



THREADS OF EXPLOITATION

WHAT RISKS ARE INVESTORS EXPOSED TO AND HOW CAN THEY BE ADDRESSED?

The top 37 global apparel and footwear companies are failing to live up to their responsibilities and safeguard workers who are facing exploitation and struggling to survive the Covid-19 pandemic. Despite this, companies have profited during the pandemic.¹ KnowTheChain's third sector ranking examining company efforts to tackle forced labor finds that, on average, **companies fail even to hit the 50% mark** in the benchmark when it comes to addressing the worst forms of exploitation in their supply chains.

Such low scores are a cause for concern: even before the pandemic, reports of forced labor were skyrocketing. Allegations of abuse were identified within the supply chains of more than half the benchmarked companies (54%), with the US retailer **Walmart** and **Primark**, one of the UK's largest clothing retailers, each facing as many as four allegations. Factors that create a breeding ground for exploitation and forced labor have dramatically worsened during the pandemic: poverty, discrimination, a lack of labor protections, and restrictions on movement.² At a time when millions of apparel workers across the world are waiting for payment of their legally owed wages and benefits,³ **only four out of the 37 companies (11%) could demonstrate several remedy outcomes for workers**, such as the repayment of unpaid wages or recruitment fees.

Luxury apparel companies performed particularly poorly, with an average score of 31/100. Italian luxury fashion house **Prada** has worsened over time, scoring a mere 5/100 in the latest benchmark. This is not inevitable and raises very serious operational questions as peers such as the French luxury goods company **Kering** (41/100) and the German upper premium brand **Hugo Boss** (49/100) have significantly improved their scores since 2016. US-based **Tapestry** (16/100), the owner of Coach and Kate Spade, also featured in the bottom five companies.

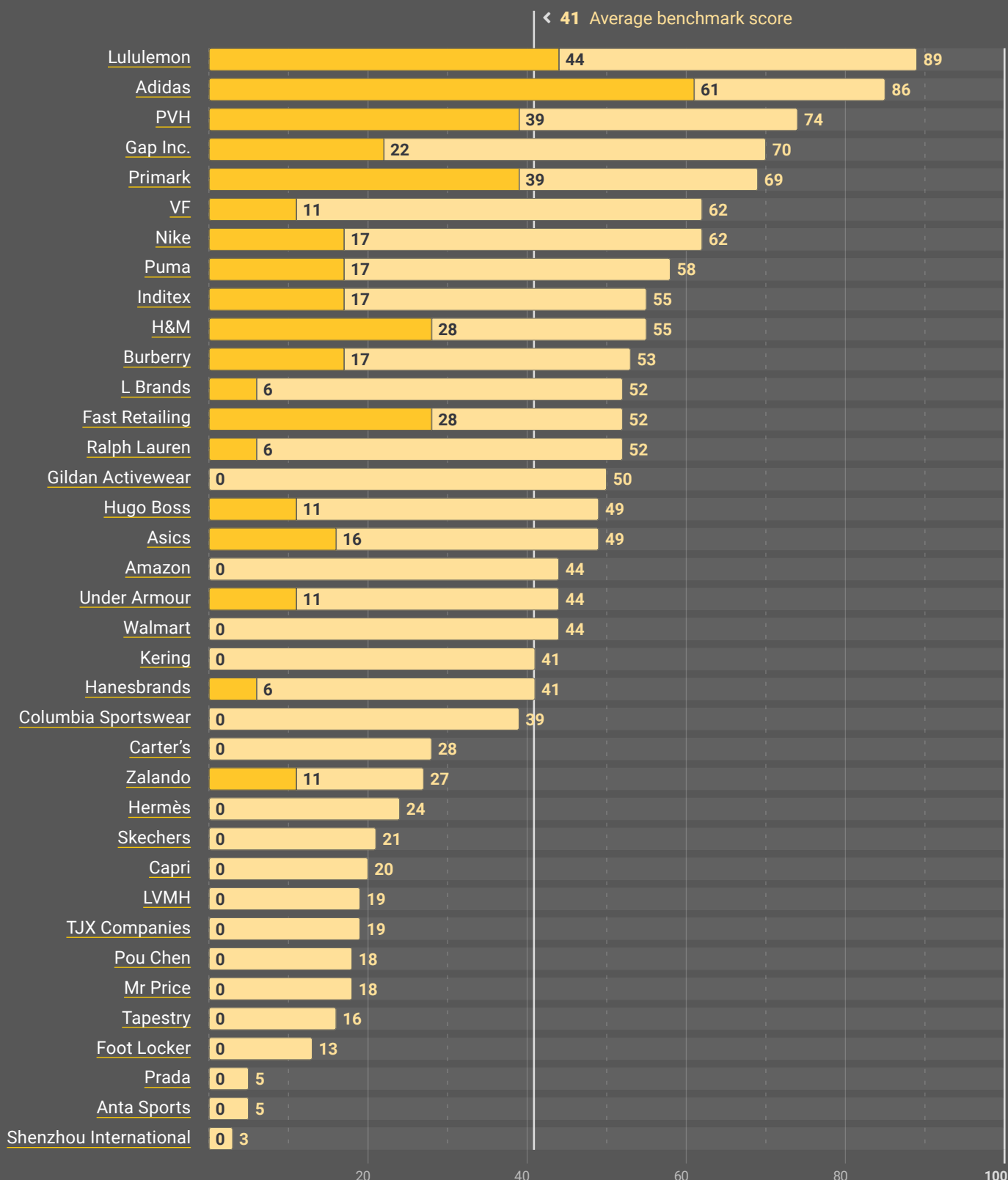
The benchmark also shows more robust practices are both possible and profitable: sportswear companies **Lululemon** (89/100) and **Adidas** (86/100) again topped the benchmark. The companies disclose efforts across different sourcing contexts to safeguard the rights of migrant workers.⁴

