

What small and medium businesses need to know about addressing modern slavery in their supply chains and operations

Unaware & Unprepared



InterMondo
Cultural Consulting

Report

InterMondo Cultural Consulting
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Contents

04.	INTRODUCTION
06.	WHAT IS MODERN SLAVERY?
08.	GOVERNMENT MOVES TO MAKE BUSINESSES ACT ON SLAVERY
10.	LEGAL ANTI-SLAVERY MILESTONES
11.	MODERN SLAVERY IS BAD FOR BUSINESS
12.	CONSUMERS DEMAND ACTION ON SLAVERY
14.	ADDRESSING SLAVERY DEMANDS UNDERSTANDING & CULTURAL PREPARATION
16.	SMES CAN COMPETE WITH LARGER COMPANIES ON SLAVERY
18.	FIND OUT MORE ABOUT WHAT INTERMONDO IS DOING TO HELP
19.	REFERENCES & FURTHER READING



Introduction

We conduct our business today as part of complex global supply chains where modern slavery and other illegal forms of exploiting humans exist in greater numbers than ever before, implicating legitimate businesses, burdening governments and blighting the lives of people in our midst.

Businesses, from small and medium enterprises (SMEs)¹ to multinationals, are inextricably linked with modern slavery, as are consumers, who contribute to slavery through the goods and services they choose to buy.

Business models and operations allow modern slavery to flourish,

hidden from view in third-tier suppliers and beyond, but also “hidden in plain sight” within their operations and immediate supply chains.

Today, consumer pressure, business self-interest and regulatory changes are driving demand for businesses to do something about modern slavery.

SMEs are integral to industry supply chains and global business ecosystems. SMEs are held up as the “engine room” of nations’ economies.² In Australia, SMEs represent 96 percent of businesses, 40 percent of Australia’s GDP and employ up to 75 percent of the private sector workforce.³

Australian SMEs are the main supplier of goods and services for about 40 per cent of large Australian businesses and are estimated to conduct over \$500 billion in annual trade with large businesses.⁴

As such, SMEs are part of the modern slavery problem and – with the whole business community, civil society, governments and victims of slavery – part of its solution. But early experience of modern slavery reporting is revealing that SMEs are unaware and unprepared for demands to ‘tidy up their systems’.⁵

The rise in consumer desire for businesses to ‘do the right thing’ and show they have the ethical right to operate, is transforming how people decide which businesses they invest in, buy products and services from and partner with.

This discussion paper aims to ‘open up’ the conversation with SMEs about modern slavery and help them prepare for escalating expectations about business accountability for slavery, by:

DE-MYSTIFYING MODERN SLAVERY

and what SMEs need to know about consumer expectations that businesses do their part in combatting slavery

EXPLAINING HOW SMES WILL BE AFFECTED

by legal requirements for large businesses to report on their anti-slavery activities, and the reputational and financial consequences, and

PROVIDING A STARTING POINT

to help SMEs consider how they can prepare, within their existing capacities, to act on slavery, including when they operate across culturally unfamiliar supply chains.

Consumers are demanding that businesses do something about exploitation of workers in their own operations and their supply chains. Social media is driving the pressure. Government activities around the world are adding legal weight.

Today, businesses that do nothing to address slavery in their operations and supply chains risk losing consumer trust, reputational damage, client loss and financial loss for their business.

In Australia and globally, steps are being taken to make businesses accountable for their role in modern slavery, and to contribute to the complex task of eliminating slavery in the business ecosystem.

With larger businesses increasingly reluctant to do businesses with SMEs with questionable supply chains, even if SMEs are exempt from reporting, they will still need to provide answers to their business partners that have reporting requirements, such as ‘proof of origin’ of materials or products.

To do this, SMEs require appropriate support and incentives. Yet SMEs are the least supported sector of Australia’s economy.⁶



“Most businesses don’t care about slavery.”

(Manager, SME producer and exporter at Austrade MENA Connections event, October 2017)



What is modern slavery?

Modern slavery refers to 'situations of exploitation that a person cannot refuse or leave because of threats, violence, coercion, deception, and/or abuse of power'.¹ Modern slavery exists in legally recognised, often interrelated, forms like debt bondage, child exploitation, prison labour, forced labour, human trafficking and forced marriage.

SMEs that have complex and hard-to-track supply chains, or supply chains and operations in countries with weak or changeable regulatory systems, are vulnerable to modern slavery. Industries with a high proportion of migrants and international workers, are also at greater risk of slavery.

