



Reporting on Modern Slavery The current state of disclosure - May 2016

KEY POINTS

- This is the second edition of our analysis of 'Modern Slavery statements' produced by commercial organisations in accordance with the UK's Modern Slavery Act 2015. It builds on our first report published in March 2016.
- We have recorded and analysed more than 230 statements in our database. The vast majority are voluntary statements produced ahead of the statutory requirements.
- With some notable exceptions most statements do not go further than general commitments and broad indications of processes.
- For example, 35% of statements say nothing on the question of their risk assessment processes, which is surprising for statements that are intended to be based around a due diligence approach. Two-thirds do not identify priority risks, whether in terms of countries, supply chains or business areas.
- The best-covered issues are organisational structures and policies covering Modern Slavery, and the least well-described issue relates to key performance indicators used to assess effectiveness.
- The current basic level of detail contrasts with the expectations of civil society organisations and government. If statements do not start to cover processes, risks and actions in more detail, we may well start to see critical comment.
- Among business relationships, supply chains are covered in most detail but contractor relationships remain a key gap, especially since agency workers and outsourced services may pose significant risks.
- We have observed very similar wording in some statements from otherwise unrelated companies, which may point to the use of template or model statements.
- Five sectors account for half of reports. These are: professional service providers, manufacturers, retailers, IT firms, and food suppliers.
- The bulk of reporting companies (69%) are from the UK, North America (14%) or Europe (9%). But we are starting to see more reports (9%) from companies based elsewhere, including Japan and India.

ABOUT THIS REPORT

The UK's Modern Slavery Act 2015 includes an innovative transparency and reporting clause (section 54 - Transparency in Supply Chains) requiring larger organisations to make an annual 'slavery and human trafficking statement' setting out what they do to 'ensure that slavery and human trafficking is not taking place in any of its supply chains, and in any part of its own business'.

This report analyses all the Modern Slavery statements we could find that have been published up to late-April 2016. It extends our first analysis, produced in March 2016, which looked at the first 100 early statements. This updated edition analyses a further 139 statements, making 239 statements in total in our sample.

We have looked at these reports in terms of the key statutory obligations as well as guidance on content produced by the Government. Periodically through 2016, Ergon will continue to update our analysis and publish subsequent reports as more companies produce statements.

FURTHER INFORMATION

For further information on Ergon Associates and the services we provide in relation to understanding and responding to human rights and Modern Slavery issues, and subsequent reporting and analysis, contact:

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To receive future updates to this report, please sign up [here](#).

WHAT PERIOD DO REPORTS COVER?



Companies with year-ends on or after March 31st 2016 must make a statement for the year 2015-16. The Government encourages reporting within six months of the financial year end.

The bulk of reports in our sample continue to be produced voluntarily, in that they have been published ahead of the statutory deadline and relate to a period ending before 31st March 2016. We have also found a significant number of statements that relate to the year ending 31st March 2016 or after, but that were published before the end of the year and so cannot cover a full year's activities. Where an organisation has only recently started undertaking activities, the Government guidelines allow for reporting to only cover activities undertaken during that part of the year. In 7% of cases, the period covered is not specified.

WHO IS REPORTING?

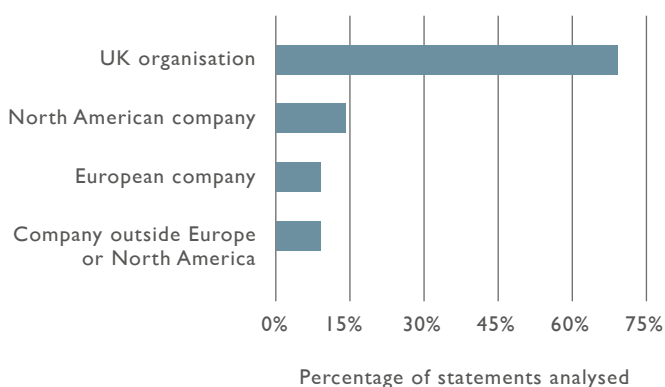


The Act applies to commercial organisations that carry on a business, or part of a business, in the UK. This includes companies headquartered or registered outside the UK (though there are some questions around whether parent companies or UK subsidiaries - or both - should report).

Where are companies based?

The extended sample continues to demonstrate that the bulk of reporting companies (69%) are from the UK, either at parent company level or specific subsidiaries. The next highest sources were North American companies (14%) and European companies (9%). In each case, there was a split between reporting by the parent company or by their UK subsidiaries. In some cases, it was unclear whether a report related to the group as a whole or just a subsidiary.

