



# Helping your business to conduct a modern slavery ‘health-check’

Modern slavery compliance

## Introduction

It is estimated that over 40 million people are victims of modern slavery globally, with 16 million victims of forced labour in the private sector. As companies chase ever lower input prices and higher profits, the risk of exploitation and enslavement of workers increases across an organisation's operations and supply chains.

In 2015, the UK government introduced the Modern Slavery Act ('the Act') which requires certain companies to prepare and publish a modern slavery and human trafficking transparency statement ('the Statement') every financial year. It applies to any company with a global turnover of over £36m that carries out business in the UK, even if the UK is not its principal place of business.

In October 2018, the Home Office wrote to the chief executives of 17,000 companies affected by the legislation, informing them of a new requirement to register with its Modern Slavery Contact Database. These letters also stated that failure to comply with this and with the existing requirements of the Act may lead to 'naming and shaming' of the non-compliant; thereby presenting a reputational risk.

In addition, the UK government recently conducted an independent review of the Modern Slavery Act, with a key focus on transparency in supply chains. This review is in response to a compliance rate hovering around the 50% mark and to the frequently poor quality of existing disclosure Statements, many of which fail to even meet the basic legal requirements. The review makes over twenty specific recommendations relevant to businesses. The take-home message is that modern slavery should be taken more seriously and defence against it should be centrally embedded into business operations and reporting processes.

Organisations should be aware that the Home Office is considering a range of options to drive compliance and strengthen reporting, including the development of an enforcement body and more punitive sanctions for corporate compliance failings.

40m people are victims of modern slavery globally

## Our research

For the last two years PwC has examined the Statements of the 100 largest overseas-headquartered companies in-bound to the UK across 12 industries. Our assessment is based on the six key areas that government guidance recommends companies to cover in their Statements. We use a simple scoring methodology which assigns points under each of the six areas defined in the guidance.

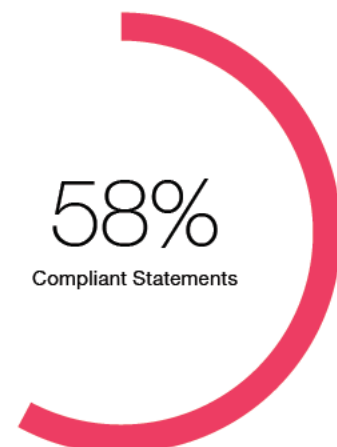
We found that 42% of Statements were non-compliant, failing to meet one or more of the legal requirements to be:

- Published on the company's website with a prominent link on the homepage
- Signed by a named director or above
- Available Statement in date

Of the 58% Statements which were compliant, scores ranged from 14% to 80%; demonstrative of a wide range in the quality of Statements produced.

The top three highest scoring companies this year were all in different, consumer-facing sectors; potentially driven by higher public scrutiny and the heightened measures taken to mitigate reputational risk: Travel & Leisure, Technology & Telecommunications and Retail & Consumer.

Three lowest scoring industries were: Pharmaceutical, Financial Services and Logistics.



## Analysis by area

### Structure

The average score for the Statements' 'structure' was 43%. Most companies provided some description of business purpose, operations and location of operations, but there was generally little disclosure on supply chains. This is likely to reflect, in part, the lack of visibility that many businesses have beyond their tier 1 suppliers. More remote parts of global supply chains are in some cases more high risk but major brands often lack insight and influence. This is a challenge acknowledged by many businesses we speak to around modern slavery and human rights.

### Policies

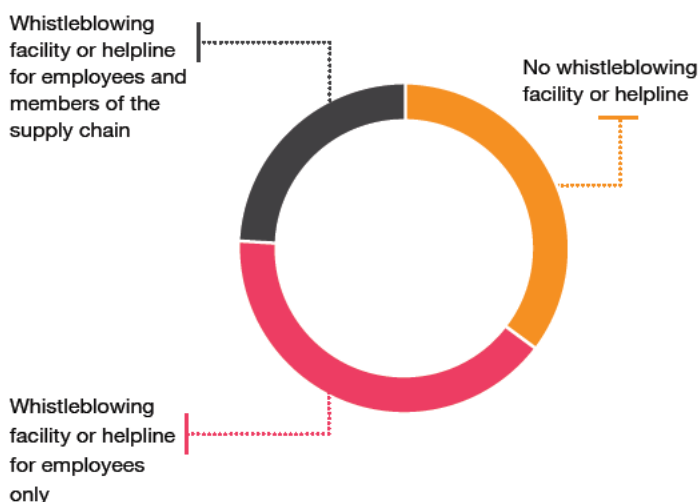
Only a minority of companies have developed specific modern slavery/human trafficking policies. The majority have instead leveraged existing policies (such as HR, procurement, codes of conduct, third-party supplier policies) to acknowledge the requirements of the Act. There is nothing wrong in this, as long as the policies provide for an adequate response on the part of the business. We also know of a number of companies looking to develop specific modern slavery or broader human rights policies in order to bring greater focus to this aspect of their business.

