Is There Slavery in Your Supply Chain?

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October 29, 2019
Also Providing Significant Background Help on this Report

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Goals of this Presentation

1. Describe how slavery gets into the supply chain.
2. Understand why it is important to know what is happening beyond tier 1.
3. Overview strategies on how you can prevent slavery from entering your supply chain.
4. Provide additional resources at the conclusion of the presentation.
1. **Describe how slavery gets into the supply chain.**

- Background information
Background

1. The International Labor Organization (2016) estimates that there are almost 24.9 million victims of forced labor worldwide.
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2. The main industries affected include agriculture, food processing, fishing, manufacturing of textiles, garments, and electronics, mining, and domestic work.
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2. The main industries affected include agriculture, food processing, fishing, manufacturing of textiles, garments, and electronics, mining, and domestic work.

3. **Companies have moved from a vertical integration structure to a virtual structure utilizing global supply chains.**
A simple virtual organization where all but the most important functions have been outsourced. Remember, the contractors are still considered suppliers in the supply chain.
Four Conditions of Slavery

1. The worker is controlled by the employer through some form of mental or physical abuse.
2. The worker is dehumanized and treated like a commodity.
3. The worker’s freedom of movement is restricted.
4. The worker is subject to economic exploitation, usually due to high recruiting fees and underpayment.
Why It is Hard to Work in Supply Chain Management Today

Consumers Want “Discount” Prices

Pressure to Reduce Costs

Outsourcing to less developed countries

Sweatshop and Unsafe Conditions

Modern-Day Slavery in the Supply Chain

Negative Publicity
The Cycle Explained

1. Prior to the 1980s, many U.S. companies were vertically integrated to some degree. Most outsourcing was domestic.

2. The outsourcing boom in the 1980s created global supply chains. During this growth period, retail discount chains such as Wal-Mart flourished, promoting less expensive, but lower quality items.

3. The resulting competition among retailers and brands accelerated the move to push production overseas, opening the door to domestic job losses and the introduction of more sweatshops and slavery.
How Slavery Gets into the Supply Chain

Tier-three suppliers

Tier-two suppliers

Tier-one suppliers

Supplier

Supplier

Supplier

Supplier

Business

Shadow Factory

Prospective Worker

1st Labor Agent

2nd Labor Agent

Country Border
When competition is mostly about price, innovation too often takes a back seat to cost cutting. Laying off workers and hiring cheaper ones is one sure way to enhance the bottom line. Another is to scour the world for low-wage workers, especially those in countries with lackluster enforcement of environmental and worker rights regulations (Shell, pg. 209).
2. Understand why it is important to know what is happening beyond tier 1.

There is a need to clear the “opaqueness” of the supply chain.

What this means is that the visibility of the supply chain at tiers 2 and beyond is obscured.

Hiding in these less visible tiers are environmental sustainability problems, slavery, and other human rights abuses.
Figure 1 - The Supply Chain by Tier

Tier 3
Suppliers - Raw Materials, Mining & Agricultural

Tier 2
Suppliers - Component Manufacturing

Tier 1
Suppliers - Final Assembly

Major Brand or Retailer

Final Consumer

Supplier

Supplier

Supplier

Supplier

Supplier

Supplier

Brand or Retailer

Retail Store

Retail Store

Retail Store
Figure 2 – The Opaqueness of the Supply Chain at Tier-2 and Beyond
The Opaqueness Problem

Three concepts have helped address the situation:

1. Monitoring
2. Transparency
3. Traceability
The Opaqueness Problem

Three concepts have helped address the situation:

1. Monitoring
   a. Seeks to keep tier-1 suppliers at a minimal level of professional and ethical integrity.
   b. This is usually accomplished through inspections and visits of the supplier.

2. Transparency

3. Traceability
The Opaqueness Problem

Three concepts have helped address the situation:

1. Monitoring

2. Transparency
   a. Attempts to highlight the entire supply chain from origin to final consumer.
   b. This process involves mapping the supply chain and identifying the major industries and suppliers.

