HUMAN TRAFFICKING AND FORCED LABOUR IN THE SUPPLY CHAIN:
IMPACTS ON THE PRIVATE SECTOR

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Introduction

In this paper, we will present the impact that human trafficking and forced labour can have on a company's operations, which form compelling evidence why the private sector should engage in ridding and preventing these perilous phenomena from its supply chain. While much of the data we cite is based on examples from large, multinational corporations who sell directly to consumers, the basic concepts presented apply for every organisation regardless of size, geography, ownership structure, or B2B[1] or B2C[2] clientele. In fact, as larger corporations incorporate practices to eliminate trafficking from their operations, they will increasingly demand that smaller companies further down their supply chains be able to certify that their products and services are free of trafficked labour.

The impacts we present fall under two main categories:
- Disruptions to the Current Operations
- Disruptions to Business Development

Disruptions to the Current Operations include:
- Supply chain disruptions
- Financial penalties
- Investor activism
- Legal and compliance issues
- Reputational damage

Disruptions to Business Development include:
- Issues regarding brand image and consumer demand
- Concerns over employee engagement
- Optimisation and control of the supply chain

Disruptions to Current Operations

The first disruption to current operations are **supply chain disruptions**. Historically, whenever the public has become aware of acts committed against basic human rights by their suppliers (i.e., human trafficking), at whatever tier (raw material, assembler, etc.), companies whose scandals who have been highly publicized have often been forced to find new sources of supply due to the public outrage.

For example, Nike has had to go through this process in sourcing soccer balls. Their key supplier, Saga Sports of Pakistan had been implicated in engaging child labour, so Nike had to cease relations with this supplier and find another to make the 4.2 million soccer balls per year Saga supplied to Nike (Montero, 2006). In addition, numerous apparel companies have committed to sourcing their cotton from non-Uzbek sources once it was revealed that the Uzbek government used forced labour in the production of its cotton (Responsible Sourcing Network, 2013). Because Uzbekistan is the world's sixth-largest producer of cotton, this would have forced companies to regroup and evaluate their sources of supply (International Cotton Advisory Committee, 2012).

[1] B2B, or "Business to Business", is a business model by which businesses sell to other businesses rather than retail consumers.
[2] B2C, or "Business to Consumers", is the business model by which businesses sell directly to retail consumers.

Should a company discover that its supplier uses trafficked and forced labour, it could involve significant time and cost investments. Not only are companies forced to deal with supply disruptions, but they also must find an appropriate way to respond to the issue in public statements, internally, and with government officials. Their prevention mechanisms were weak, so they must pay a high price.

Finding new sources of supply is no small task. Depending on the circumstances, should gross violations be reported, companies could potentially spend millions of euros to complete the supplier selection process and attempt to source elsewhere in the interim. Should demand be sufficiently high, and supply for the inputs lacking in the short-term, a company could lose millions of euros of sales.

Another disruption to current operations are the potential **financial penalties** a company could face should it be found guilty of committing the most egregious act of directly or knowingly allowing trafficked persons to be employed in its supply chain. Governments, companies, and victims themselves can levy these financial penalties. Depending on the country, governments and companies can force companies to pay the proceeds from which they profited from trafficked labour to the victims. Some companies, such as Apple, report to demand from their suppliers to pay education fees and a salary to the families of the victims of child labour (Apple, 2014). Increasingly, the legislation is enabling victims to bring civil suits against their perpetrators.

Moreover, a company could face disruptions to current operations from its own **investors**. In 2013, McDonald's faced a shareholder resolution that would have required the company to report on its process for identifying and analyzing human rights risks in its operations. The resolution specifically addressed the issue of underage labour and referenced McDonalds' Supplier Code of Conduct, which forbids the use of forced labour. Nevertheless, some shareholders believed the word of the policy is not backed up by enough action and therefore exposed the company, and their personal financial assets to excessive risk. While the resolution did not pass, it did receive 28% of the votes, demonstrating that shareholders are beginning to recognize that the impacts of forced labour in a company's operations extend beyond the humanitarian issues; they could affect their own personal wealth (McDonalds, 2014).

