



FORCED LABOR ACTION COMPARED: FINDINGS FROM THREE SECTORS

With recommendations for companies across sectors,
business and multi-stakeholder associations, and investors



This report is based on the three sectoral benchmarks undertaken by KnowTheChain in 2016. The methodology for the benchmarks was developed by KnowTheChain with input from stakeholders in business, investment, and civil society. Engagement with companies in the benchmarks was conducted by the Business & Human Rights Resource Centre (inviting additional disclosure in response to engagement questions). All research was conducted by Sustainalytics. Contributing authors include: Felicitas Weber (Business & Human Rights Resource Centre), Annabel Short (Business & Human Rights Resource Centre), Philip Hunter (Verité), and Kilian Moote (Humanity United).

This report provides a summary of key findings from the benchmarks. For full results by company and theme, visit KnowTheChain.org.

© 2017 KnowTheChain

Updated April 2017
For additional information or questions please contact info@knowthechain.org

One Letterman Drive
Building D, Suite D3100
San Francisco, CA 94129

Main: (415) 426-6300
Fax: (415) 426-6301

Foreword

Last year, KnowTheChain identified three sectors with the highest risk of forced labor in their supply chains and benchmarked 60 companies within those sectors. It was the first analysis of its kind, focusing specifically on forced labor risks and the corporate policies and practices developed by companies in response. In order to build on the momentum of this first set of reports, KnowTheChain worked to identify lessons and recommendations that can benefit companies across all sectors. This report is the product of those efforts.

Through the benchmarking process, we were encouraged to see a growing awareness amongst companies of the risk of forced labor in their supply chains. The fact that companies are increasingly developing policies to address this risk should be celebrated. On the other hand, our findings show that these policies often fall short, and action even shorter—awareness needs to be translated into further action.

Across all three sectors, we found that many company efforts begin and end with their first-tier suppliers, overlooking lower tiers where labor abuses are pervasive. We also found that companies, investors, and business associations need to prioritize empowering workers, rethinking recruitment practices, and developing robust grievance and remedy mechanisms. If there is one thing that is clear after KnowTheChain's initial benchmarking, it is that all evaluated companies have a long way to go to truly address the risk of forced labor in their supply chains.

We recognize that this work is difficult and forced labor is a complex issue. Yet, we are seeing encouraging resources and tools emerge to help companies on this journey. New mobile platforms are being developed that help workers use their collective voice. Innovative recruitment models are gaining traction to help minimize the risks associated with hiring practices. Companies and investors need to invest the time and resources that match the severity of the risk they seek to avoid. In order to protect vulnerable workers, companies should embrace leadership by pushing beyond policy and practice and find opportunities to implement innovative solutions.

It is often said that companies have a responsibility to address forced labor in their supply chains. Today, as a result of having these benchmark reports on hand, companies and investors have an even greater opportunity to take meaningful action.



Ed Marcum
Managing Director, Humanity United

TABLE OF CONTENTS

Executive Summary	5
Why Forced Labor is a Key Risk for Large Global Companies	7
From Monitoring Suppliers to Engaging Workers—Findings Across Three Sectors	11
Recommendations for Companies: Engage Workers and Provide Remedy	17
Recommendations for Business and Multi-Stakeholder Associations:	27
Enforce Standards and Help Companies Empower Supply Chain Workers	
Below the First Tier	
Recommendations for Investors: Ask Questions and Hold Investee	32
Companies Accountable	

Executive Summary

Forced labor is a risk for all large global companies. As public awareness of forced labor in supply chains has grown, regulations requiring companies to take action have continued to emerge—businesses are being held to higher transparency and legal standards. Simply put, corporations across all sectors can no longer afford to ignore this issue.

Recognizing that benchmarks can play a powerful role in encouraging companies to uphold labor standards, in 2016 KnowTheChain benchmarked 60 large global companies from three high-risk sectors (information & communications technology, food & beverage, and apparel & footwear) on the transparency of their efforts to eradicate forced labor from their global supply chains.¹

With a combined market capitalization of more than US \$4 trillion, the companies analyzed by KnowTheChain represent some of the largest companies in the world. These companies were evaluated in seven categories and received a score out of 100 possible points.

Key findings across the three sectors include:

- Average sector scores were below 50/100, indicating significant room for improvement across sectors.
- Shockingly, there was one company in each sector that received a score of 0/100 (Belle International, Monster Beverage, Keyence), indicating a concerning lack of action.
- Apparel companies tend to be more advanced, while food & beverage companies are lagging behind. This is reflective of the level of media attention and civil society pressure companies in each of the sectors have received.
- Companies tend to be more advanced in developing supply chain commitments and monitoring the labor performance of first-tier suppliers.
- Companies are taking limited steps to address the exploitation of migrant workers by recruitment agencies. However, it is encouraging that a number of companies across sectors have joined the

¹ The companies were evaluated using a methodology with seven themes: commitment and governance; traceability and risk assessment; purchasing practices; recruitment; worker voice; monitoring; and remedy. Each company received a score out of 100 possible points. For full results by company and theme, visit KnowTheChain.org/benchmarks. Please note that the benchmarks are based on public reporting by each company. KnowTheChain encourages users to read this information in conjunction with other reports and resources that have documented companies' impacts on the ground, such as those available on the [Business & Human Rights Resource Centre website](http://BusinessAndHumanRightsResourceCentre.org).

Leadership Group for Responsible Recruitment (thus committing to the “Employer Pays” Principle) and that some industry associations are starting to take action.

- Two areas with limited progress are engagement with supply chain workers and providing remedy for workers whose rights are violated. These areas both lack attention from companies as well as from business and multi-stakeholder associations.

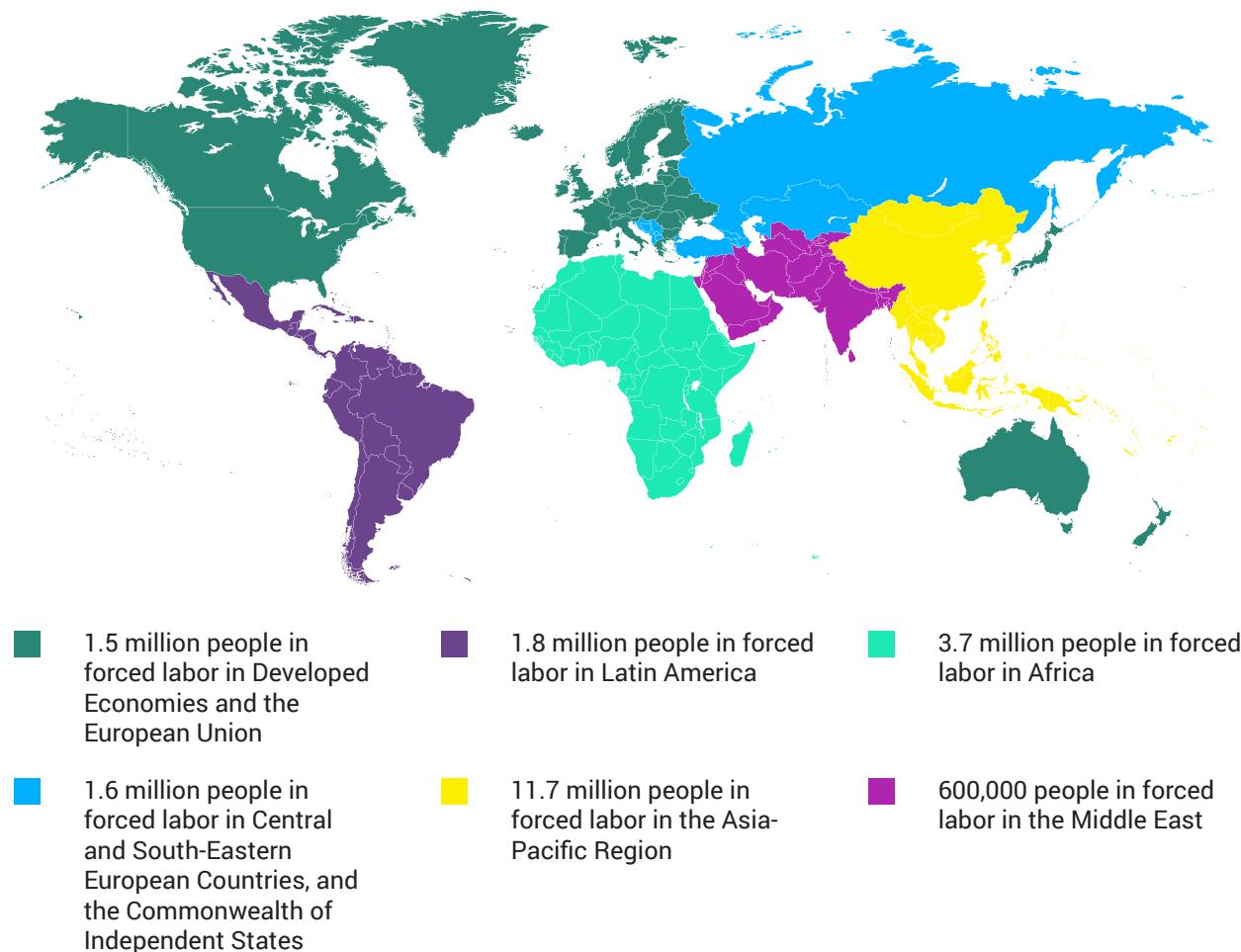
The primary goal of this report is to highlight the cross-sector findings that can benefit companies regardless of their industry. The report concludes with recommendations and good practice examples for companies, business and multi-stakeholder associations, and investors to consider as a path forward.