The global illegality of these practices is the key difference between modern and traditional legalised slavery. It is not a 'relic of the past or someone else's problem'², although this is still believed across the business and broader community.³



IN 2017:



24.9 million people were victims of forced labour

16 million were working in the private economy

4.8 million were in forced sexual exploitation

4.1 million were in forced labour imposed by state authorities⁴

Case Study 1

Businesses use safety products produced under slave conditions¹

Rubber gloves, instruments, safety garments and other safety products used in businesses from health clinics, to construction and manufacturing firms, have been found to be manufactured across the Asia Pacific region by employees working under modern slavery conditions.

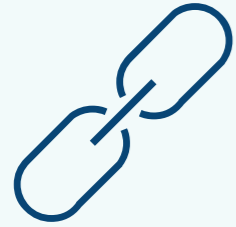
An investigation by the Australian Nursing and Midwifery Association found unethical production and procurement of safety products across supply chains, including child labour and workplaces lacking basic health and safety procedures.

Modern slavery is an 'umbrella' term that is described under international law as a fundamental principle that allows no exemptions.⁵

As with traditional slavery, modern slavery is still a product of business and broader culture values, systems and behaviours. It is sustained through violence and intimidation. Slavery is still characterised by often debasing, dangerous and dirty work, often in services and extractive industries, agriculture and manufacturing, food processing and assembly work.⁶

Today, millions of people are globally working and living under conditions of slavery. Slavery's effects are multiplied across families and our communities. Its presence is greatest in the Asia Pacific.⁷

Although Australia's migration controls, strong regulation and enforcement environment and geographic isolation is a deterrent for modern slavery, particularly where it involves human trafficking, it is a destination country for slavery.



Government moves to make businesses act on slavery



In Australia, the federal government is developing legislation that would compel the business community to address slavery. Based on the UK 2015 Modern Slavery Act,¹ the Australian Modern Slavery Act would require large businesses to report their efforts to address slavery in their operations and supply chains.

In 2017, the government released a public discussion paper and sought responses from businesses and the public about proposed slavery reporting requirements.²

The consultation found that businesses support the development of a Modern Slavery Act, appointment of an independent Anti-Slavery Commissioner and compensation for slavery victims.

Businesses overall strongly supported slavery reporting, but seek further consultation on how to implement it, including whether and how SMEs should be supported to 'opt in' to reporting.³

What about SMEs?

Under the proposed Australian legislation, SMEs would not be required to report. In reality, SMEs will be forced to act if their business partners are legally required to report and especially if they pass data gathering and reporting costs down the supply chain line (i.e. to SMEs). SMEs will also experience greater pressure to respond to consumer demands for evidence of their anti-slavery efforts.⁴

SMEs need to be aware and prepared. Yet findings from the UK and early reports on Australia's small business sector indicate that this is unlikely to be the case.⁵

Proposed reporting requirements

- The entity's structure, operations and supply chains.
- Risks that modern slavery present in the entity's operations and supply chains.
- The entity's policies, due diligence and other processes to address modern slavery across its systems
- The effectiveness of the policies and processes.

InterMondo's submission⁶ to the public consultation on proposed slavery reporting requirements argued that SMEs need clear, accessible, well-marketed guidance to help them address slavery and document their activities, as well as pathways and incentives to help SMEs scale up their reporting if they choose to do so.

Case Study 2

Cleaning business punished for exploiting foreign workers¹

A Perth cleaning company was fined over half a million dollars in 2017 for "deliberate" and "systematic" exploitation of Taiwanese employees.

temporary visa holders with limited English and poor understanding of labour laws.

The company's business model involved targeting migrants and

The company 'failed to show any form of contrition or intention to alter their behaviour'.



Defences such as 'the owners would go out of business if they paid award wages' or 'our workers are part of the family' do not diminish or justify the crime of slavery.



Legal anti-slavery milestones

2000s

Now

US Business Supply Chain Transparency on Trafficking and Slavery Act
US Congress is considering legislation requiring public companies to disclose their activities addressing forced labour.

Now

Australian Modern Slavery Act
Australian government is preparing legislation which would require large businesses to report their efforts to address slavery in supply chains; and opt-in reporting for smaller businesses.

October 2017

Australia Vulnerable Workers Bill
Greater legal responsibility for franchisors and parent companies to treat workers ethically.

