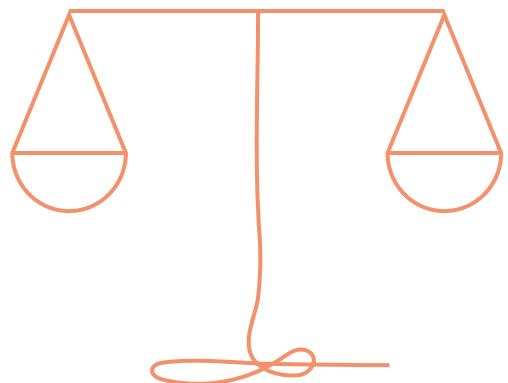
Firms made reactive changes to their supply chains as a result of supply chain disruption. Nearly two-thirds of firms sourced from new suppliers, and of those, **82% admitted that the modern slavery due diligence process had been expedited**. For those firms that already had established processes for undertaking ethical audits of their supply chains, the pandemic compromised supply chain audit mechanisms by limiting auditors' access to facilities and workers.

Where firms are persuaded of the operational and financial benefits of working more closely with supply chains, and improving visibility beyond tier one (direct suppliers), the increase in collaboration and supply chain mapping **represents an opportunity for firms to improve considerably, their chances of identifying and tackling modern slavery risks**.

A high proportion of practitioners believe that further legislation is needed.

80% of managers surveyed believe that stronger legislation is needed to ensure better conformance with Modern Slavery Act's reporting requirements.

Our survey findings provide several indications that managers currently do not see significant benefits in investing in modern slavery initiatives in their supply chains. Even compliance and reputational risks seem to be more strongly associated with operational issues. Managers therefore are regarding such investment as a cost which potentially places them at a competitive disadvantage and will wait until legislation forces further investment, maintaining a level playing with respect to competitors.



Partner perspectives

David Gigg (formerly of the Crown Commercial Service)

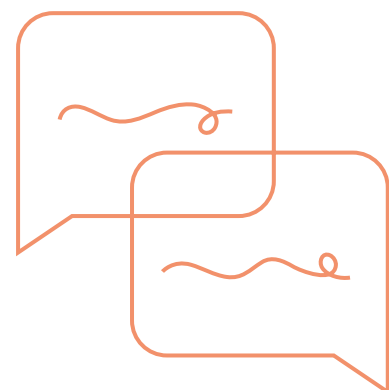
The UK Government has shown leadership in tackling modern slavery but the Cabinet Office's Crown Representatives could go further by requiring the 38 strategic suppliers to the Government to act as exemplars of supply chain due diligence and supplier relationship management. The survey shows firms are more concerned about operational failure than ethical issues. The message that addressing modern slavery can also improve operational effectiveness and efficiency, is one that Government can help to deliver. Legislative changes compelling modern slavery action should be considered alongside positive messages about helping to deliver commercial objectives.

Kate Robinson (Ethical Trading Initiative)

This research enforced our perception of an increase in intensity of the relationship between buyer and supplier, due to the commercial need to keep the supply chain moving. Buyers wanted more visibility throughout the crisis. Yet their ability to conduct validation on suppliers through audits, site visits or other means decreased during COVID. Without effective human rights due diligence we believe it would be more difficult to identify protracted labour rights abuses and consequently the risk of modern slavery likely rose during this time.

Quintin Lake (Fifty Eight)

Covid-19 has significantly impacted the global workforce across all sectors, with the deepest social and economic impacts experienced in fragile contexts and countries which already had higher risks of modern slavery. With a sharp focus on building greater resilience and efficiency in supply chains as a result of the pandemic, new models of due diligence and action are required to address modern slavery risks effectively. Long-term relationships and partnerships with suppliers, regional and industry-wide approaches, and greater involvement of workers directly in building solutions will all be key factors in mitigating risks to workers, businesses and investors alike.



Recommendations

Supply chains are complex, dynamic systems requiring coordinated, committed collaboration between policymakers, policy implementers and practitioners to ensure that policy objectives are translated into practices that operate throughout each chain.