To address the vast imbalances of power and wealth between workers and companies, a just recovery necessitates a focus on grassroots and worker-led approaches that recognize and enable the exercise of workers' collective power, agency, and leadership.⁵ Yet all the companies in the apparel sector are a far cry away from embracing a just recovery, let alone fulfilling their responsibilities to respect human rights. **Half the companies (49%) scored zero on the most worker-centric indicators**: those that focus on due diligence processes based on worker participation and concrete outcomes for workers. For example, while 28 companies (76%) disclosed migrant worker policies, only two companies (5%) disclosed several positive outcomes for migrant or other workers in vulnerable conditions. Examples include better dormitories for migrant workers, converting temporary workers to permanent workers, an increase in the number of women in supervisory positions (to reduce harassment), confirming that workers did not have to pay recruitment fees or related costs, and responsive grievance mechanisms for women and migrant workers.

Across regions and subsectors, a handful of companies show what is possible—yet there remain far too many laggards. Until governments and investors hold to account those that fail to prevent and remediate even the worst forms of worker exploitation, there can never be a level playing field.

APPAREL AND FOOTWEAR BENCHMARK SCORES AND WORKER-CENTRIC SCORES

■ Worker-centric scores
■ Benchmark scores



The **benchmark scores** assess companies' disclosure against the full **benchmark methodology**. The **worker-centric scores** are based on nine indicator elements that have the strongest focus on due diligence processes based on worker participation and concrete outcomes for workers.⁶

[EXPLORE RANKING](#)

[EXPLORE FINDINGS BY REGION AND SUBSECTOR](#)

Failure to address supply chain forced labor risks is becoming increasingly costly

Investors and their portfolio companies have a responsibility to respect human rights, regardless of the material implications (or lack thereof). In addition to constituting a breach of international standards and investors' own ESG policies, neglecting to address supply chain risks has devastating impacts on workers, as well as significant material impacts on companies and, subsequently, their investors.