Why Forced Labor is a Risk for All Large Global Companies

As defined by the International Labour Organization (ILO), forced labor refers to “situations in which persons are coerced to work through the use of violence or intimidation, or by subtler means such as accumulated debt, retention of identity papers or threats of denunciation to immigration authorities.”²

Forced labor is ubiquitous: According to the ILO, an estimated 21 million people are victims of forced labor around the world.

21 MILLION VICTIMS OF FORCED LABOR



Source: ILO (2012) – *Global estimates on forced labor*.

Forced labor occurs in supply chains across sectors. According to the US Department of Labor, there is reason to believe that 56 commodities and goods are made using forced labor. Those range from materials such as bricks, timber, and bamboo, to specialty products such as Christmas decorations and fireworks, as well as everyday consumer products such as carpets, toys, and electronics.

COMMODITIES AND GOODS MADE USING FORCED LABOR

Artificial Flowers	Coal	Embellished Textiles	Palm Thatch	Sugarcane
Bamboo	Coca (stimulant plant)	Fireworks	Peanuts	Sunflowers
Beans (green, soy, yellow)	Cocoa	Fish	Physic Nuts/Castor Beans	Teak
Brazil Nuts/ Chestnuts	Coffee	Footwear	Pornography	Textiles
Bricks	Coltan (tantalum ore)	Garments	Rice	Textiles (hand-woven)
Carpets	Corn	Gold	Rubber	Tilapia (fish)
Cassiterite (tin ore)	Cotton	Granite + Gravel (crushed stones)	Rubies	Timber
Cattle	Cottonseed (hybrid)	Iron	Sesame	Tobacco
Cement	Diamonds	Jade	Shrimp	Toys
Charcoal	Dried Fish	Nails	Silk Cocoons	Wheat
Christmas Decorations	Electronics	Oil (palm)	Stones	Wolframite (tungsten ore)

Source: United States Department of Labor (30 September 2016) – [List of Goods Produced by Forced Labor](#).

GOVERNMENTS PUTTING PRESSURE ON CORPORATIONS TO DISCLOSE ANTI-HUMAN TRAFFICKING PRECAUTIONS AND MAP THEIR SUPPLY CHAINS



United States

- Executive Order 13627: Strengthening Protections Against Trafficking In Persons In Federal Contracts (300,000 companies)
- Tariff Act of 1930: No import of goods made with forced or child labor.
- US Dodd-Frank Act: provision on conflict minerals



California

- SB 657: Transparency in Supply Chains Act (2,000+ companies)
- SB 477: Foreign Labor Recruitment Law



European Union

- Non-Financial Reporting Directive (6,000+ companies)
- EU Human Trafficking Directive
- EU Conflict Minerals Directive



United Kingdom

- Modern Slavery Act (12,000 companies)



France

- Corporate Duty of Vigilance Law



Australia

- Slavery and People Trafficking Act

Regulation is on the rise: There is a growing global momentum in both soft and hard law requiring companies to disclose their efforts addressing forced labor risks in their supply chains. The UN Guiding Principles on Business and Human Rights have established that businesses have a responsibility to respect human rights, including through business relationships. The UN Sustainable Development Goals also address the issue: Goal 8 includes the objective to “take immediate and effective measures to eradicate forced labor [and] end modern slavery and human trafficking.”

Regulatory requirements include the California Supply Chains Transparency Act and the Modern Slavery Act in the UK. The latter applies to over 12,000 UK and multinational companies. Access to government contracts is increasingly linked to provisions on forced labor, with both the US and Dutch governments having put provisions for

government contractors in place in 2012. The ILO's legally binding Protocol on Forced Labour, which was adopted in 2014 and requires states to prevent and remedy forced labor, has been ratified by 13 ILO member countries with more to come.³

Financial and reputational risks—the stakes are high⁴: Forced labor poses a business risk to suppliers, buyers, and their investors alike. This ranges from operational risks, such as having to discontinue supplier contracts due to public pressure, to reputational risks incurred from negative publicity, to legal and regulatory risks, such as lawsuits from employees, customers, and other stakeholders.

Those risks often translate into indirect costs—such as management time spent dealing with negative press coverage—but also into direct costs. For example, in 2015, the US marine-services company, Signal International LLC, had to pay US \$20 million in compensation to victims of forced labor and ultimately went bankrupt, which led to a loss of approximately US \$70 million for two large pension funds which owned nearly half of the company (the Teachers' Retirement System of Alabama and the Employees' Retirement System of Alabama).⁵ In early 2016, the Thai tuna processing factory, Golden Prize Tuna Canning, paid Myanmar migrant workers US \$1.3 million compensation for labor abuses⁶, and, in late 2016, the British company, DJ Houghton Chicken Catching Services, agreed to pay more than £1 million to six Lithuanian migrant workers to settle a labor exploitation claim.⁷

Given the prevalence of forced labor in global supply chains and increasing regulatory, reputational, and financial costs, companies—particularly consumer-facing brands—can benefit from a proactive stance on eliminating forced labor in their supply chains in terms of reputation, reduced operational and regulatory risks, and employee motivation.

3 As of March 2017. For a list of ILO member states which have ratified the Protocol, see [here](#).

4 For an overview of recent lawsuits against companies regarding forced labor, see also Business & Human Rights Resource Centre (September 2016)—[Corporate Legal Accountability Quarterly Bulletin: Quarterly Highlight: Holding companies accountable for modern slavery](#). For a global overview of lawsuits on human rights issues including forced labor, see: Business & Human Rights Resource Centre, Liberty Asia—[Legal Case Map](#). Accessed 27 January 2017.