### Risk assessment

Modern slavery risk in supply chains is a function of a number of factors, including; the sector in which a business operates, the geographies into which its supply chain extends, the visibility of its brand and level of influence it could be expected to exert on a supplier, based on size of spend and the proportion of the supplier's output it takes. While 67% of companies' Statements refer to risk assessments of their operations and supply chains, only 4% give a detailed description of the findings. Rarer still is any discussion of specific actions they have taken as a result. Companies should consider disclosing the results of the risk assessment to provide greater transparency for stakeholders and customers and more evidence that a systematic review of risk is leading to practical real-world changes and outcomes.

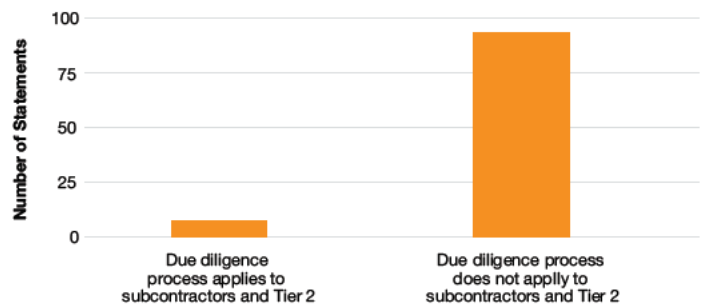
### Whistle-blowing

While 65% of the companies stated that they have a whistleblowing helpline, only 24 companies stated it was available for members of their supply chain. Companies should consider extending helplines across their supply chain, given that this is where modern slavery related issues are most likely to occur.



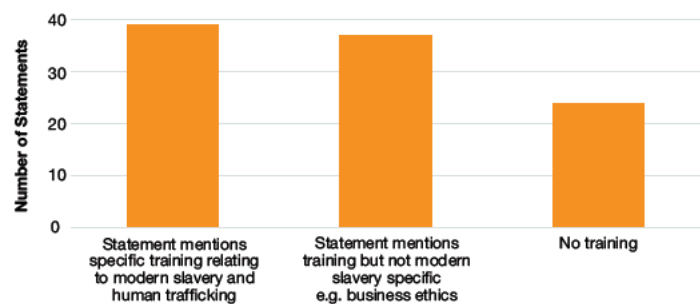
### Due diligence

While 88% of Statements referred to a due diligence process, such as supplier audits, for most companies this process does not apply to sub-contractors or tier 2 suppliers and beyond, where modern slavery related issues are most likely to occur. Finding ways to target and extend due diligence beyond tier 1 presents a real challenge but would provide companies with a deeper understanding of modern slavery risks within their supply chain, enabling better management, mitigation and transparency.



### Training

Over 70% of companies reported that they offer their own staff training specific to modern slavery-related issues, such as business ethics. Only 3% of these companies offer training to members of their supply chains; which is where the modern slavery risk is probably the highest. Offering training to supply chain members would help raise awareness of these issues and could help to mitigate against modern slavery, especially if offered in conjunction with a whistleblowing facility.



### Key Performance Indicators

Across all areas analysed, companies demonstrated the poorest disclosure on KPIs related to their modern slavery approach. Only 16% of Statements gave information on current progress against KPIs with the worst performing sectors being Financial Services, Logistics and Pharmaceuticals. Setting KPIs and future targets would help drive company ambition and progress towards eliminating modern slavery.

## Case study: Major automotive company

The Statement of a global automotive company provides strong disclosure against all six areas defined in government guidance. Key highlights of the Statement include:

- **Demonstrating a 'joined up' approach to tackle modern slavery:** The company has set up a cross functional working group to respond to the Act. The working group has representation from a range of business areas, including Group Compliance, Purchasing, Human Resources and Corporate Social Responsibility.
- **Measuring the effectiveness of its approach:** The company discloses the number of suppliers identified as 'high risk' and provides the results of a slavery and human trafficking questionnaire sent to these suppliers to seek additional assurance.
- **Participating in cross-industry groups to effect change:** The company is a member of a range of cross-industry initiatives to tackle modern slavery, such as the Aluminium Stewardship Initiative.

The company's strong disclosure across all six areas enables the reader to gain a clear understanding of the steps it has taken to prevent modern slavery in its supply chains and own business, and more importantly enables the company to better understand its risks and put in place processes to manage and mitigate against these.

## Conclusion

Given the recent independent review of the Modern Slavery Act and the anticipated changes to both the obligations and potential enforcement powers, companies should be acting now to ensure they comply and that their response to the risk of modern slavery is in alignment with the strength of their brand, the influence they might be expected to wield, the sector they operate in and the geographical location of their suppliers.



## How can we help you?

Our multidisciplinary team can help your business to conduct a modern slavery 'health-check' including undertaking a risk assessment of your supply chain. This may include a review of: your Statement; existing policies; your approach to supplier risk assessments; a review of relevant clauses in precedent suppliers/third party agreements; and/or recommendations for streamlining and filtering the supplier due diligence processes to allow an increased focus and identification of potential risks.

## Get in touch



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