There is some evidence that the requirement to report is starting to permeate further afield. 9% of statements were made by companies outside Europe or North America with seven companies in Japan, four from India, three from Singapore and one each from China, Jordan, Mexico, South Africa, Saudi Arabia, South Korea, and Bermuda.



Which sectors are publishing statements?

Five sectors account for half of reports. Professional services firms account for 14% of the sample and mainly include lawyers, accountants and employment agencies. These are followed by manufacturers (10%), retailers (9%), IT firms (9%) and food suppliers (8%).

Beyond these, companies from a wide range of sectors are represented. Real estate and construction each account for 6% of the statements, with financial services, other manufacturing and educational/social organisations 5% each. The latter includes care providers and some private education providers. There are also multiple reports from the logistics, hotels and energy/water sectors. Chemicals and pharmaceuticals are the manufacturing sectors with the smallest number of reporters, a surprising finding given the number of companies in the sector and the scale of their operations.

It seems that some sectors that have previously not been traditionally exposed to 'ethical' issues (e.g. services and real estate) are embracing the reporting requirements, but there are many others with global supply chains that are not yet reporting. Paradoxically, this may be because the larger companies with complex supply chains are waiting to produce Modern Slavery Statements co-ordinated alongside their annual reports and sustainability reports, whereas other companies without broader corporate responsibility programmes have decided to produce standalone Modern Slavery statements.

WHAT SIZE OF COMPANY IS REPORTING?



The Act applies to companies with a global turnover more than £36 million.

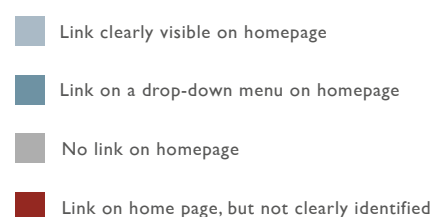
More mid-sized companies are starting to report. Companies with sales of between £36 million (the statutory threshold) and £100 million constitute the largest group, accounting for 39% of statements (up from 31% in our previous analysis). However, the largest companies - with sales of more than £500 million - have declined as a proportion of the sample from 37% to 26%. There remains a significant portion of the sample (8%) that is below the £36 million threshold.

WHERE IS THE STATEMENT PUBLISHED



The statement must be published on an organisation's website with a link in a prominent place on the home page.

Two-thirds of statements were either immediately visible from the company's home page or were available on a drop-down menu. However, a third of statements were either not clearly identified as a Modern Slavery statement or were located elsewhere on a company website with no link from the homepage.



WHO HAS SIGNED THE STATEMENT



The statement must be approved and signed by a director, member or partner of the organisation.

Most statements are clearly signed off by the Chief Executive (21%), another board director (37%) or Partner (2%). 8% were produced in the name of the board as a whole. However, a quarter were not signed by a named person. If this practice were to continue for statements published after the statutory deadline, such reports would be non-compliant.

HOW LONG ARE STATEMENTS?

Our larger sample underlines our initial findings on length of statements. A quarter of the statements are under 250 words long, 34% are between 250 and 500, 34% between 500 and 1000 and 10% over 1000 words.

Many of the statements exceeding 1000 words were produced by larger companies with a turnover above £500 million, from the IT, retail, financial and business services and agricultural sectors. More than 25% of these longer statements were made by North American companies. This may result from their experience of reporting under the California Transparency Act, which has similar requirements.

WHAT DO STATEMENTS COVER? IN HOW MUCH DETAIL?



The legislation lists what 'may' be covered in a statement. Suggested areas to cover are:

- the organisation's structure, its business and its supply chains;
- its policies in relation to slavery and human trafficking;
- its due diligence processes in relation to slavery and human trafficking in its business and supply chains;
- the parts of its business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps it has taken to assess and manage that risk;
- its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chains, measured against such performance indicators as it considers appropriate;
- the training and capacity building on slavery and human trafficking available to its staff.

Further explanation is provided in the Government's guidance note.

We have continued to analyse the content of the statements against the broad headings recommended in the Act and the Government's guidance, but also in terms of factors which, in our practical experience, are useful areas to address.

Some standard wording

In this latest sample, we have identified a number of longer statements that contain nearly identical wording in some of their paragraphs. Some of these even have the same KPIs and outline the same training actions. Company specific information (organisational structure) varies, of course. These statements are mostly from the UK and come from a range of different sectors, suggesting that they may be using the same advisers or template.