5 ShareAction (June 2016)—[Forced labour: What investors need to know](#).

6 The Guardian (1 March 2016)—[Myanmar migrant workers win \\$1.3m from Thai tuna firm](#).

7 The Guardian (20 December 2016)—[Gangmasters agree to pay more than £1m to settle modern slavery claim](#).

From Monitoring Suppliers to Engaging Workers— Findings Across Three Sectors

In 2016, KnowTheChain benchmarked 60 large global companies from three high-risk sectors (information & communications technology, food & beverage, and apparel & footwear) on the transparency of their efforts to eradicate forced labor from their global supply chains. Each company received a score out of 100 possible points following an evaluation of the company's public disclosure against seven themes: commitment and governance; traceability and risk assessment; purchasing practices; recruitment; worker voice; monitoring; and remedy.

The average overall score was 39/100. While some companies demonstrated strong initial steps, this reveals much room for improvement. It was shocking that, despite looking at 60 of the largest global companies, there was one company in each sector that received a score of 0/100 (Belle International, Monster Beverage, Keyence), meaning the companies do not even have a basic supplier code of conduct or commitment to address forced labor in place. Several other companies across each sector scored below 10/100.

Does Size and Geography Matter?

Larger companies tend to have larger sustainability and communications teams, and thus better reporting in place. Ten out of the 13 companies with a market cap of over US \$100 billion scored above 50/100 points (IBM, Qualcomm, and PepsiCo, which also have a market cap of over US \$100 billion, scored above 40/100). However, notably, the five highest scoring of the 60 companies were among the smaller and medium companies of the sample, with market capitalizations ranging from US \$7 billion to US \$66 billion: Adidas, Gap, HP, Hennes & Mauritz, and Lululemon.

Companies from Europe and North America tend to score higher than companies from Latin America and the Asia-Pacific, with the average score of European companies being twice as high as the average score of Asia-Pacific companies (47/100 vs. 23/100). That said, Western companies such as Prada, Monster Beverage, and Kraft Heinz scored below 10/100.

While there are sectoral similarities when it comes to the lowest-scoring companies, there are clear differences among the higher-scoring companies in the three sectors. Companies in the food & beverage sector on average score lower than companies in the other two sectors. The highest average and the highest total score could be observed in the apparel and footwear sector.

	Apparel & Footwear	Information & Communications Technology (ICT)	Food & Beverage
Highest Benchmark Score	81	72	65
Average Benchmark Score	46	39	30
Lowest Benchmark Score	0	0	0

Source: KnowTheChain (2016). Scores are out of 100 possible points.

Ahead of analyzing the companies' disclosed policies and practices, KnowTheChain reached out to the 60 companies and invited them to update their websites or to respond publicly to a set of engagement questions related to the benchmark indicators.⁸ The level of responsiveness gives a good indication of the extent to which the sectors are engaged on the issue and recognize the need for transparency and very much mirrors the overall scores in the three sectors: Food and beverage companies were the least engaged, and apparel and footwear companies engaged most strongly.

While there are sectoral similarities when it comes to the lowest-scoring companies, there are clear differences among the higher-scoring companies in the three sectors. Companies in the food & beverage sector on average score lower than companies in the other two sectors. The highest average and the highest total score could be observed in the apparel and footwear sector.

⁸ For further information, see: Business & Human Rights Resource Centre—KnowTheChain—Apparel and footwear company disclosure. Accessed 12 January 2017. The links to the other two sectors can be accessed through this page.

Level of Engagement*	Apparel & Footwear	ICT	Food & Beverage
High Engagement	80%	55%	45%
Low Engagement	10%	10%	30%
Awareness	10%	5%	15%
No Engagement	0%	30%	10%

*High Engagement= company sent response to KnowtheChain questions
 Low Engagement= company sent link to disclosure
 Awareness= interaction between KnowTheChain and the company
 No Engagement= company did not acknowledge KnowTheChain's outreach

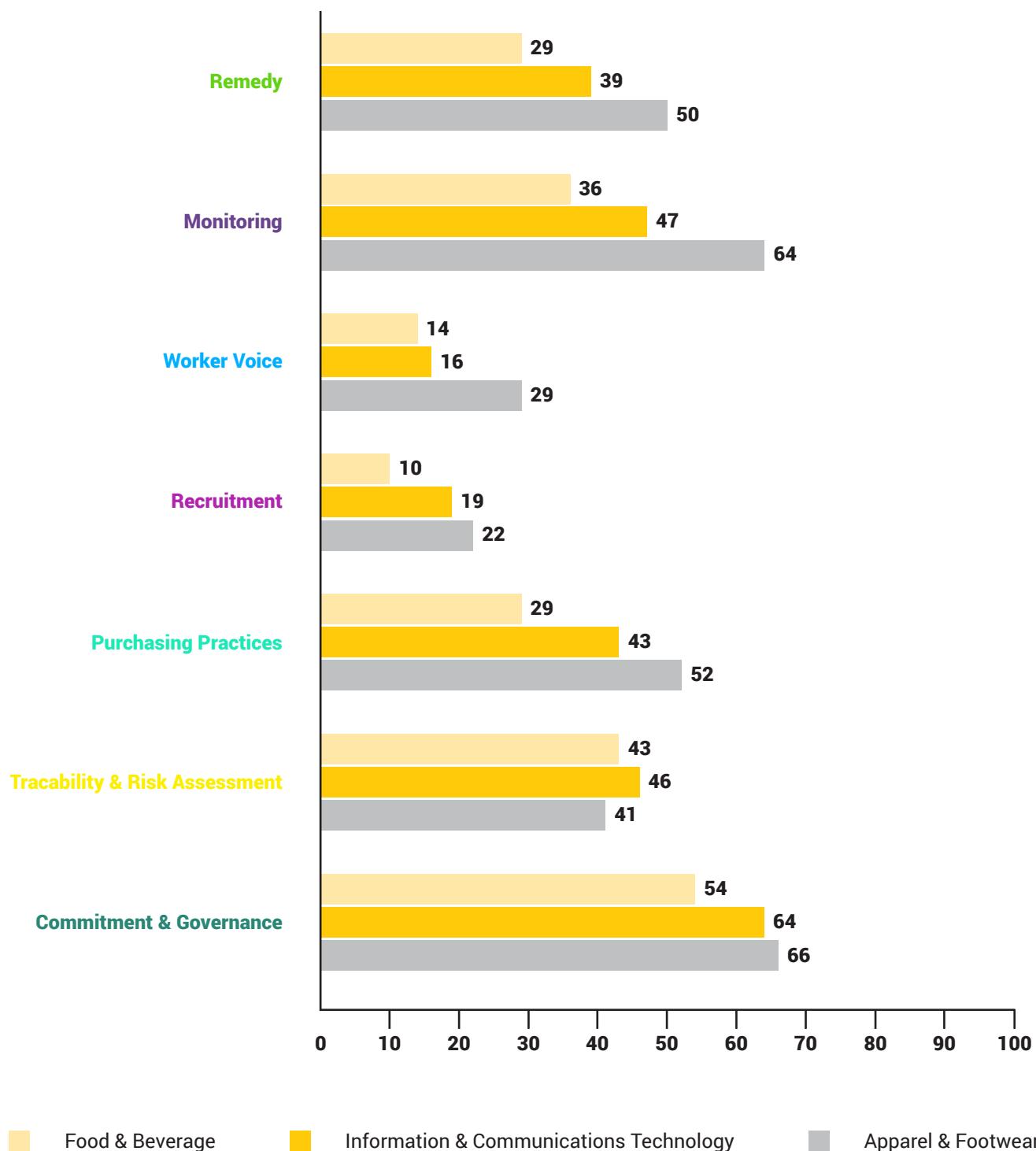
Source: KnowTheChain (2016)—We've asked, many responded: How engaged are technology, food, and apparel companies on forced labor?