Legal risks

25% of import bans issued by the US in 2020 focused on the apparel sector



Reputational risks

54% of benchmarked companies face allegations of forced labor



Financial risks

~US\$1.8m paid back by Malaysian apparel factories to workers who had to pay recruitment fees

IT IS A LEGAL REQUIREMENT

Import bans of products made with forced labor: The US has significantly increased its efforts to block the import of products made with forced labor and has taken bold action by banning imports from several of the largest global suppliers, as well as from major sourcing regions and countries.⁷ As part of a trade deal that went into effect in mid-2020, Canada and Mexico also agreed to ban imports of goods made with forced labor.⁸ Similar approaches are being considered in the EU and Australia, with the UK and Canada reviewing export controls.⁹

Human rights due diligence is no longer optional:¹⁰ France and the Netherlands have already passed laws requiring companies to undertake human and/or labor rights due diligence. The EU and Germany are working on similar efforts, and other countries and geographies will likely follow.

Fines: Australia, California, and the UK already require companies to report on the actions taken to address modern slavery. The UK is reviewing financial penalties for non-compliant companies.¹¹ Norway is considering legislation that includes "significant" fines; Canada announced potential fines of up to US\$200,000.¹²

REPUTATIONAL RISKS LOOM LARGE—AND CAN BECOME VERY COSTLY

Reports of forced labor in the apparel sector are skyrocketing. **Allegations of abuse were identified in the supply chains of more than half of the benchmarked companies (54%),** with some companies facing up to four allegations. Numbers are likely to increase as the Covid-19 pandemic exacerbates discrimination and economic pressures.

On average, companies reported sourcing from at least **three high-risk countries** and using at least **four raw materials** that may be made with **forced labor** (including bamboo, cashmere, cotton, natural rubber, silk, viscose, and wool).

In 2020, the UK fast fashion company Boohoo made headline news over reported exploitative working conditions, and as a result, lost more than US\$1.3 billion in value overnight and saw major investors divest.¹³ After its auditor PWC resigned over reputational concerns, Boohoo's board of directors was forced to buy shares to stabilize the company's market price.¹⁴ The company faces a potential import ban into the US, and, as of April 2021, its share price has yet to recover fully.¹⁵

HIDDEN COSTS

Workers in apparel supply chains pay as much as US\$4,000 for a job, fees higher than a year's salary. According to the ILO, this practice may constitute forced labor as it traps workers in debt bondage (meaning workers are forced to work to pay off the fees).¹⁶

Payback of such fees can become costly. The Malaysian glove manufacturer Top Glove faced a bill of US\$32 million, and the factories used by global apparel companies reimbursed nearly US\$1.8 million to workers who had to pay recruitment fees.¹⁷ Such costs may be unexpected as workers were assumed to absorb these costs in the past, and companies do not disclose that recruitment costs are being factored into procurement contracts with suppliers.

Recommendations

The OECD guidelines for institutional investors define investors' responsibility to undertake due diligence to identify, mitigate, and, crucially, prevent adverse human rights abuses.¹⁸ With portfolio companies in sectors such as apparel, where labor rights abuses are prolific, investors should:

Use their leverage to ensure workers in supply chains receive remedy, from reimbursement of worker-paid recruitment fees and wage theft to reinstatement for unfair dismissals.

Support human rights due diligence resolutions and/or vote against the management of companies that consistently fail to demonstrate respect for human rights in their supply chains.

Engage with workers and their representatives to understand and support their perspectives, needs, and demands in cases of severe human rights allegations (such as forced labor) at portfolio companies.¹⁹

INDUSTRY GIANTS USE VOTING POWER TO HOLD COMPANIES ACCOUNTABLE FOR LABOR RIGHTS ABUSES

The world's largest sovereign wealth fund, the Norwegian Government Pension Fund, pre-discloses its votes and vote rationales up to five days ahead of annual general meetings (AGMs), which allows others to be guided by its decisions. In early 2021, the investor voted against the re-election of directors at Top Glove, a company embroiled in forced labor allegations, noting that its voting considerations include "unacceptable treatment of stakeholders."²⁰ Blackrock, the world's largest asset manager, discloses its voting rationale for key AGMs and equally stated that it voted against the re-election of Top Glove's directors, given a lack of respect for workers' rights.²¹ Such moves from the largest industry players show that using voting power to support ESG shareholder resolutions and voice concerns over ESG failures might soon become a baseline expectation and an industry norm for ESG investors.