Detailed content

We have used a simple assessment of the level of detail provided on various topics, ranging from 'In detail', to 'Not at all'. The purpose is to arrive at a general picture on which issues are being covered and to what extent. This is necessarily subjective but we have tried to ensure consistency in analysis. Examples from some of the more detailed statements are provided at the end of this report.

In general, the level of detail has not changed in the extended sample compared to our first analysis.

As we found in our first report, the item that is covered best is organisational structure, which 46% described either in detail or moderately well. Of course, this is also the most straightforward and unchallenging area.

The next best issue was policy on Modern Slavery. We scored 31% of statements as providing detailed or moderately good information on this.

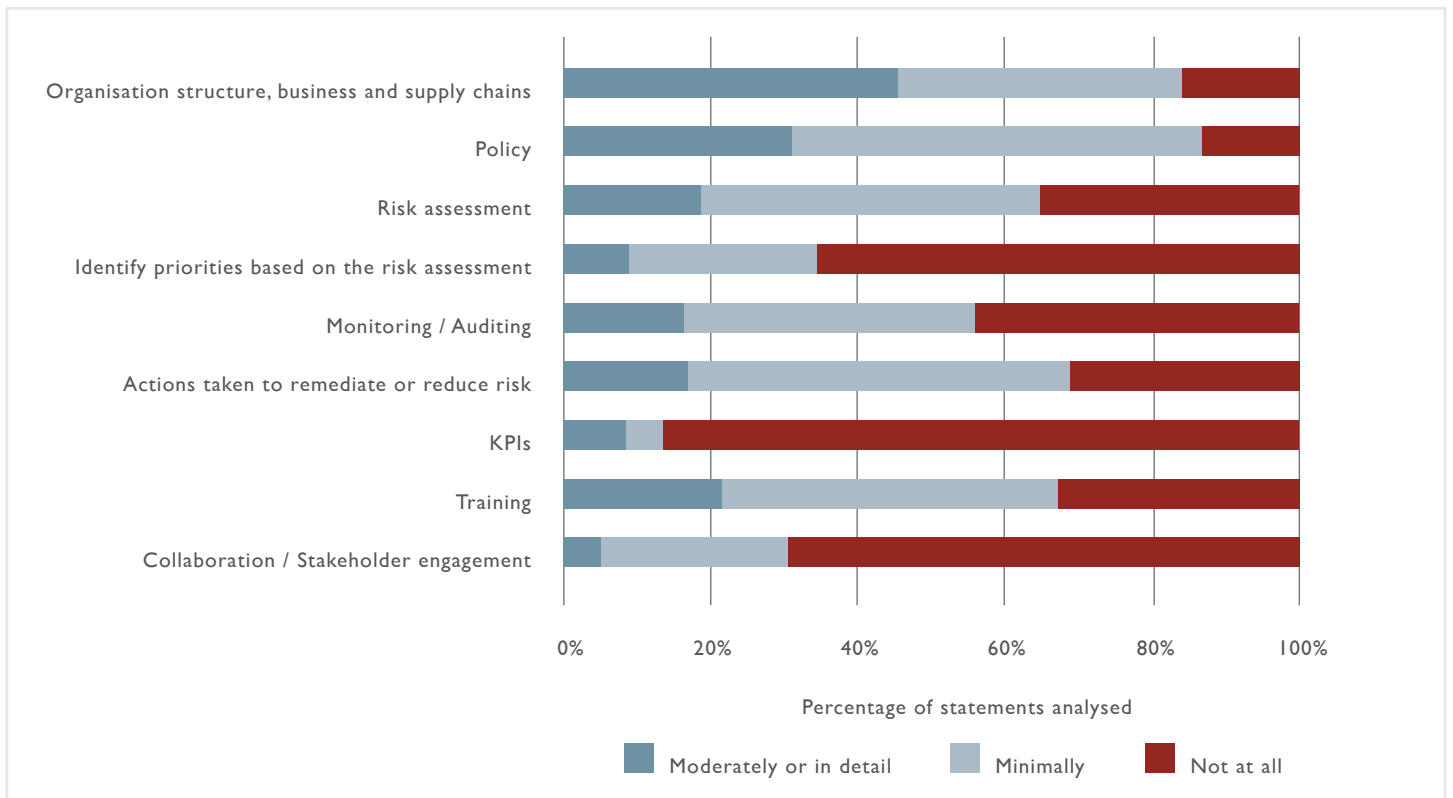
Descriptions of risk assessment processes were provided in detail or moderately well by 19%. However, 35% of companies said nothing on the subject, a significant omission for statements that are intended to be based around a due diligence approach.