These results are not surprising. They are reflective of the level of media attention and civil society pressure companies in each of the sectors have received, as well as the leadership—and lack thereof—we have seen from industry associations and individual companies over past decades.⁹

Even though the three sectors are at different stages when it comes to implementing provisions to prevent and address forced labor risks in their supply chains, companies across the three sectors tend to be more advanced when it comes to more conventional methods such as supply chain standards and monitoring suppliers against those and less advanced when it comes to areas such as addressing exploitation through recruitment agencies or engaging supply chain workers.

⁹ For further details, visit KnowTheChain (2016)—We've asked, many responded: How engaged are technology, food, and apparel companies on forced labor?

Average Theme Scores by Sector



Source: KnowTheChain (2016). As the benchmark methodology varies only slightly by sector, the scores by themes are broadly comparable across sectors.

KnowTheChain Benchmark Theme	Observations Across Sectors
Commitment and Governance	<p>This is the highest scoring theme: the average score for all sectors is above 50/100.</p> <p>Many companies have strong commitments and supply chain standards in place which address forced labor, and a number of companies train their employees on those standards. However, engagement with local stakeholders in particular with unions is limited, and few companies train their suppliers.</p>
Traceability and Risk Assessment	<p>This is the only theme where companies in the apparel sector on average score slightly lower than companies in the other two sectors.</p> <p>While companies in the apparel sector are more transparent with regards to disclosing supplier names (usually tier 1), companies in the other two sectors more often have a tracing system in place. For information & communications technology companies, this may be linked to the Dodd Frank Act which requires companies to trace minerals to origin. For food companies, this may be linked to the often large number of different commodities sourced from a variety of countries which require more effort to achieve traceability and is also key to address other aspects such as environmental concerns or food safety.</p>
Purchasing Practices	<p>Many companies integrate labor-related expectations into contracts with suppliers. Apparel companies have stronger practices in place compared to the other two sectors. For example, the majority of apparel companies assesses risks of forced labor of potential suppliers, and a number of companies put longer-term contracts in place.</p> <p>That said, few companies overall mitigate the risk of forced labor practices caused by purchasing practices such as short-term contracts, excessive downward pressure on pricing, and sudden changes of workload. More efforts are also needed from companies to cascade their standards to lower levels of the supply chain, where the risks are often greater.</p>

Recruitment	<p>Companies across sectors have taken limited steps to address exploitation of migrant workers by recruitment agencies. Some companies have put in place policies prohibiting recruitment fees. Few companies have changed their recruitment approach (e.g., requiring direct employment or requiring suppliers to disclose agencies used) and are auditing recruitment agencies in their supply chains.</p> <p>Companies from a variety of sectors, including the electronics and food sectors, have joined the Leadership Group for Responsible Recruitment, thus committing themselves to the "Employer Pays" principle.</p>
Worker Voice	<p>Together with recruitment, worker voice was the lowest-scoring theme across sectors. While companies often have grievance mechanism in place, it is often unclear to what extent they can be and are used by supply chain workers.</p> <p>Across sectors, companies provided limited if any disclosure examples of engaging workers outside of the context of the workplace on their labor rights. The same applies to steps taken to enable an environment where supply chain workers can organize when there are regulatory constraints on freedom of association. This is particularly disappointing, given the restrictions to freedom of association migrant workers often face.</p>
Monitoring	<p>Monitoring was the second-highest-scoring theme of the benchmark (after commitment and governance).</p> <p>In particular, apparel companies tend to have strong monitoring processes in place (e.g., unannounced audits, a review of relevant documents such as pay slips, and/or worker interviews) and also disclose information on audit outcomes.</p> <p>Companies across sectors can improve with regard to undertaking unannounced audits (or increasing the percentage of unannounced audits) and auditing lower tiers of the supply chain.</p>
Remedy	<p>Over half of the companies in each sector have a process for corrective action plans in place in case of breaches of the code of conduct through suppliers.</p> <p>However, few disclose a process for responding to complaints and provide concrete examples of outcomes of such a process for supply chain workers.</p>

Recommendations for Companies: Engage Workers and Provide Remedy

There are opportunities for improvement for companies across sectors and themes, including on higher-scoring themes such as commitment and monitoring.

One theme where company performance across sectors is low is recruitment. It is encouraging that a number of companies across sectors have joined the Leadership Group for Responsible Recruitment (thus committing to the “Employer Pays” Principle) and that some industry associations are starting to take action. For example, the Fair Labor Association and the Electronic Industry Citizenship Coalition updated their Codes of Conduct in 2011 and 2015 respectively to include a ban on recruitment fees,¹⁰ and, at the end of 2016, the Consumer Goods Forum launched its Forced Labour Priority Industry Principles, which include a provision that “no worker should pay for a job.”¹¹ However, setting industry-wide and cross-sectoral standards is an important first step, which—crucially—now needs to be followed by implementation.

The KnowTheChain benchmarks have identified two additional areas where progress is limited and which, furthermore, lack attention from both companies and their associations (industry, cross-sectoral, and multi-stakeholder associations). These are engaging supply chain workers and providing remedy for workers whose rights have been violated.

Worker Voice: Engage Supply Chain Workers

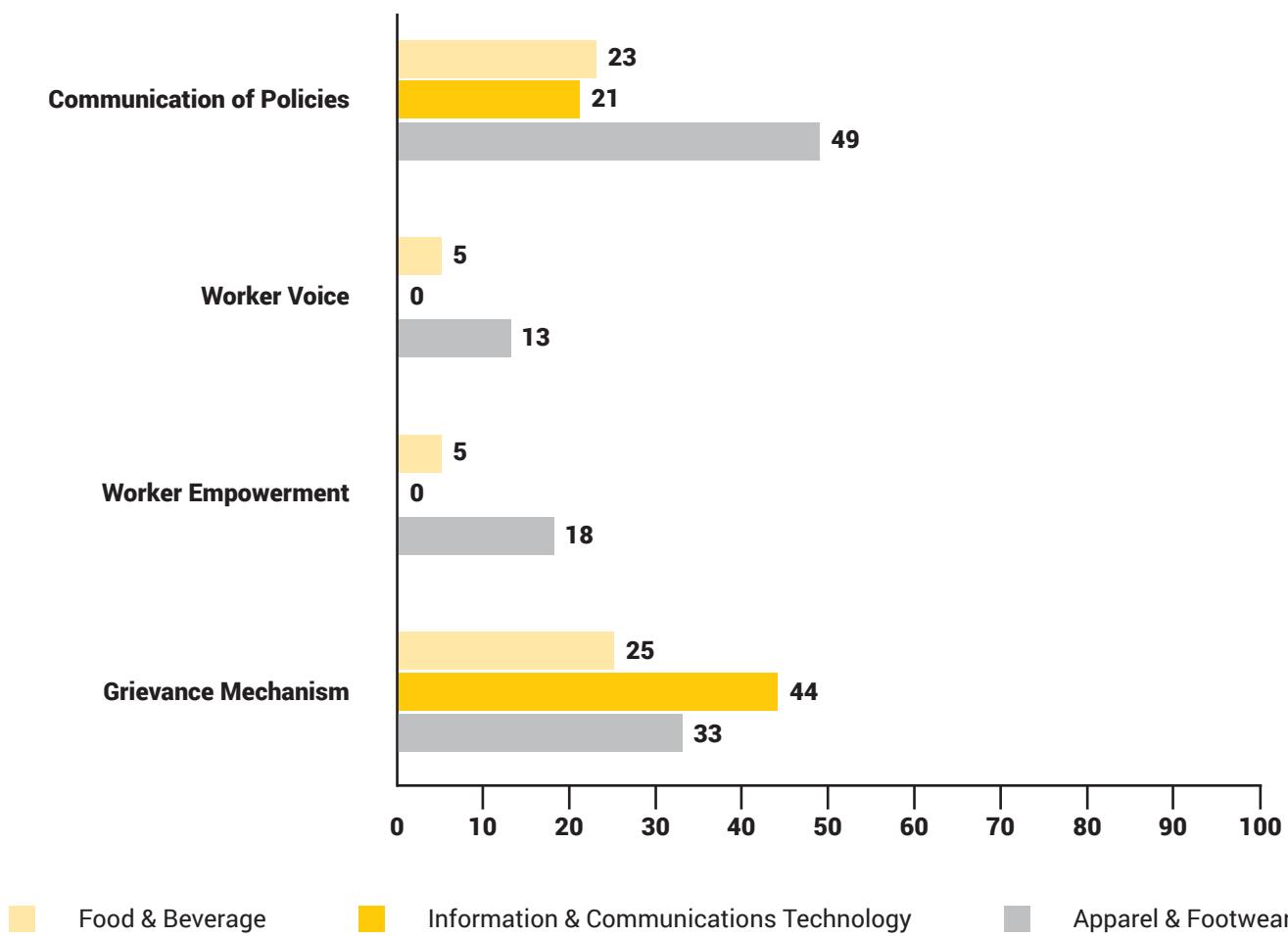
As the lowest-scoring theme across sectors and one that is critical to reducing instances of forced labor in supply chains, worker voice is an area where companies need to improve significantly.