3. Traceability
The Opaqueness Problem

Three concepts have helped address the situation:

1. Monitoring
2. Transparency
3. Traceability
   a. More micro in its approach as it attempts to identify specific batches or shipments of product from a specific factory, mine, or farm.
   b. Traceability helps identify the cause of a “failure” in a product by linking the problem back to the source.
The Opaqueness Problem

Problems with each approach:

1. Monitoring – focuses primarily on tier-1 suppliers and has been fraught with problems in terms of insuring audits are actually effective and maintaining the standards of the suppliers once the audits are complete.

2. Transparency

3. Traceability
The Opaqueness Problem

Problems with each approach:

1. Monitoring

2. Transparency – shows the map of the supply chain but is not focused on changing the behavior of the suppliers.

3. Traceability
The Opaqueness Problem

Problems with each approach:

1. Monitoring
2. Transparency
3. Traceability – holds much promise and is in use to a limited degree, but its implementation can be burdensome and is not widespread.
Why Supply Chain Managers are Under Pressure

1. They are under pressure to procure products at a designated specification level but charged with keeping costs in line with company parameters.
Why Supply Chain Managers are Under Pressure

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2. At the same time, social stakeholders, particularly customers, put pressure on the company (also referred to as the brand throughout this paper) to keep their supply chains environmentally friendly and free of human rights abuses.
Why Supply Chain Managers are Under Pressure

1. They are under pressure to procure products at a designated specification level but charged with keeping costs in line with company parameters.

2. At the same time, social stakeholders, particularly customers, put pressure on the company (also referred to as the brand throughout this paper) to keep their supply chains environmentally friendly and free of human rights abuses.

3. ..... all while threatening to move their purchasing elsewhere if the price of the product becomes too high.
The Search for Low Price Suppliers

Globalization has moved supply chains further out into developing countries.

This movement reflects the need for companies to find lower-cost manufacturing that will result in lower per-unit costs.

The savings can be passed on to customers in the form of lower purchase prices.
**An Example - The Fast Fashion Industry**

An industry that provides current styles at low prices.

The industry is good for consumers who are price-sensitive, but comes at a price to the environment and those who labor in the garment industry.

Problem – clothing brands that source production to less-developed countries lose some degree of control over the working conditions in those factories.
<table>
<thead>
<tr>
<th>Raw Material Production: Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibers are grown or created (synthetic).</td>
</tr>
<tr>
<td>Sub-processes include:</td>
</tr>
<tr>
<td>• Farming of cotton, silk, wool and jute fibers.</td>
</tr>
<tr>
<td>• Manufacturing of synthetic fibers.</td>
</tr>
<tr>
<td>• Cultivation of rubber and metals for clothing accessories.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Processing: Tier-2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibers are processed into yarn and cloth.</td>
</tr>
<tr>
<td>Sub-processes include:</td>
</tr>
<tr>
<td>• Ginning</td>
</tr>
<tr>
<td>• Spinning</td>
</tr>
<tr>
<td>• Knitting</td>
</tr>
<tr>
<td>• Weaving</td>
</tr>
<tr>
<td>• Dyeing</td>
</tr>
<tr>
<td>• Embroidering</td>
</tr>
<tr>
<td>• Printing</td>
</tr>
<tr>
<td>• Wet processing (laundering)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Garment Assembly: Tier-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cloth is cut, sewn, and assembled into clothing.</td>
</tr>
<tr>
<td>Sub-processes include:</td>
</tr>
<tr>
<td>• Adding lining, buttons, and zippers.</td>
</tr>
<tr>
<td>• Assembling the final product into a clothes item.</td>
</tr>
<tr>
<td>• Quality control checking of the final product.</td>
</tr>
<tr>
<td>• Labeling and packaging.</td>
</tr>
</tbody>
</table>

Figure – The Fast Fashion Supply Chain: Production Side Overview
As the supply chain extends past tier-1 into tier-2 and beyond, it becomes more opaque. This condition makes it harder for the brand or retailer to know what is going on at the far tiers of their supply chains. Modern-day slavery may be hiding in this region.