December 2017

Australian cleaning company fined half a million dollars for employing workers under conditions of slavery.

March 2016

US blocks goods produced by slave labour for the first time
US Customs and Border Patrol detains products from Tangshan Sunfar Silicon Company, based on findings they were produced by forced convict labour.

February 2016

US Trade Facilitation and Trade Enforcement Act
US prohibits importation of goods made with forced labour.

2015

UK passes Modern Slavery Act
Businesses earning over £36 million annually must report efforts to address slavery in their operations & supply chains.

October 2014

EU Directive 2014/95
EU requires companies to disclose activities addressing corruption, worker exploitation and other ethical issues.

January 2012

California Transparency in Supply Chain Act
Sellers and manufacturers in California with over \$100 million turnover must disclose their activities addressing slavery in their supply chains.

Ongoing

Countries with few resources are responding to slavery

Philippines, Brazil and other countries with fewer resources than leading countries are acting on modern slavery.

Human trafficking criminalised

Human trafficking is criminalised in 124 countries as part of UN 'Palermo Protocols', 2000.

Pending

Competition and consumer fraud violation

Class action filed in California federal courts against companies for relying on forced labour in Thailand or West Africa, violating consumer fraud and unfair competition laws.



Modern slavery is bad for business

Slavery is fundamentally bad for business.

Modern slavery can be lucrative to slaveholders. It is highly lucrative to companies higher up supply chains who benefit from low labour costs in global markets.

However, it under-prices and undermines legitimate businesses.¹ Slavery erodes the essential elements businesses need to survive and be healthy: empowered individuals, healthy, safe communities, healthy environment, good governance and legal protection. People who are victims of slavery are 'unwilling agents of economic stagnation' and social instability.²

Businesses that turn a blind eye to slavery in their systems, or businesses that exploit workers as part of their business model or as a response to financial pressures, risk reputational damage, legal consequences, financial loss and even business failure.³

Slavery gives entire sectors a bad name – especially the **textiles, hospitality, cleaning services, horticulture, seafood, cocoa production, operations outsourcing, food processing, electronics and mining** sectors.

SMEs worried about the reputational hit they may take when they disclose slavery in their systems may hesitate to take 'voluntary action because this may expose them to more scrutiny from media and civil society than businesses that take no or little action.'⁴

However, slavery reporting requirements from their business partners means they may not have a choice. SMEs need to weigh the risks of being exposed to scrutiny against those of reputational damage or worse for saying nothing. In short: "hold your hands up, accept you've got a problem and focus on what you're going to do about it."⁵



Consumers demand action on slavery

The face of SMEs' customer base today is people who seek businesses whose practices align with their own ethical values.¹ They do not hesitate to expose businesses before local and global audiences on YouTube, LinkedIn, Twitter, Instagram, Snapchat, WeChat and Facebook.

While driven by millennials and women, who are expanding into SME leadership and global expansion roles², these consumer behaviours cut across income, region, age and ethnic groups. They are part of loose, dynamic, global networks that use their market power to 'name and shame' businesses for not acting on exploitation. Their purchasing choices, based on willingness to pay more for sustainable goods and services, are giving a competitive edge to businesses that commit to 'doing the right thing'.³

On the financial side, investors and financial institutions see human exploitation as a 'front of mind' issue (see graph⁴ over page).