While companies scored low across sectors and indicators, a particular gap is notable when it comes to engaging supply chain workers beyond grievance mechanisms (worker voice) and enabling supply chain workers to exercise their rights (worker empowerment). Both engaging and empowering workers is crucial for companies as it helps identify, resolve, and prevent supply chain labor abuses that traditional monitoring systems do not catch.

10 EICC (8 April 2015)—[Electronics Industry Leads the Way in Combating Forced Labor](#). EICC [Code of Conduct Bans Recruitment Fees, Strengthens Key Protections for Workers](#). Fair Labor Association (revised 5 October 2011)—[FLA Workplace Code of Conduct and Compliance Benchmarks](#).

11 Consumer Goods Forum (6 December 2016)—[Consumer Goods Industry Sets Bar in Fight Against Forced Labour](#).

Worker Voice Indicators: Average Scores by Sector



Source: KnowTheChain (2016). As the benchmark methodology varies only slightly by sector, the scores by indicator are broadly comparable across sectors.

Companies are encouraged to engage supply chain workers across all tiers of their supply chain. Companies may consider engaging lower-tier supply chain workers jointly with higher-tier suppliers (e.g., engage tier 2 suppliers in programs undertaken jointly with tier 1 suppliers).

1. **Communication of Policies:** Companies should have forced labor policies and standards in place that apply to all tiers of the supply chain and should communicate those standards to supply chain workers in their own languages (i.e., local languages and languages of migrant workers). Companies have a variety of means of communication at their disposal, such as integrating information on labor rights and standards into human resources practices (hiring, on-boarding, training, or periodic communication, etc.) or providing information on labor rights and standards via mobile phone apps, in-person trainings, or peer-to-peer learning.

Good Practice Examples:¹²

Seeking support from local NGOs to educate workers: Primark publishes its code of conduct in 39 languages, covering all major languages used at its production facilities. Primark requires its suppliers to display the code in the workplace in all relevant worker languages and to communicate the code to workers. In key sourcing countries, Primark works with local NGOs who facilitate and support groups of factory workers to create a series of posters to "empower [...] workers to take ownership of the code", support peer-to-peer learning, participatory methods, and performance and role-play programs related to the code.

Emphasis on local empowerment and adapting communication to migrant workers: Adidas found its earlier approach of posting its code of conduct in local languages at suppliers' locations had limited effectiveness in practice. The company now places more emphasis on building a greater level of local empowerment, both for suppliers and workers: Adidas develops supporting guidance (e.g., SMS messaging services and trainings), adapts information to focus on local labor laws (e.g., booklets and videos), or focuses on specific topics (e.g., migrant labor rights and effective communication by factories when employing foreign workers). The company also conducts interviews with suppliers' migrant workers in their local languages to understand their issues and concerns and to share its approach and role in providing remedies.

2. **Worker Voice:** Companies are encouraged to engage workers, either directly or in partnership with stakeholders, to enable them to assert their rights in the workplace. Doing so outside the context of the workplace (e.g., in workers' communities) enhances the likelihood that workers are able to speak freely, without potential pressure from supervisors to provide the "right" answers.

12

Note the examples are based on companies' public disclosure. Since apparel companies tend to be more advanced in their disclosure compared to food & beverage as well as information & communications technology companies, many examples are taken from the apparel sector. See [here](#) the additional information companies disclosed to KnowTheChain. Note that examples include elements of what currently constitutes good practice, however there may still be opportunities for companies to improve on aspects of their processes and practices.

Good Practice Examples:

Using technology to engage and empower supply chain workers: As part of its New Ventures pilot, Nike has developed apps to support workers both inside and outside of factories, for example with management communications, pay and leave management, grievance systems, and engagement programs. The pilot reached more than 30,000 workers at 10 footwear and apparel contract factories in three countries. For example, in China, Nike piloted a smartphone service at three factories which provided a direct communication channel between contract factory workers and management and provided workers with direct access to their personal human resources information, including salary, attendance, and annual leave. Workers at one factory reported a 25% improvement in the quality of the worker-management relationship over the course of the nine months' pilot.

Enabling workers to effectively engage with management: Primark works with the NGO, SAVE, in the South Indian state Tamil Nadu to create Worker Education Groups (WEGs) in local communities where its supply chain workers live. The program aims to educate workers on their rights and the use of negotiation tactics with management, and, over the course of six years, has directly reached 5,000 workers and, through peer-to-peer learning, has indirectly reached 25,000 workers. An external evaluation found that workers were able to vocalize their rights and use the negotiation tactics with managers in their workplace, resulting in improvements on safety equipment, wage and bonus increases, paid time off, and access to benefits. WEGs also function as grievance mechanisms; by working in regional clusters, representatives have been able to raise grievances with factories. Primark is considering creating similar partnerships in other communities in its sourcing countries.

3. Worker Empowerment: Freedom of association is a critical and enabling right for workers. However, in some contexts or for some types of workers—such as migrant workers—it is restricted, either by law, regulation, or long-standing patterns of discrimination. In addition to supporting freedom of association of supply chain workers, where there are regulatory constraints on this freedom, companies should encourage suppliers to ensure workplace environments in which workers are able to pursue alternative forms of organizing.

Good Practice Examples: Addressing Restriction to Freedom of Association

Addressing restriction to freedom of association: In cases where freedom of association is restricted by law, such as China and Vietnam, H&M addresses this issue directly with its supplier factories as well as on industry and government levels. The company further works to empower workers with awareness about their labor rights and helps its suppliers establish functioning and democratically elected workplace representation.