The suppliers in tier-1 are often monitored by their brand or retail customers. This does not necessarily ensure that these plants are operating at 100% standards, but that they are more visible in the accountability process.

Suppliers on this side of the international border are at higher risk for harboring modern-day slavery. These companies tend to be located in less-developed countries (LDCs).

Companies on this side of the international border are at a lower risk for modern day slavery. These companies tend to be located in developed countries.
The Problems at Tier-1

1. Unauthorized subcontracting makes it difficult to monitor the supply chain.
2. Tier-1 auditing is not perfect.
The Problems at Tier-1

1. Unauthorized subcontracting makes it difficult to monitor the supply chain.

Example - clothing brands are not always aware that their tier-1 suppliers have sub-contracted part of the production process.

Example – Rana Plaza in Bangladesh.
Why Unauthorized Subcontracting Occurs

“For example, a fashion brand may place a large order to its tier-1 manufacturer. The manufacturer may not be able to fulfill the order by the required date of completion, so they sub-contract part of the order to another manufacturer without informing the fashion brand. This is done in order to successfully meet the required completion date stated in the purchase contract. The clothing brands typically offer little price flexibility or latitude in completion dates once the purchase orders are set. Hence, in order not to upset the original agreement, which would mean extending the deadline and/or possibly adjusting the price, the manufacturer sub-contracts part of the production in order to abide by the original contract.”

(Crandall & Crandall, pg. 8)
The Problems at Tier-1

1. Unauthorized subcontracting makes it difficult to monitor the supply chain.
2. Tier-1 auditing is not perfect.
   a. The majority of monitoring occurs at tier-1.
   a. The research literature on monitoring reveals that it has only had limited success (Egels-Zandén & Hansson, 2016).

✓ There are too many factories to monitor.
✓ The ones that are monitored purposely deceive the monitors (Frank, 2008).
The Problems at Tier-2

1. The number of suppliers increases exponentially.
2. The opaqueness of the supply chain increases.
The Problems at Tier-2

1. The number of suppliers increases exponentially.
   a. Each tier-1 supplier has its own set of tier-2 suppliers which means the complexity and number of suppliers can only go up.
   b. A fast fashion brand (company) is just not equipped to monitor all of their tier-2 suppliers.
   c. Of course, this is true in any supply chain, but remember that tier-2 suppliers are also in less-developed countries.

2. The opaqueness of the supply chain increases.
The Problems at Tier-2

1. The number of suppliers increases exponentially.

2. The opaqueness of the supply chain increases.
   a. The inability to locate and “see” all tier-2 suppliers in one’s supply chain makes it more difficult to manage.
   b. With opaqueness comes the inability to identify labor issues within the supply chain.
The Problems at Tier-3 and Beyond

1. Tier-3 involves the extractive (mining) and agricultural industries that are spread throughout the world and particularly, in less-developed countries.

2. These industries have a long history of labor abuse practices (Drumea, 2011; International Labor Organization, 2017).

3. Tier-3 is more opaque than tier-2.
Who Should Monitor the Various Tiers of the Supply Chain?

1. The fast fashion brand
   a. Can monitor their suppliers directly or use a 3rd party such as an NGO.
   b. Must break the Race to the Bottom mentality.
Figure – The Race to the Bottom Simplified

Brand firm seeks to move from one supplier cost line to the next lowest cost line.

Labor Rights and Wages for Workers in LDCs

Price of product to be manufactured

High

Low

Sales - Brand Company

Country A Cost Line

Country B Cost Line

Country C Cost Line
Recommendations

1. Publicly disclosing tier-1 suppliers is now considered a best practice.
   a. It is a “first-step” towards full transparency of a company’s supply chain.
   b. Nike – list their tier-1 suppliers on Google maps for external stakeholders to review (Fashion Transparency Index, 2019).