Policy recommendations

- Suppliers to government will have more incentive to invest in anti-slavery initiatives where government tender evaluations include a weighting for modern slavery reporting and action as part of social value evaluations. **The UK Government should build these incentives into the forthcoming Procurement Bill, announced in the Queen's Speech 2021.**
 - a. To be of commercial value to firms, **this assessment weighting needs to be of order winning potential** (a scored element) rather than order qualifying (gating element).²
 - b. To ensure the scored element is effective and consistent, the **Cabinet Office should extend social value guidance for tenders**, with specific advice on modern slavery scoring that will ensure use of the full scoring range.
- Demand volatility exacerbates drivers of modern slavery, and its effects are felt more sharply by firms furthest away from the customer through an established phenomenon known as demand amplification (also known as the bullwhip effect). Firms' should take steps to stabilise demand patterns by taking a longer-term perspective with their supply chains.
 - a. The UK Government has announced plans to mandate reporting of specific areas of Section 54. **Mandated reporting requirements should include the steps taken to reduce the impacts of demand volatility on modern slavery.**
 - b. Firms should plan inventory and ordering cycles in collaboration with their wider supply chain to acknowledge, and minimise, the bullwhip effect.
- Modern slavery risks emerge and change throughout a contract's lifecycle. **Due diligence should not be constrained solely to the sourcing phase.** Data on risk and supply chain structures should be regularly updated and assessed through collaborative supplier relationship practices.
 - a. **The UK Government should ensure the integrity of its supply chains by adopting collaborative supplier relationship management practices throughout the lifetime** of all significant contracts.
 - b. **The UK Government should encourage its strategic suppliers to collaborate with peers on initiatives addressing modern slavery in supply chains.**

1. <https://www.gov.uk/government/publications/queens-speech-2021-background-briefing-notes>

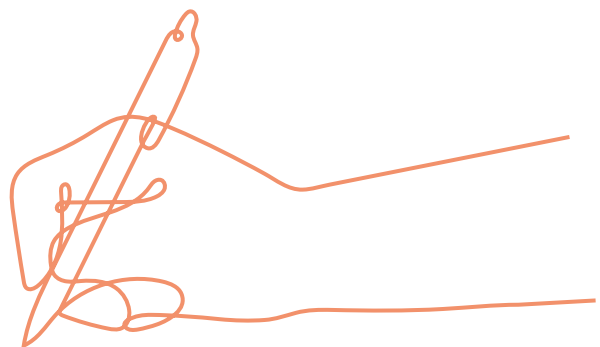
2. A gating element qualifies (or disqualifies) a company's bid, but a scored element allocates a percentage of the total evaluation score that can be an order winner even at a low percentage, especially in a mature market where other more highly scored elements, such as price and quality, are similar for each bidder

Practitioner recommendations

- To gain improvements in operational stability and efficiency, as well as being better able to meet their modern slavery reporting obligations, **firms should ensure that they map the structure, and analyse operational and ethical risks, for their key supply chains.**
- Firms will improve the effectiveness and efficiency of their modern slavery prevention activities where they **collaborate widely with peers**, either directly, or through commercially independent third-parties such as trade bodies, professional institutes and NGOs.
- Firms will be better able manage operational and ethical risks if they **extend their supplier management practices beyond tier one** to assume responsibility for ethical issues in their supply chains, rather than handing off responsibility to suppliers.

Areas for further research

There are indications that further modern slavery legislation is expected in the UK. Businesses may be adopting a wait-and-see approach before investing more heavily in substantive modern slavery reporting processes. Further research should now be undertaken to establish industry expectations and perceptions of *appropriate* legislative changes. Research should also establish what combination of legislative and regulatory changes would be needed to incentivise businesses to invest more heavily in actions to tackle modern slavery in supply chains. Such research needs also to examine factors that will increase the degree of collaboration between supply chain partners and encourage firms to take responsibility for detection and reporting of issues throughout their supply chains.



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Modern Slavery and Human Rights Policy and Evidence Centre
c/o British Institute of International and Comparative Law
Charles Clore House, 17 Russell Square, London, WC1B 5JP

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office@modernslaverypec.org

www.modernslaverypec.org