BREAKING FREE

FORCED LABOR HAS BECOME A PLAGUE IN CORPORATE SUPPLY CHAINS. ARE BIG DATA AND CRAFTY ANALYTICS THE ANSWER?

MARK D. SLOSS

CHIEF EXECUTIVE, REGENERATIVE INVESTMENT STRATEGIES

Imagine for a moment that, right now, the entire state of California is enslaved. Imagine that 71% of those people are female and one in four are children. Imagine that 61% of all enslaved people are in forced labor.

This is not a pitch for some dystopian Hollywood flick. These are statistics from the 2018 Global Slavery Index (GSI). Globally, 40.3 million people, roughly the equivalent of the population of California, were estimated to be trapped in slavery in 2016.

By any standard, the scale of this issue is mind-bending, but what does it have to do with capital markets and investment management?

The starting assumption for many is that human trafficking and slavery are the provinces of sexual exploitation, state-run forced labor or child soldiers. But it is not the whole picture.

According to the International Labour Organisation, 16 million people are currently being exploited in the private sector. And, says the GSI, when considering the top five products imported by the G20 every year, $354 billion worth of products are estimated to be 'at risk of being produced by modern slavery.'

EXPOSING THE PROBLEM

These are mainstream products – electronics, garments, fish, cocoa, timber. But this is strictly an importation problem, right? Wrong.

The GSI estimates that 403,000 people were trapped in slavery in 2016 in the US. Human trafficking is a global problem, and it permeates society in both the developing and developed worlds.

Andrew Wilson, permanent observer to the United Nations for the International Chamber of Commerce (ICC), similarly estimates that 16 million to 22 million people are trapped in slavery in corporate supply chains.

The ICC cannot be dismissed as some bleeding-heart charity solely focused on society's ills. They are a member-driven business organization that champions international trade, free and accessible markets, and a global framework for getting business done. The ICC sees this as an existential threat to global commerce.

Historically, slave labor has been challenging to expose because it can reside in many layers within the supply chain, but Wilson noted that slave labor may even be climbing that hierarchy as supply chains get shorter and more efficient, particularly in industries such as fashion. The economic exposure is enormous, and it is getting more difficult to turn a blind eye. And yet, we are blind to it.

This is where things start to sound familiar from an ESG perspective. One of the most important first steps to addressing this problem is discovery and disclosure. Transparency will assist a variety of stakeholders, from customers and business partners to investors and lenders, to make more intelligent decisions about deploying capital.

UNIVERSALLY CRIMINAL

The problem, as Wilson characterized it, is two-fold. First, there is no broadly accepted framework or means for reporting. Second, companies are concerned about the liabilities that come with uncovering the truth. From a litigation point of view, it is almost safer not to ask the question in the first place than to expose the company to a wide range of liabilities.

There is also a strong economic disincentive at work, because disclosure could harm brand reputation, and disengaging from suppliers means a competitor could pick up a cheap contract and gain a financial edge.

In many areas of ESG, the argument is made that beauty is in the eye of the beholder. One investor's virtue is another's vice, such as spirits, gaming or fracking for natural gas. Climate change is still debated. The merits of raising the minimum wage or unionization are argued.

However, in human trafficking, there are no mitigating circumstances or counter arguments that can cast it as anything but a crime against humanity. In fact, this issue transcends ESG-specific investing parameters and should be examined by any investment manager as surely as they would any potentially criminal enterprise.

It might seem enough to name and shame offenders to turn the wheels of change. But according to Wilson and others, there are entrenched reasons why the traditional path of engagement through advocacy, shareholder resolutions, divestiture and boycott are not working.

As investors, we need to advocate for transparency from corporates and expose offending suppliers. But we need to do so in a way that provides incentives for corporates to disclose and clean up their supply chains without the overhang of negative exposure for doing the right thing.

The answer is a departure from the goals of radical transparency usually embraced by ESG investors. Essentially, what we are looking for is conditional transparency by providing companies with a mechanism for investigating and disclosing data anonymously.

THE ENDGAME

Enter the Disruptive Data Network (DDN). Michele Bongiovanni, CEO and founder of HealRWorld, is leading the charge to assemble a consortium of stakeholders, including corporations, non-governmental organizations and faith-based organizations to address this problem systematically.

The primary objective of the DDN will be to create what Bongiovanni describes as an ecosystem for gathering, tabulating and creating data on human trafficking, without many of the risks of doing so.

The hope is that this will significantly raise corporate participation. She describes a vast array of techniques and methodologies for gathering and collating information – from Big Data, artificial intelligence and natural language processing, to on-the-ground ethnographers in trafficking hot spots gathering first-hand observations. Real world observed and verified data will be combined with predictive modeling to also identify the likely presence of forced-labor risk in places that have yet to be quantified.

Critical to this effort, according to Bongiovanni, is getting corporations to report on their own supply chains. Known traffickers and users of slave labor, when exposed, will rapidly become a less defensible presence in corporate supply chains.

The end goal is to change how companies build those supply chains and wring slavery out of the system. For investors, it is not a matter of divesting from companies with human trafficking supply chain risks, since that could be tantamount to disengagement on a critical, global level.

According to Bongiovanni and Wilson, it is investors who are compelling companies to investigate, self-report, and account for their participation and how they act on the collective information generated from all stakeholders.

None of this is to say that there is no role for traditional engagement processes. It becomes a moral hazard to a company not to contribute to the DDR or integrate the findings into their own supply chain analysis.

If a supplier is a known human trafficker and their business relationships can be traced back to a company through this type of venue, it will make it much easier to confront that company and seek decisive action.

'We didn't know' will no longer be a defensible argument. ■