2. That full supply chain disclosure is not a reality today does not mean it will not be a reality in the near future.

3. A new industry is emerging that is enhancing the transparency and traceability of supply chains at tier-2 and beyond.
Recommendations

1. Publicly disclosing tier-1 suppliers is now considered a best practice.

2. That full supply chain disclosure is not a reality today does not mean it will not be a reality in the near future.
   a. The question is no longer IF full supply chain transparency can be achieved, but WHEN.
   b. In the fast fashion industry, there is reluctance to change because of concerns over higher expenses, sharing sensitive data, and the need for re-training.

3. A new industry is emerging that is enhancing the transparency and traceability of supply chains at tier-2 and beyond.
Recommendations

1. Map your supply chain.
2. Publicly disclosing tier-1 suppliers is now considered a best practice.
3. That full supply chain disclosure is not a reality today does not mean it will not be a reality in the near future.
4. A new industry is emerging that is enhancing the transparency and traceability of supply chains at tier-2 and beyond.
   a. Within this industry are a number of new disruptors (companies) that will redefine fast-fashion and other supply chains in terms of the transparency and traceability capabilities.
   b. Some of these companies are using social-networking platforms that link companies together in a free exchange of information about their suppliers.
   c. To be effective, a company must join one of these networks and encourage their suppliers to do the same.
   d. Blockchain technology has also been used on a limited scale to enhance transparency and traceability.
Recommendations

1. Seek to map your entire supply chain – this includes tier two and beyond.

2. Partner with NGOs
   a. NGOs can act as a resource to help companies rid their supply chains of slavery.
   b. Most are committed to partnering with businesses as opposed to fighting them.

3. Implement Codes of Conduct for Suppliers – the aspiration is that they will force THEIR suppliers to do the same.

4. Audit your tier one plants – but be aware that auditing has its limitations.

5. Avoid plants that may be receiving mass migrants.

6. Avoid plants that require a labor fee.

7. Note – a few high profile companies are actually publishing a list of their tier 1 suppliers on their corporate webpage.
Companies that can help you see past tier two (click the icon to view their website)
Large companies that have found slavery in their supply chain

- Apple – many articles can be found online involving slavery and some of the earlier iPhone models. Today, Apple is one of the leaders in preventing slavery from entering its supply chains – link to their policy
- Fortescue Metals Group – Andrew Forrest found slavery in his company’s supply chain. Here is what he did about it – link to the article
  - Link to their policy
- Nestle – slavery and sourcing of chocolate have been identified. Nestle is affected by this unfortunate link.
  - Read the Guardian investigation article.
- Patagonia – link to article
- Aldi/Walmart/Tesco/Carrefour – imported frozen shrimp from Thailand has been tainted with slavery. This product has surfaced in numerous grocery stores throughout the United States and the European Union. The now famous Guardian Investigation shows exactly where the slave link is in this complicated supply chain – link to the Guardian Investigation
Resource Page

NGO (non-government organization) Resources

- Fashion Transparency Index 2019 – [link to pdf]
- Know the Chain – [link to website]
- Verite – [link to website]
- Walk Free Global Slavery Index 2018/2019 – [link to pdf]
Resource Page

Government Resources

  - Example of a report required under the Transparency Act – [link to pdf](#)

- The International Labour Organization – [link to website](#)
Company efforts to be more transparent in their supply chains

- Adidas Supply Chain Approach – link to their webpage
- Esprit and their Transparent Supply Chain – link to their webpage
  - Their current list of suppliers – link to spreadsheet
- Inditex and Traceability – link to their webpage
- Nike’s Manufacturing Map – link to website
- Patagonia’s Footprint Chronicles – link to webpage
Resource Page – Articles


Resource Page - Articles

Resource Page - Articles


Q & A
Thank You