Actions taken to remediate or reduce risk were covered well or moderately well by only 17%, with the same proportion of statements addressing monitoring or auditing processes. Many companies stated that they were taking mitigation or remediation action, but did not provide any further detail or examples of good practice.

The least well-described issues are priorities for action based on risk assessments (including mentions of actual risks be they in countries, particular supply chains or business areas, tiers of supply chains or relationships), and key performance indicators used to assess effectiveness of a company's approach to ensuring that there is no Modern Slavery in its own business and supply chain.

These findings emphasise that, in general, most statements continue to provide little detail beyond general commitments and broad indications of processes. Certainly the willingness of companies to admit to defined risks or instances of Modern Slavery in the businesses or supply chains will take some time to take hold. However, there are high expectations among civil society organisations in terms of detailed content ([see Civil Society Guidance on Effective Reporting](#)), and if statements do not start to cover processes, risks and actions in more detail, we may well start to see critical comment. NGOs are also starting to monitor whether statements [comply with the legislation](#) in their view.

How well does the statement cover each of the following?



WHAT BUSINESS RELATIONSHIPS ARE COVERED?



Modern slavery statements should apply to a company's own operations and its supply chains.

We have looked at the key areas of the business and its relationships that are covered in statements. Supply chains remain the area covered in most detail, with 46% of companies addressing them either in detail or moderately well. However, a majority of statements make only minimal or no reference to how they manage Modern Slavery issues in their supply chains.

It is also notable that 10% of statements do not mention how they manage issues with regard to their direct employees and nearly 60% only provide a minimal level of information.

Contractor relationships are poorly covered, being addressed in moderate or good detail by only 8% of companies. This is a key gap since this category covers agency workers and outsourced services where workers may be less visible and thus where major risks may lie.

Are there geographical focus areas?

We have looked for specific references to geographic risk. In spite of many companies reporting that they assess risks, there is no move to providing more specific information on risk assessment outcomes in statements. Nearly 90% of companies make no reference to countries or regions where there may be higher risks or impacts.

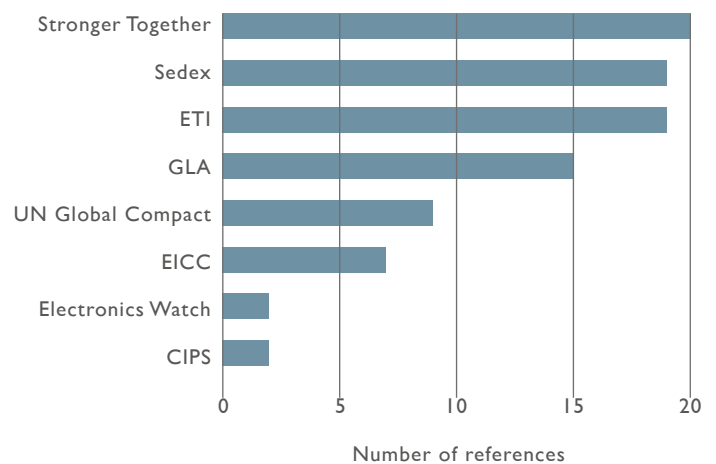
Where there is information, the equal highest mentions go to the UK and South East Asia at 2% each.

The picture is the same in terms of where actions such as projects or remediation actions are focused. More than 90% omit such information, and only actions in the UK, China and South East Asia are mentioned by more than two companies.

Arguably, companies must be more transparent if observers are to be satisfied that their risk assessment or remediation processes are robust.

What collaborative activities are reported?

We have recorded collaboration with specific initiatives, or use of particular collaborative tools. 23% mention one or more collaborative initiatives. Among these, the most frequent citations are:



A wide range of NGOs, business associations or sectoral initiatives were mentioned in single statements. The UK-orientation of most these initiatives reflects the composition of the sample.

PRACTICAL EXAMPLES FROM STATEMENTS

The following examples from company statements represent more detailed or particularly interesting approaches. Our first report also contains some different examples.



Organisation structure and supply chains

One company used a graphic to illustrate its group structure and the business activities of each of its subsidiaries.

