



The UK Modern Slavery Act 2015 (MSA) is a commercial opportunity to get to grips with your supply chain while demonstrating leadership on an important ethical issue.

Major reputable brands face accusations of illegal labour practices, unethical sourcing and human rights abuses in their supply chains. Even companies which strive to understand and address risks of modern slavery and unethical conduct struggle to ensure the transparency of global, complex supply chains.

The MSA requires companies to describe the steps they have taken to ensure their supply chains are transparent and free of modern slavery. The government expects customers, investors, regulators and other stakeholders to play a vital role in combating modern slavery and it continues to apply pressure as part of its drive to make business more accountable.

So far, few modern slavery statements show a genuine commitment to addressing this important ethical issue. The UK government estimates that only 60 per cent\* of businesses in scope have published a statement, and many of the published statements have been deemed to be inadequate. Some undersell a company's efforts, and are a missed opportunity, while others make claims that are unlikely to be executed within their existing operating model.

In October 2018, the UK Home Office has upped the ante on MSA compliance, writing to Chief Executives of all businesses who are

subject to the MSA and setting a deadline of 31 March 2019 for companies to get their statements completed, or risk being named by the government as non-compliant.

By taking the lead on reporting, emphasising your company's strengths and resolving vulnerabilities can help protect your reputation and seize the opportunity to improve your business, brand and ethos.

\*<https://www.modernslaveryregistry.org>

### **Protect your reputation**

In a world of instant communication, increased regulatory scrutiny and greater demands for companies to act ethically when carrying out their business, integrity risk has become one of the leading concerns on chief executives' minds (source: AICAD's 2017 CEO Outlook).

Major corporates continue to make headlines linking them to illegal labour practices and human rights abuses. The MSA intensifies reputational risk by requiring companies to account for how workers are treated throughout their supply chains. There are currently no direct financial penalties for failure to comply but taking a light approach to the MSA may damage your brand and reputation, and may lead to financial losses.

The UK government expects scrutiny from customers, investors, regulators and the media to drive up standards. The potential negative implications for your business are too high to hope for the best. Instead take action now to help protect your reputation. Complying with the MSA is about more than damage control. The MSA presents an opportunity to galvanise your approach to human rights and integrity risk and gain a greater understanding of your business. Taking a lead on reporting and acting on the MSA can enhance your company's reputation and potentially lead to increased business. Your customers, clients, and other key stakeholders impacted by the quality of

your supply chain, and who are seeking to make their own supply chains compliant with the MSA, may be more likely to buy your products if they have confidence in the integrity of your supply chain. The MSA is also an opportunity to build links with customers by working together.

The MSA is an opportunity to get to grips with supply chains that have often become opaque and complex. You may understand the first tier of your supply chain, but insight into further tiers is harder to glean because enforcing codes of conduct, audit visits and terms may not be possible. What are your suppliers' suppliers doing that you are not aware of? Identifying and dealing with risks under the MSA can help you understand your supply chain better, improve its transparency and integrity and enable you to improve business processes and how you deal with third parties.

#### **Six things to know about modern slavery and the MSA**

Slavery is a persistent problem. Slavery is illegal under international law but it persists as human trafficking, forced and bonded labour and other forms of exploitation. There are almost 16 million victims of forced labour in the global private economy and profits from forced labour exceed \$150 billion (source: The 2017 Estimates of Modern Slavery, ILO and Walk Free Foundation). Your supply chain could be exposed. The MSA covers the entire supply chain and components as well as finished products. If one of your suppliers or a contractor is found to practise modern slavery, your reputation is at risk. The more complex your supply chain, the greater your exposure to modern slavery risks. At the same time, you have a responsibility to your customers to ensure your – and their – supply chain complies with the MSA.

The MSA is part of an international regulatory drive to combat slavery, child labour and other abuses in supply chains.

Australia plans to adopt a modern slavery act and its government is monitoring the effectiveness of the MSA. Significant measures already enacted include France's corporate duty of diligence law (2017), the Dutch child labour law (2017), California's Transparency in Supply Chains Act (2010) and the US Trade Facilitation and Trade Enforcement Act (2015). This drive has momentum and other countries are likely to adopt similar measures. Companies will have carried out initial checks when publishing their early MSA statements but it can take time and a degree of investment to feel confident about human rights risks in the supply chain. Any lack of clarity about modern slavery in the supply chain needs to be dealt with promptly.

All companies covered by the MSA should have published statements, but everyone has work to do. Many statements are vague and halfhearted, with room to improve. Others undersell the company's efforts, resulting in a missed opportunity to demonstrate the company's ethical credentials. Clients should be prepared for more work on disclosure, metrics and checks that they can use to support their statement.

#### **Raise awareness and educate**

Embedding the MSA in the business starts with a "tone at the top" that is transmitted through the company. Training and awareness raising regarding the culture of the business (i.e. what will not be tolerated) is a crucial part of this effort. Companies should carry out training and education for their employees and suppliers to help them pass obligations through the supply chain.

We have a strong grasp of the MSA and how it affects our clients. We have worked with diverse clients in developing their approach/response to the MSA. Our team supports clients across five key stages of compliance: Reporting: AICAD has a deep understanding of the practical

consequences of the legislation and can support clients in producing their Section 54 statement by benchmarking against the Act and their industry peers, as well as advising on clients' broader supply chain and human rights reporting.

**Governance:** Getting policies and procedures right is crucial for setting the "tone at the top" and ensuring a sustainable supply chain. We help clients review and develop their code of conduct, as well as any other relevant integrity and human rights policies, identify relevant KPIs to monitor performance, preview or develop internal reporting procedures and whistleblowing processes. Risk assessment: AICAD can help clients understand the key underlying risks of their business and supply chain through supply chain mapping, risk rating of suppliers, undertaking of human-rights focused due diligence and ongoing review and monitoring.

**Implementation:** AICAD can help clients embed the MSA and relevant integrity processes within their operating models. Specifically, we develop supplier communication and validation materials, develop supplier codes of conduct, deliver supplier training and assess employment and human rights contract clauses. We also support clients in integrating supply chain and ethical internal audit procedures. Investigations: if a client suspects that they have a problem under the MSA, our team has the experience to help them discreetly establish the facts and deal with potentially damaging situations.

Our team of MSA experts will share their knowledge and experience from their MSA work with multinational clients, drawing on the breadth and depth of experience across AICAD to provide clients with insight, accurate analysis and recommendations to improve processes and reduce risk.