Adidas encourages suppliers to maintain a "non-interference" environment where trade union activities are not only allowed, but also stimulated through effective systems of worker-management communication and collective bargaining. The company recognizes the challenges that workers might face in forming trade unions, particularly in countries such as China and Vietnam, where the creation of independent trade unions is prohibited by law. Since these are major sourcing countries for the company, it has engaged with workers directly in order to identify parallel means for worker representation through direct worker-led elections, as well as to track the emergence of more representative state unions and the role of sectoral level collective agreements. Further, Adidas has designed training modules to address freedom of association practices. Examples range from worker representative training in China in partnership with labor NGOs (these allow for the free election of worker representatives to welfare committees) to the development and dissemination of materials on strike management in Vietnam with the ILO. The company also requires suppliers to issue "Right to Organize guarantees" to workers declaring their freedom to form and join unions of their own choosing in order to prevent direct infringement of rights or the workers' freedom to exercise them. They have done this especially in situations when they discover direct infringement of rights (namely Indonesia, Sri Lanka, the Philippines, El Salvador, and Honduras).

4. Grievance Mechanisms: Companies should ensure that workers throughout their supply chains have access to a formal grievance mechanism. The mechanism should fulfill the effectiveness criteria of the UN Guiding Principles on Business and Human Rights. It should be accessible to supply chain workers (e.g., available in languages of supply chain workers, including migrant workers' languages), inform workers as to how to access the mechanism, and take measures to ensure workers trust the mechanism. Including stakeholders and, in particular, workers in developing and running the mechanism can help ensure its effectiveness. Further, companies might consider calling upon an industry or multi-stakeholder association that is based on respect for human rights-related standards to implement the UN Guiding Principles on Business and Human Rights and assure an effective grievance mechanism is in place (particularly in regions where member companies' suppliers operate and where the risks of forced labor are high), or to join an association which has a grievance mechanism for supply chain workers of its members in place.¹³ A grievance mechanism administered by an independent third party is likely more credible and trustworthy from workers' perspectives and more cost efficient if undertaken across a group of companies or stakeholders rather than by an individual company.

Good Practice Examples:

Grievance mechanisms for suppliers' workers beyond the first tier: VF provides multiple channels for stakeholders to raise complaints or concerns about violations of the company's code of conduct. VF prohibits suppliers from taking retaliatory action against workers using the mechanism and encourages suppliers to establish their own grievance mechanisms. VF's Ethics Helpline is open to supply chain workers, including workers in the second or third tier of the company's supply chain.

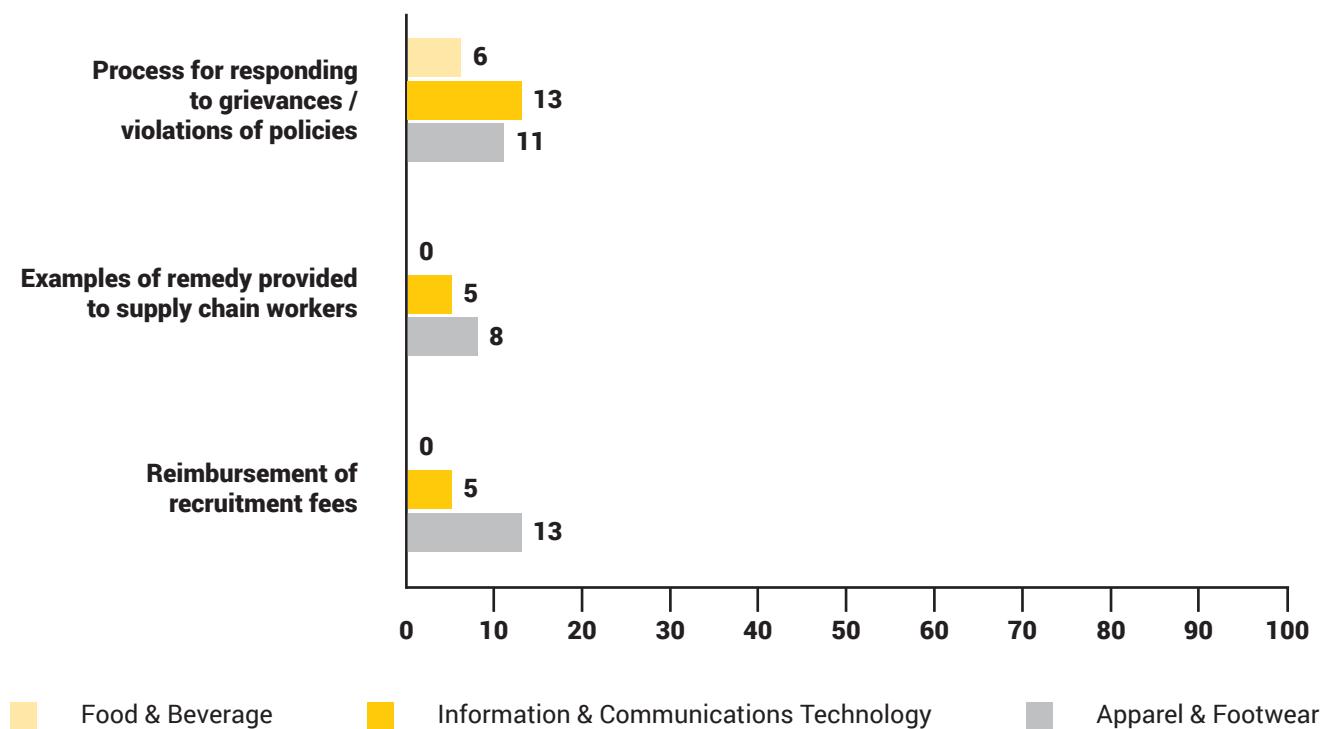
Working with local unions and providing direct contact details to supply chain workers: In addition to having in place a grievance mechanism, H&M provides its contact information to workers in its supply chain so that they are able to report complaints directly to the company. Further, H&M works with local trade unions as grievance channels, whereby trade union representatives are given business cards to distribute to workers. H&M then follows up on the grievances. H&M monitors the existence and effectiveness of worker-management communication systems, such as grievance systems and effective workers' committees, as part of its audit programs.

Remedy: Provide remedy to supply chain workers whose rights have been violated

Remedy is a key pillar of the UN Guiding Principles on Business and Human Rights. Not only should companies have effective grievance mechanisms in place, but they should also ensure to put in place corrective action plans for suppliers, and, critically, remedy processes for workers and other stakeholders whose rights may be affected (to ensure grievances are adequately dealt with, and workers receive fair compensation).

The UN notes that victims of corporate human rights abuses often struggle to access remedy¹⁴, and, while the KnowTheChain benchmarks found that a number of companies have corrective action plan processes in place to deal with *suppliers*, details on remedy programs for suppliers' workers are limited. In fact, out of the 60 companies KnowTheChain analyzed in 2016, only seven have a process of responding to complaints, seven provide examples of outcomes of remedy provided, and seven repay recruitment fees to supply chain workers. While technology and apparel companies are somewhat more advanced than their peers in the food industry, the graph indicates that action across sectors is strikingly limited.

Remedy Related Indicators: Average Scores by Sectors



Source: KnowTheChain (2016). As the benchmark methodology varies only slightly by sector, the scores by indicator are broadly comparable across sectors.

13 See: Recommendations for Business and Multi-Stakeholder Company Associations.

14 UN Human Rights Office of the High Commissioner—[OHCHR Accountability and Remedy Project: improving accountability and access to remedy in cases of business involvement in human rights abuses](#). Accessed on 9 January 2017.

With a combined market capitalization of over US \$4 trillion, the companies analyzed by KnowTheChain represent some of the largest companies in the world and, as such, should improve practices and increase transparency with regard to providing remedy to supply chain workers. As companies increasingly recognize their responsibility for negative human rights impacts across their supply chains, companies should ensure remedy for human rights violations is provided to workers beyond the first tier of their supply chain.