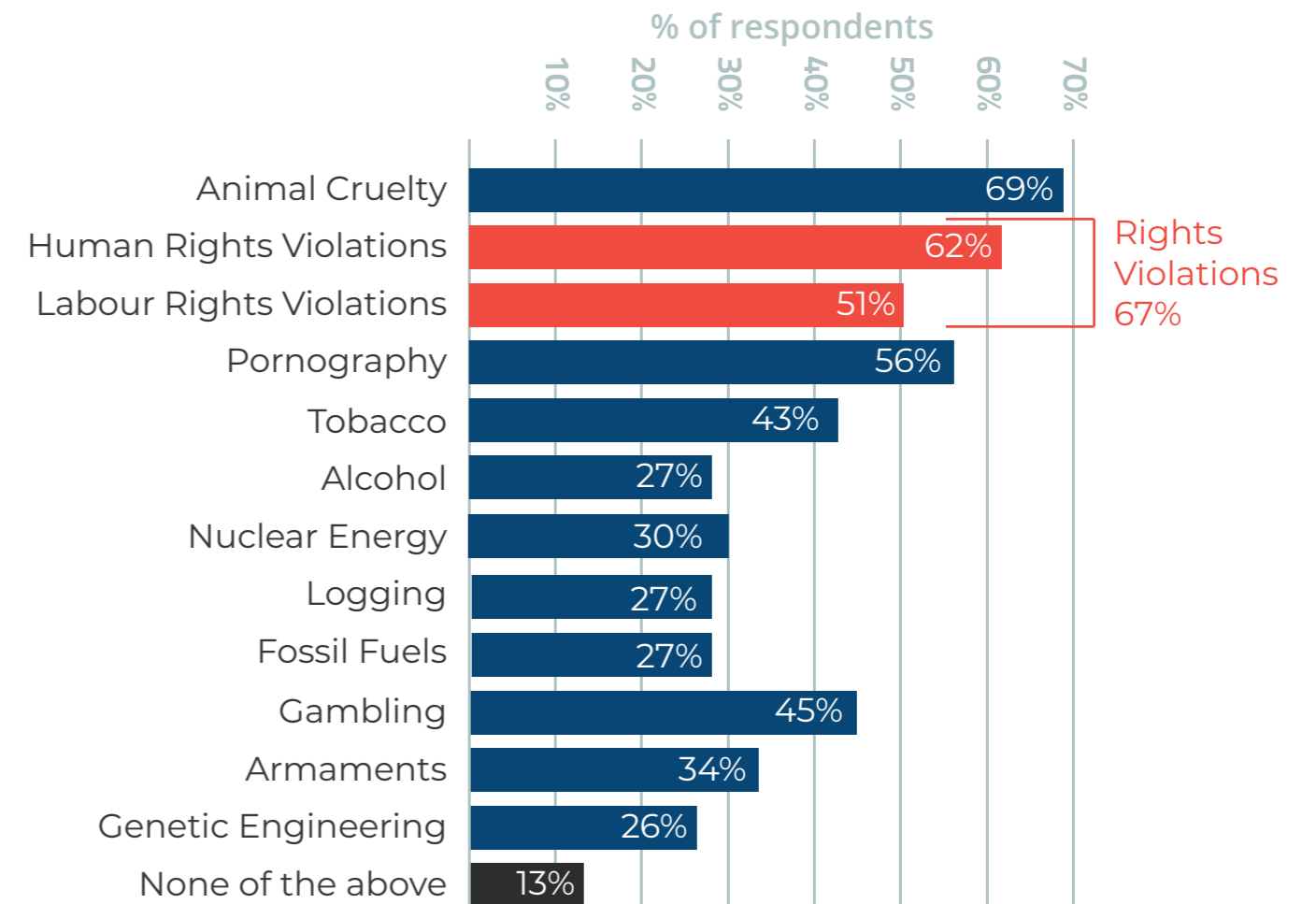
They see modern slavery as an essential business governance and management risk - a warning signal about companies' long-term value and viability⁵ that may leave SMEs struggling to access finance.

Consumers as 'frenemy'

'Naming and shaming' illustrates the adversarial, 'them-and-us' aspects of how businesses and consumers interact. However, the other side of this is public endorsement. Businesses that are prepared to address modern slavery benefit from recognition as models of ethical practice and good businesses to buy from and partner with.

Consumers and consumer groups - like civil society organisations and industry bodies - are essential sources of support. The groundwork they have carried out to unearth and marshal evidence about hidden systems and communication channels across businesses and communities, exposes SMEs tainted by slavery. But it also helps time-poor and resource-limited SMEs build awareness and prepare to address modern slavery.

Issues savers aim to avoid when investing



SOURCE: LONGERAN RESEARCH

Case Study 3

Franchisees under pressure exploit their workers¹

Small business franchisees of iconic brands including Mr Donut and Gloria Jean's Coffee, have been implicated in modern slavery practices such as employing recent migrants and international students under sham contracts and underpaying them.

Franchisees report that crippling requirements by parent company Retail Food Group have driven them to cost cutting on workers.

This makes them vulnerable to even worse financial pain, including fines and losing customers



Addressing slavery demands understanding and cultural preparation

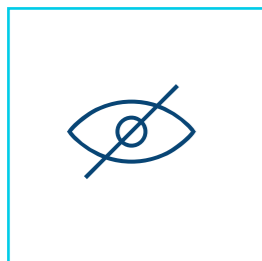


Wherever slavery is found – in financially-stressed franchisees, textiles or electronics manufacturers, or farmers using corrupt labour-hire companies – any action must be based on understanding the context in which slavery exists.