Voting is also a crucial way to address inequality and signal public support and accountability to workers, something that engagements behind closed doors fail to provide. Investors may also consider providing their proxy to workers,²² allowing them to voice their views at company AGMs.

QUESTIONS FOR COMPANY ENGAGEMENT

Tools for investors

KnowTheChain provides tools to support investors in their active ownership and investment decision-making practices:

KNOWTHECHAIN INVESTOR STATEMENT

Developed with co-sponsor the Investor Alliance for Human Rights and with support from the Principles for Responsible Investment and others, this statement allows investors to demonstrate public support for Sustainable Development Goal 8.7. It also calls on companies to address forced labor risks. As such, it can be used as an engagement tool, reinforcing the collective ask. To date, it is supported by more than 160 global investors with US\$6 trillion in assets under management.

COMPANY SCORECARDS

A company scorecard for each apparel and footwear company assessed in the benchmark explains how each company performs compared to its peers, gives recognition for better practices, and points to company-specific suggestions for improvement.

DATA SET

The full data set, as well as all company scorecards, can be downloaded on KnowTheChain's website.

EXAMPLES OF CORPORATE PRACTICES

KnowTheChain's 2021 [Apparel and Footwear Benchmark Report](#) highlights good practice examples across the themes of the benchmark methodology. KnowTheChain also provides questions for company engagement and shares examples of companies that have taken relevant action.

[Translations](#) of the benchmark methodology, as well as other resources, are available in seven languages.