1. **Process for responding to grievances / violations of policies:** Companies should have a process for responding to the complaints and/or reported violations of policies and standards by supply chain workers and other parties. This process should include timeframes, responsible parties, approval procedures, etc.

Good Practice Examples:

Continuous contact with complainants and engaging stakeholders in remediation process:

Hanesbrands discloses it prioritizes grievances received through its mechanism and assigns them to trained investigators in local countries who provide recommendations to the headquarters. For issues of particular severity, senior management will be engaged throughout the process and help make disciplinary decisions. A typical investigation lasts 14-30 days. The complaining party is usually contacted multiple times throughout the process—in their local language—to provide additional information and is informed of the final outcome. Hanesbrands works with stakeholders to help remedy issues discovered at suppliers' facilities.

Clear timelines for responding to grievances: Samsung discloses that all cases received through its hotline are investigated. The person who submitted a grievance is informed within a week via telephone or email on the measures that will be taken in response. If the grievance is found to be valid, Samsung validates that the supplier concerned demonstrates improvements within one month.

2. **Examples of remedy provided to supply chain workers:** Companies should have a process to ensure remedy is provided to supply chain workers in cases of human rights violations, such as forced labor and human trafficking. Disclosing specific examples of remedy provided to supply chain workers provides assurance to both supply chain workers as well as stakeholders such as civil society and investors about the effectiveness of companies' grievance mechanisms, as well as their ability to manage negative impacts and maintain good relationships with their stakeholders.

Good Practice Examples:

Remedy for passport retention and infringement of freedom of association: Hanesbrands discloses that it has discovered instances where contractors withheld supply chain workers' passports. In these instances, the company required suppliers to return the passports to the workers. Furthermore, Hanesbrands found suppliers that had fired employees for exercising their right to freedom of association, in which case the company required reinstatement of the workers.

Remedy for wage retention: Hugo Boss discloses an example of an incident related to forced labor at one of its suppliers based in Italy, where wages and social benefits had not been paid. The company asked the supplier to immediately pay outstanding wages and benefits and monitored the amounts that were repaid.

Remedy for migrant workers: Adidas discloses a summary of the human rights complaints it has received and details on the outcomes of remediation processes, which include several cases of remedy for migrant workers. For example, in 2013 and 2014, Adidas worked with its suppliers in Taiwan to remedy poor working conditions of migrant labor by eliminating wage deductions made by employment agencies, returning passports and bank books, and relocating migrant workers to safer and higher-quality dormitories.

3. **Reimbursement of recruitment fees:** A specific form of remedy relevant for addressing forced labor is the reimbursement of recruitment fees to supply chain workers. Leading companies and suppliers cover the recruitment fees of their workers. As suppliers' workers in practice might still get charged exorbitant recruitment fees, in addition to a "no fee" or "employer pays" policy, companies should be able to demonstrate that, in the event that they discover that fees have been paid, they ensure fees are reimbursed to the workers (where no cases of fees charged to workers were detected, companies should still have a policy in place to reimburse recruitment fees should those be charged).

Good Practice Examples: Reimbursing Recruitment Fees

Reimbursing recruitment fees: [Apple's Supplier Code of Conduct](#) requires that "[w]orkers shall not be required to pay employers' or their agents' recruitment fees or other similar fees to obtain their employment. If such fees are found to have been paid by workers, such fees shall be repaid to the worker. Supplier shall ensure that the third-party recruitment agencies it uses are compliant with the provisions of this Code and the law." Apple discloses that, since 2008, "more than US \$25.6 million in excessive recruitment fees have been repaid to foreign contract workers by suppliers as a result of our efforts."

Cisco has adopted the [EICC Code of Conduct](#), which states that "workers shall not be required to pay employers' or agents' recruitment fees or other related fees for their employment and if any such fees are found to have been paid by workers, such fees shall be repaid to the worker." In 2014, Cisco discovered that factory workers were paying excessive recruitment fees at one of its supplier locations and secured the return of US \$251,000 to impacted migrant workers.

Recommendations for Business and Multi-Stakeholder Associations: Enforce Standards and Help Companies Empower Supply Chain Workers Below the First Tier

Associations, including industry, cross-sectoral, and multi-stakeholder associations, can play a key role in increasing awareness and in encouraging, supporting, and rewarding member companies for preventing and addressing forced labor in their supply chains.

To support their members in addressing forced labor, these associations have a number of options, including:

- Providing guidance and good practice examples, in particular for emerging areas such as worker voice
- Creating a level playing field by:
 - Developing common standards (e.g., to address elements such as recruitment fees or to reach beyond the first tier of the supply chain)
 - Holding companies accountable against common standards by implementing robust due diligence, including third-party verification
- Supporting member companies in addressing forced labor by:
 - Providing a grievance mechanism or undertaking worker engagement, particularly in key regions where members' suppliers operate and where the risk of forced labor is high
 - Bringing companies together to develop local solutions in high-risk regions or to engage policy makers¹⁵ and advocate for legal or regulatory reform where restrictions exist.

When supporting their members in addressing forced labor, multi-stakeholder initiatives have the added benefit that they include voices of stakeholders beyond business, which not only add credibility, but also resources and knowledge. In order to effectively address forced labor, business associations are encouraged to draw on resources and expertise from external stakeholders, directly engage with those stakeholders, or support members in doing so.

¹⁵ Examples of companies engaging policy makers to advocate for labor reforms and guidance on public policy advocacy by brands can be found in Verité—[Examples of Good Practice in Engagement](#). Accessed 30 January 2017.

In order to support their member companies in improving in the areas of worker voice and remedy, associations are in particular encouraged to:

1. Support worker voice and remedy

The UN Guiding Principles on Business and Human Rights specifically call upon industry and multi-stakeholder associations that are based on respect for human rights-related standards to ensure the availability of effective grievance mechanisms.¹⁶ Those associations have an important responsibility to support their members in engaging supply chain workers, providing grievances mechanisms, and, in particular, ensuring access to remedy for workers.¹⁷

Good Practice Examples:

Third Party Complaint Process in the Apparel Sector. The Fair Labor Association (FLA), a multi-stakeholder initiative focused on worker rights, whose member companies are predominantly from the apparel sector, provides a mechanism for grievances related to its member companies and their suppliers which is intended as a last resort where local dispute mechanism fail. It is open to workers, trade unions, and civil society organizations. The FLA provides information about the mechanism in 11 languages and describes the process of how it responds to grievances. It further discloses details on the complaints received, such as the names of member company and supplier, the type of complaint, and a summary of the outcome.¹⁷

Electronics Industry Pilot Program to Protect Migrant Workers in Malaysia:¹⁸ In September 2015, the Electronic Industry Citizenship Coalition (EICC), a coalition of global electronics, retail, auto, and toy companies, launched its Workplace of Choice program to promote safe and fair labor practices for foreign migrant workers. The program is currently being piloted in Malaysia, a country where many of its members' suppliers operate and where there is a large presence of migrant workers.

¹⁶ UN Human Rights Office of the High Commissioner (2011)—[UN Guiding Principles on Business and Human Rights](#), p. 32.

¹⁷ Fair Labor Association—[Third Party Complaint Process](#). Accessed on 10 January 2017.

¹⁸ EICC (26 August 2015)—[Electronics Industry Pilots Factory Worker Protection Program in Malaysia](#).

Good Practice Examples Continued:

As of February 2016, the program, which is expected to end in December 2017, included:

- A worker survey with a representational coverage of over 45,000 workers, which helped to identify training needs by establishing a baseline on existing practices of recruitment, contracts, grievance systems, trust of management, and communication channels;
- Factory trainings focusing on the survey findings as well as worker management communication; and
- An independent grievance mechanism (available in 10 languages via toll free phone numbers or text message), as well training materials for workers and factory management and a referral network in Malaysia for case management. Since its launch in late 2016, approximately 260 text messages and phone calls have been received from workers, many from workers “testing the system”, and others to request support, including for cases of violations of EICC’s code of conduct.