Another statement provides a detailed breakdown of the size of the organisation, how many employees it has, each sector it operates in, and how the business is expected to develop and change over the next year.

One provides an annotated world map that shows which countries its subsidiaries source from.



Policy

Statements commonly refer to multiple policies, which combined, cover Modern Slavery. The best of these outline each policy and indicate which Modern Slavery issues it covers. For example, one outlines its whistleblowing policy, employee code of conduct, supplier/procurement code of conduct, recruitment/agency workers policy, ethical trade policy, and corporate and social responsibility policy. Another lists each relevant policy, with a brief description, and provides a web link to the relevant policy.



Risk assessment / areas of identified risk

One company disclosed the following risk assessment and prioritisation process: *“a full listing of all vendors used in 2015 was generated to allow an analysis of all purchasing activity. Vendors were categorised under 4 business activities: business support, logistics, paper and print. The nature of the four activity types was also assessed for the likelihood of a prevalence of high levels of manual labour in low cost economies. Each vendor grouping was assessed for geographic location where a location outside of the EU and North America required further investigation. For paper and print vendors not holding FSC and/or PEFC certification, which involves a third party on site audit working to a global standard touching on social issues, further consideration of the vendor was also required.... The due diligence process generated two findings potentially in the high risk category – at sites in Turkey and India.”*

One company reports that one of its subsidiaries *“has almost 1,400 final packing and production sites supplying products to our shops. Of these sites, just under 20% are operating in countries that we have assessed as being high risk for human rights and working conditions.”*



Monitoring / auditing

One company that provides more detail than the norm stated: *“we use third party auditors to conduct independent audits across facilities we own, co-packers, and suppliers to evaluate compliance with company standards for slavery and human trafficking... We do not typically conduct unannounced visits. Occasionally a co-packer or supplier has already been audited for another company; we evaluate those audits on a case-by-case basis. If the audit is comparable to our own and was undertaken within the past year, we may accept it in lieu of requiring a new audit. We work with a responsible sourcing forum for consumer goods manufacturers and suppliers around the world.... In 2014, we completed 68 audits of our finished goods facilities. We will meet our on going goal of auditing top risk suppliers a minimum of once every three years, and more often in the case of major or critical findings.”*



Actions

Reporting on actions taken by companies is limited and often consists of committing to *“not support or deal with any business knowingly involved in modern slavery”*.

One company disclosed action it took after evidence of illegal practices was found at one of its UK suppliers: *“we launched an immediate investigation which resulted in the supplier terminating the contract with the factory. We also co-operated fully with the police throughout the investigation and court proceedings. Since this was uncovered, we have been increasing our understanding of these issues by working with specialist human rights NGOs and placing greater emphasis on the issue of worker exploitation and trafficking in our audit process.”*



KPIs

One company states that *“we follow a number of KPIs to measure how effective we have been in ensuring slavery and human trafficking practices are not taking place in any part of our business or supply chains. These KPIs are:*

- *Number of suppliers evaluated using our supplier evaluation and due diligence measures;*
- *Number of employees trained on code of conduct and human rights training;*
- *Communication on human rights policies and communication on the United Nations Compact Principles and their progress in our activities;*
- *Number of cases reported on our whistleblowing system and resulting action;*
- *Social Accountability 8000 Audits.”*



Direct employment

One statement describes how the company addresses issues with its own workers: *“from the moment a potential worker chooses to join the checks begin. These continue through the worker’s journey of employment with us. At the time of registration, the identification and ‘right to work’ checks are conducted. This ensures that the worker has control of their own documentation and that their job expectations are managed effectively. All interviews are completed face-to-face with the individual to make sure that they have freely chosen to attend. In addition, throughout the registration and interview process, all application forms are checked and verified as being the applicant’s own information. We also ask where the candidate found out about us and the role.”*



Contractors

One company outlines a due diligence process with regard to contract and agency workers: *“as a business, contract and agency workers work alongside our Partners in a number of different parts of the business, such as distribution where we have peaks in demand at certain times of the year. We asked specialists to carry out an assessment of these supply chains. The assessment involved:*

- *A review of policies, procedures and management systems to manage providers of agency workers*
- *Examination of recruitment processes including procedures to ensure forced labour does not take place*
- *On-site risk assessment involving worker interviews based on social audits and Stronger Together questioning*
- *We are using this information to share best practice across the business and strengthen our work in this area.”*