Furthermore, companies should be concerned about the **legal and compliance issues** that arise from employing trafficked labour in their supply chains. New laws and guidelines are being developed at a rapid pace around the globe. The frameworks from which these laws originate include the UN Global Compact, UN Guiding Principles on Business and Human Rights, and the EU Directive 2011/36/EU, among others. These frameworks call for strong action in their demands to protect, respect, and remedy the victims of human trafficking.

One of the most forward-looking laws to hold the private sector accountable that have been recently enacted is California SB-657. This law requires companies with worldwide revenues of at least $100 million that do business in California to disclose on their website their policies and procedures, if any, to remove trafficked labour from their supply chains (California State Senate, 2010). The purpose of the law was not only to give consumers transparency into their purchasing decisions, but also to indirectly encourage companies to implement anti-human trafficking policies and procedures.

The criminal case against Kellogg, Brown, and Root (KBR) is the most notable example of a company having to go through a long legal battle over findings that it had engaged in using trafficked labour. KBR's Jordanian subcontractor, Daoud & Partners, trafficked thirteen men from Nepal into Iraq with the promise of high-paying jobs in Jordan. The men were held against their will and told they had to pay fees ranging from €750 to €2,500 to an employment broker. It would take ten years for a Nepali to earn €2,500. Twelve of the men died en route to Iraq from an attack by insurgents, while the thirteenth worked for a year in a warehouse until their story was made public and brought before the court. While the company was found innocent due to a jurisdictional technicality, the cost and reputational damage effects were significant (Gillison, 2014).

Reputational damage is the final disruption to current operations. No companies know this better than Nike and Wal Mart, who have both struggled to improve their reputations after it was discovered that their suppliers employed children. At first, Nike did not make serious efforts to improve their oversight, an issue which culminated in lower sales and stock price by the late 1990s (Boje, 2000). Since then, they report to have taken deliberate steps to not only remove trafficked and forced labour from their supply chain, but also become more transparent to report on their programs to combat it (Nisen, 2013). Nevertheless, Nike remains a cautionary tale of what can go wrong when a company fails to oversee its suppliers. For its sake, Wal Mart continues to admit that it doesn't know much about its own supply chain and claims neither do most companies. However, it too is claiming to begin to take steps to achieve greater visibility (Buckley, 2012).

Disruptions to Business Development

Related to reputational damage are **brand image and consumer demand issues**, which can disrupt a company's business development efforts. Today, "close to 30 percent of total business value…is attributed to brand". For many companies, this is "their single biggest asset" (Simon, 2011). Brands can drive business success. In fact, "87 percent of consumers say they are likely to switch to a brand that is associated with a higher purpose" (Simon, 2011).

There have also been several studies that indicate that companies with strong Corporate Social Responsibility (CSR) programs in place benefit from greater perceived quality, purchase intentions, higher profitability in the long-term, and firm loyalty when an issue occurs (Klein & Dawar, 2004). In particular, research suggests that consumers become "psychologically attached to and care about the company and its products, motivating them to commit to the achievement of its goals and expend more voluntary efforts on its behalf" (Bhattacharya & Sen, 2003; Maignan & Ferrell, 2004).

A "CSR Brand", however, does not merely engage in CSR activities; rather, CSR becomes the heart of that organisation. For example, Whole Foods Markets in the United States, arguably a CSR brand, claims to espouse core values such as caring for the community and environment. These values are reportedly lived out through every part of their business, from organic sourcing and environmentally-friendly buildings to encouraging community service among its employees on company time (Shuili, Bhattacharya, & Sen, 2007). By not making efforts to address human trafficking in a company's supply chain, the company is not only forgoing the benefits cited previously, but it is also hampering its ability to grow one of its most important assets—its brand.

Another disruption to business development stems from the effects of lower **employee engagement** when a company fails to address matters such as human trafficking in its supply chain. According to research cited by Mirvis, there is a strong relationship between employee engagement and a company's stock price, income growth, and overall performance. Thus, employee engagement should matter to companies.