2. Develop projects to support and empower supply chain workers below the first tier

A number of initiatives have supported their member companies in addressing labor abuses at the first tier of their supply chain. However, forced labor often occurs at lower levels of the supply chain, including at commodity level. Associations can play a role in helping companies understand and address forced labor risks at lower levels of their supply chains (including supporting companies in tracing their supply chains), and in specifically requiring member companies to address risks in lower tiers.

Good Practice Examples:

Addressing exploitation of female workers at Indian spinning mills: In 2012, the Ethical Trading Initiative, a UK-based multi-stakeholder initiative focused on workers' rights, set up the Tamil Nadu Multi-Stakeholder program to help introduce ethical recruitment and employment practices, in particular for women recruited from rural areas whom often end up in forced labor. The five-year program focuses on empowering female workers, strengthening industrial relations, building community awareness, and supporting legislative reform.¹⁹

Worker-driven Social Responsibility Model at Farm Level: The Coalition of Immokalee Workers' Fair Food Program (FFP) is a partnership bringing together farmworkers, growers, and buyers, and retailers. Starting out in Florida, the program today is expanded to several other US states and two additional crops. As a worker-driven program, FFP undertakes worker-to worker education and, since its inception in 2011, has educated 33,000 workers face to face on their rights (and 135,000 workers received educational materials on labor rights). FFP also directly involved workers in monitoring working conditions at participating companies. In fact, farm visits include interviews with at least half of a farm's workforce, both onsite and offsite (e.g., at worker housing, on the buses that transport workers, and at morning pick-up spots). FFP further helps strengthen workers' voices and worker-management dialogue by operating a complaints line with high levels of resolution (e.g., in 2015, over 80% of complaints were resolved in under one month), and by helping to build workers' trust in growers own complaint mechanisms.²⁰

3. Develop common standards and hold member companies accountable

Associations can play a key role in advancing standards across their membership base. They can do so by regularly reviewing and updating their standards and, crucially, holding their members to account. Where associations have public accountability mechanisms, this has the added benefit of rewarding leading companies, disseminating good practice examples, and supporting third parties in holding member companies accountable.

19 Ethical Trading Initiative—[Programmes: Women millworkers in Tamil Nadu](#). Accessed 11 January 2017.

20 Fair Food Program—[2015 Annual Report and Results](#). Accessed 11 January 2017.

Good Practice Examples:

Improving standards across an industry: In 2015, the Electronic Industry Citizenship Coalition (EICC), a coalition of global electronics, retail, auto, and toy companies, strengthened its code of conduct to include a provision that workers should not pay recruitment fees, and that, where such fees were charged, those should be paid back to the workers. This allowed for widespread adoption in the industry. This code not only applies to the over 100 EICC members, but also the thousands of tier 1 suppliers to those companies are required to implement the code (as the code requires companies to at least require first-tier suppliers to implement the code).

Holding companies accountable: The Fair Labor Association (FLA), a multi-stakeholder initiative focused on worker rights, monitors the adherence to and progress of its member companies against the FLA's Workplace Code of Conduct. FLA member companies commit to upholding this code in their supply chain. The code requires companies for example to put in place a grievance mechanism where workers can raise grievances (e.g. on outstanding payment of wages confidentially, and for recruitment fees to be fully covered by the employer). Each year, independent auditors work with the FLA to assess workplace conditions of at least 5% of its member companies' suppliers. Notably, the audit outcomes are made publicly available.²¹

Recommendations for Investors: Ask Questions and Hold Investee Companies Accountable

Forced labor is a key risk for companies across sectors which poses reputational risks and may severely impact portfolio value.²²

Further, shareholders, including minority shareholders, may be held accountable under the OECD Guidelines for Multinational Enterprises by stakeholders using the OECD's government-backed grievance mechanisms, the National Contact Points.²³ Just as retailers should and are taking responsibility for what happens further down their supply chains, investors are expected to develop a human rights commitment and carry out human rights due diligence both before investing in companies as well as of existing portfolio companies, for example through engagement or shareholder resolutions.²⁴

In particular, investors should engage portfolio companies in high-risk sectors such as information & communications technology, food & beverage, and apparel & footwear. KnowTheChain has developed an engagement guide for investors which includes questions for companies that have taken no or few steps to address forced labor (e.g., develop a supply chain standard and identify forced labor risks), as well as questions for more advanced companies (e.g., adapt purchasing practices and avoid exploitation of migrant workers through recruitment agencies).²⁵

Where companies already have basic elements such as supply chain standards, risk assessment, and monitoring in place, investors are encouraged to probe companies on actions taken in the areas of worker voice and remedy:

- How do you ensure supply chain workers have access to effective grievance mechanisms?
- How do you ensure supply chain workers are aware of and empowered to exercise their rights (e.g., freedom of association or direct negotiations with management regarding working conditions)?

22 See: Chapter 1 and ShareAction (June 2016)—[Forced labour: What investors need to know](#).

23 Two European National Contact Points ruled that the OECD Guidelines (the UN Guiding Principles on Business and Human Rights are integrated into the OECD Guidelines) also apply to minority shareholders. See: ICGN Viewpoint (April 2015)—[Human rights](#). The OECD is currently working to further clarify due diligence responsibilities of the financial sector. See: OECD—[Responsible business conduct in the financial sector](#). Accessed 12 January 2017.

24 See: Responsible Investor: Margaret Wachenfeld (10 October 13)—“[Recent decisions clarify investor responsibility to address human rights concerns: How the OECD Guidelines for Multinational Enterprises related to investors](#)”.

25 See: [KnowTheChain Investor Resources](#). Accessed 12 January 2017.

- How do you ensure vulnerable groups such as migrant workers and supply chain workers in lower tiers are aware of and empowered to exercise their rights?
- How do you work with peer companies (e.g., in industry or multi-stakeholder initiatives) to engage policymakers and advocate for legal or regulatory reform where restrictions exist?
- How do you ensure supply chain workers whose rights have been violated receive remedy? What are recent examples from different sourcing countries?

For further information on how to engage companies on forced labor, please see the [KnowTheChain Investor Resources](#).

ABOUT KNOWTHECHAIN

KnowTheChain—a partnership of Humanity United, the Business & Human Rights Resource Centre, Sustainalytics, and Verité—is a resource for businesses and investors who need to understand and address forced labor abuses within their supply chains. It benchmarks current corporate practices, develops insights, and provides practical resources that inform investor decisions and enable companies to comply with growing legal obligations while operating more transparently and responsibly. Find out more: knowthechain.org

Humanity United is a foundation dedicated to bringing new approaches to global problems that have long been considered intractable. It builds, leads, and supports efforts to change the systems that contribute to problems like human trafficking, mass atrocities, and violent conflict. Find out more: humanityunited.org.

Sustainalytics is an independent ESG and corporate governance research, ratings, and analysis firm supporting investors around the world with the development and implementation of responsible investment strategies. Find out more: sustainalytics.com.

Business & Human Rights Resource Centre is a non-profit that tracks the human rights conduct of over 6,000 companies worldwide. Find out more: business-humanrights.org.

Verité is a global, independent, non-profit organization that provides consulting, training, research, and assessment services with a mission to ensure that people worldwide work under safe, fair, and legal working conditions. As such, it works with some of the companies covered in the benchmark. Verité was not involved in ranking, researching, or evaluating company disclosures for the benchmark. Find out more: verite.org.