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Endnotes

- 1 For example, the US sportswear company Nike and the Spanish apparel retailer Inditex each made over US\$1 billion profits in Q3-2020 alone. Remake (21 December 2020), "[#ShareYourProfits: A Call for Severance & Direct Relief.](#)" For information on how KnowTheChain has addressed impacts of the pandemic on subsectors such as department stores, please see "Appendix 1: Company Selection" in [KnowTheChain's 2021 Apparel and Footwear Benchmark report.](#)
- 2 Journal of Supply Chain Management: Genevieve LeBaron, University of Sheffield (2021), "[The role of supply chains in the global business of forced labour,](#)" pp. 31-33. UN Human Rights Office of the High Commissioner (30 November 2020), "[Governments must do more to prevent slavery and exploitation during COVID-19 pandemic.](#)" ILO (2020), "[COVID-19 impact on child labour and forced labour: The response of the IPEC+ Flagship Programme.](#)"
- 3 New York Times (6 April 2021), "[Garment Workers Who Lost Jobs in Pandemic Still Wait for Severance Pay.](#)" Reuters (15 March 2021), "[Fashion brands urged to fix 'broken industry' with pledge on workers' pay.](#)" Clean Clothes Campaign, "[Pay Your Workers.](#)" Accessed 29 March 2021.
- 4 Please note the benchmark focuses on assessing corporate disclosure on addressing forced labor, including forced labor allegations only. For information on the companies' response to broader labor rights allegations, see the Business & Human Rights Resource Centre's company pages for [Adidas](#) and [Lululemon](#).
- 5 For more information, read the "[Just Recovery from COVID-19](#)" blog series from the Asian Forum for Human Rights and Development (FORUM-ASIA), Business & Human Rights Resource Centre, and International Corporate Accountability Roundtable (ICAR).
- 6 The indicator elements of the [benchmark methodology](#) included in this assessment were 4.2.2 Repayment of Recruitment Fees, 4.4.3 Outcomes for Workers in Vulnerable Conditions, 5.1.3 Positive Impact of Worker Engagement, 5.2.2 Global Framework Agreements/ Enforceable Labor Rights Agreements, 5.2.4 Examples of Improvements of Freedom of Association, 5.3.3 Involvement of Workers in Design and Operation of Grievance Mechanisms, and 7.2.2 Remedy Outcomes. It also includes 5.1.2 Worker Engagement (only worker-led efforts on labor rights education were counted) and 6.2.4 Monitoring Disclosure (only worker-driven monitoring was counted [i.e., monitoring undertaken by independent organizations that includes worker participation and is guided by workers' rights and priorities]).
- 7 US Customs and Border Protection, "[Withhold Release Orders and Findings.](#)" Accessed 19 April 2021.
- 8 US Department of Labor: Bureau of International Labor Affairs, "[Labor Rights and the United States-Mexico-Canada Agreement \(USMCA\).](#)" Accessed 21 April 2021.
- 9 International Institute for Sustainable Development (22 February 2021), "[EU Parliamentarians Analyze Options for Import Ban on Forced Labor and Modern Slavery.](#)" South China Morning Post (25 February 2021), "[As Australia mulls ban on Xinjiang-made goods, critics ask why China is being singled out for forced labour.](#)" UK Government (12 January 2021), "[Press release: UK Government announces business measures over Xinjiang human rights abuses.](#)" Government of Canada (12 January 2021), "[Canada announces new measures to address human rights abuses in Xinjiang, China.](#)"
- 10 Business & Human Rights Resource Centre, "[Mandatory Due Diligence.](#)" Accessed 19 April 2021.
- 11 UK Government (12 January 2021), "[Press release: UK Government announces business measures over Xinjiang human rights abuses.](#)"
- 12 University of Oslo: Mark Taylor (12 April 2021), "[Mandatory Human Rights Due Diligence in Norway – A Right to Know.](#)" Huffington Post (14 December 2018), "[Modern Slavery Bill Targets Canadian Imports Of Goods Made By Slaves.](#)"
- 13 The Guardian (6 July 2020), "[More than £1bn wiped off Boohoo value as it investigates Leicester factory.](#)" The Guardian (10 July 2020), "[Boohoo shareholder sells off shares in firm worth nearly £80m.](#)"
- 14 Financial Times (16 October 2020), "[PwC to quit as auditor to Boohoo on reputation concerns.](#)" City Index (5 February 2021), "[Everything you need to know about Boohoo shares.](#)"
- 15 The Guardian (3 March 2021), "[US to investigate claim of forced labour at Boohoo suppliers.](#)" London Stock Exchange, "[boohoo group plc.](#)" Accessed 20 April 2021.
- 16 Fashionista (25 June 2019), "[New Report Uncovers Labor Abuses In Malaysian Clothing Factories – And Shows How Brands Should Respond.](#)" The Guardian (22 June 2019), "[NGO's softly-softly tactics tackle labor abuses at Malaysia factories.](#)"
- 17 Reuters (6 October 2020), "[Malaysia's Top Glove raises remediation payment to migrant workers.](#)" Transparentem, "[Buyer/Supplier Collaboration Leads to Partial Recruitment Fee Reimbursements for Migrant Workers in Malaysia \(2020\).](#)" Accessed 19 April 2021.
- 18 OECD (2017), "[Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises,](#)" pp. 8 and 49.
- 19 For example, investors may wish to engage with workers or their representatives before and after company meetings to understand workers' lived experiences. This allows investors to challenge companies on their responses to human rights abuses in cases where companies' action does not lead to meaningful changes on the ground.
- 20 Norges Bank Investment Management, "[Our voting.](#)" Accessed 22 April 2021.
- 21 Blackrock, "[Vote Bulletin: Top Glove Corporation Bhd.](#)" Accessed 22 April 2021.
- 22 For an example, see Investor Advocates for Social Justice (Updated 17 February 2021), "[Tyson Dismisses Shareholders' Human Rights Concerns at Annual Meeting.](#)"