Surveys by Cone Inc. show that 75 percent of the Millennial Generation would like to work for a socially responsible company and 65 percent of all generations "say their employer's social and environmental activities make them feel loyal to their company" (Mirvis, 2012). Research performed by Glavas and Piderit confirm this finding. They concluded that employees who perceive higher levels of CSR report increased amounts of engagement, stronger connections, and greater creative involvement. Additional studies also show that socially responsible companies are able to attract better talent, gain loyalty, tap employees' innovative spirit, and as a result, outperform their peer group (Turban & Greening, 1997; Collins & Porras, 1994). Employing trafficked labour in a company's supply chain could significantly imperil employee engagement if it is not addressed appropriately.

Finally, failing to address the issue of trafficked labour in a company's supply chain could hinder its efforts to fully **optimise and control its supply chain**. According to Engel, two of the best practices for best-in-class supply chain organisations include establishing appropriate levels of control and minimising risk and taking green initiatives and social responsibility seriously. Table 1 provides evidence to support these claims. The table lists the top 25 ranked supply chains in the world according to Gartner[3].

Of the companies on the list, only one does not have provisions in place that address human trafficking or forced labour and two partially include these elements in their Codes of Conduct and/or Supplier agreements, as well as have an enforcement mechanism in place. This follows the logic that when a company has a high-performing supply chain, it is able to achieve greater visibility and monitoring over its operations. This allows it to optimise aspects of the supply chain such as inventory and supplier performance. It is also enables a company to gain deeper insight into the practices of its suppliers, such as raw material inputs, production processes, and even the use of forced labour. Therefore, a sign that a company has achieved optimisation and control over its supply chain is when it can gain visibility into issues such as its suppliers' employment practices. If this is not the case, a company's efforts to fully optimise and control its supply chain have not been realised and/or hindered in some way.

Conclusion

We have shown the numerous effects human trafficking can have on a company's operations, broken down into Disruptions to Current Operations and Disruptions to Business Development. Our arguments show that it is in the best interest of long-term oriented businesses to eliminate this phenomenon from their supply chains.

One important factor to note is that this paper admittedly only addressed the demand-side aspects of trafficking. Businesses can also address the supply-side via efforts to alleviate poverty, improve health care, and provide educational opportunities for the vulnerable where they do business and/or where they have business relationships.

The private sector is uniquely positioned to take action on this issue. Their strong orientation to, and oversight of, streams of commerce, focus on innovation, and access to resources gives them an advantage over governmental and non-governmental organisations (NGOs) to fight human trafficking.

[3] The 25 companies we researched for this briefing were selected because they were listed in Gartner, Inc.'s top 25 supply chain organisations, or corporations recognized for having strong, healthy, and efficient supply chain policies and procedures. Gartner, Inc. is an organisation that is dedicated to such assessments and ratings. The companies we examined are listed in Table 1.

Appendix

Table 1

Rank	Company	Has Anti-Trafficking Provisions in Place*?
1	Apple	Yes
2	McDonald's	Yes
3	Amazon.com	Yes
4	Unilever	Yes
5	Intel	Yes
6	P&G	Yes
7	Cisco Systems	Yes
8	Samsung Electronics	Yes
9	Coca Cola Company	Yes
10	Colgate-Palmolive	Yes
11	Dell	Yes
12	Inditex	Yes
13	Wal-Mart Stores	Partial
14	Nike	Yes
15	Starbucks	Yes
16	PepsiCo	Yes
17	H&M	Yes
18	Caterpillar	No
19	3M	Yes
20	Lenovo Group	Yes
21	Nestlé	Yes
22	Ford Motor	Yes
23	Cummins	Yes
24	Qualcomm	Yes
25	Johnson & Johnson	Yes

Source: Gartner, Inc.

*Defined as at a minimum, including verbiage specifically addressing human trafficking and/or forced labour with additional anti-trafficking provisions in both the company's code of conduct and agreements with suppliers and reportedly having control mechanisms in place to enforce those standards.

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