Slavery is usually committed by ordinary people complicit in systems that encourage oppression, especially in emerging economies but also advanced economies like Australia.¹

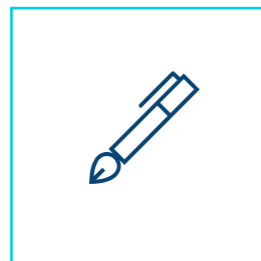
Before rushing to impose boycotts, send in third party auditors and cancel contracts, businesses should first ask these critical questions²:

Are people being exploited because of:



CORRUPT OPERATORS

who have distorted, self-justifying attitudes about human dignity?



BUSINESS SYSTEMS

with profits stemming from low wages and low investment in work health and safety, and



CONSUMER EXPECTATIONS

that place intolerable financial pressures on operators?



A MIX

of these and other factors?

There is no easy, quick way to translate understanding to effective action on this culturally complex, sensitive problem. Supply chains consist of sequences of relationships and businesses must adjust how they communicate with supply chain partners. This means improving cultural self-awareness and adjusting how they communicate with partners across cultures, internationally and domestically.

These steps cannot be outsourced. Cost-effective digital tools and other sources of support, while important aids, are no substitute for these steps.

Treating slavery reporting as compliance 'lip service' undermines the business' operations and fails to address slavery. Top-down demands for accountability from supply chain partners that don't fit in with local realities and perspectives also risk driving exploitative behaviours further 'underground'. SMEs that do this also risk losing their supply source.

SME leaders that are prepared to commit the business and its workforce to addressing slavery can plan for and manage these risks, by:

- promoting dialogue and local 'buy in' to address underlying issues
- increasing attention to suppliers' underlying reasons not to comply, and
- helping suppliers identify how they benefit from addressing exploitation
- offering 'development over withdrawal', and
- building 'reflexivity and learning' into communication between all parties and future improvement³.



SMEs can compete with larger companies on slavery

While larger companies are financially well resourced to lead on transparency and accountability on modern slavery and are more exposed to stakeholder pressures to act, SMEs can compete on different measures, such as agility and responsiveness to change, provided they have the tools to do so.

While trigger phrases like 'compliance fatigue' and 'red tape' may be misleading about the key challenges of addressing modern slavery, they are correct in flagging that SMEs need appropriate guidance and support.

Whatever the size of the business, addressing slavery requires leadership commitment and 'buy-in' from management and employees across the business. It requires sharing the experience and learning across the business as part of a staged approach over time with regular progress checks and adjustment.

SMEs are not powerless when it comes to showing transparency and doing due diligence on modern slavery. However, any business that assumes it has to tackle all aspects of slavery throughout its value chain, or is daunted by fear of transparency, risks being overwhelmed by the task before it has even begun.

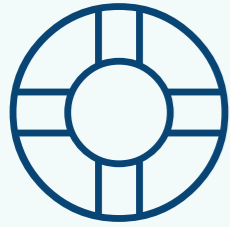
By focussing on the aspects of slavery that they can manage, SMEs can apply and extend their existing experience, skills and tools in management and compliance to build accountability across their operations and supply chains.

Actions that SMEs can start considering:

- Consider how to get 'buy in' across the business about modern slavery. No buy in, no action.
- Require executive staff and employees and encourage contractors to do modern slavery training
- Contact industry peak body and respected civil and consumer group about how they can support the business to address modern slavery (such as the following areas)
- Update procurement policies and seek suppliers that align with procurement policies on slavery
- Implement ethical certification schemes
- Find out about cost effective tools, based on recognised industry standards, that provide search, analysis and data monitoring functions on supply chain products.

Just as modern slavery can undermine stakeholder confidence and damage businesses, tackling it is an opportunity for SMEs to differentiate themselves in the marketplace, compete with larger companies and send a powerful message that they are good to do businesses with and invest in.





Find out more about what InterMondo is doing to help SMEs address slavery

Did this report raise questions for you about putting in anti-slavery measures and preparing to answer questions about modern slavery in your supply chains or operations?

Would you like to find out more about the effect of modern slavery on businesses, if you are an Australian SME or a supply chain partner to an Australian business?

Send us your questions:



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About InterMondo:

We are a boutique business helping organisations improve how they communicate and manage their business relationships when operating across cultures and with culturally diverse teams.



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Thank you.