Monitor Institute
by **Deloitte.**

Responsible Supply Chain Tools:

Understanding the Market Opportunity

April 2019

Contents

Executive Summary

Globalization presents businesses with immense opportunity to produce affordable goods and services at scale, but comes with growing demand—from governments, shareholders, investors, employees, and consumers—to protect the safety and dignity of workers. Labor exploitation poses a complex, dynamic, global socioeconomic risk that spans industries but promising new solutions are emerging to reduce it.

Workers at the bottom of global supply chains face poverty, displacement, job scarcity and wage disparity.[1] The world's 450 million waged agricultural workers suffer from high incidences of poverty and hunger.[2] Globally, up to 150 million workers have crossed national borders in search of work and a better life.[3] As migrants, workers become especially vulnerable to unethical recruitment practices and other forms of labor exploitation.[4] According to the International Labour Organization, an estimated 24.9 million men, women, and children are victims of forced labor around the world.[5] Companies can impact the lives of many exploited individuals and help protect others from harmful practices by carefully addressing both severe labor rights abuses and subtler systemic labor issues in their supply chains.

As public awareness of labor risks in supply chains increases due to new regulations, investigative journalism, and pressure from non-governmental organizations, many businesses have turned their attention to labor rights. A growing set of tools has emerged to assist companies by providing better visibility and transparency to assess risk, diagnose problems, act on issues, and monitor labor practices and working conditions in their supply chains. These tools, which are primarily built around a digital technology, supplement and can be utilized both by companies themselves as well as within the context of professional services like consultations and certifications. They will be referred to throughout this report as socially responsible supply chain tools or simply "tools."

Some socially responsible supply chain tools were originally developed to address environmental risks. As corporate environmental sustainability approaches mature, companies have expanded their focus to include social and governance factors. We believe the future of labor rights innovation and practices will follow the strong adoption and growth of the sustainability industry. Companies seek to understand how tools and technology can support socially responsible supply chain practices in addition to environmental sustainability, and some have already implemented third-party solutions or built their own. However, there remains a significant opportunity for many more companies to explore, implement, and scale a range of tools to improve socially responsible supply chain practices.

This study explores the current state and future horizon for socially responsible supply chain tools.

The market for socially responsible supply chain tools could reach $2.7 billion over the next five years.

A Market Poised to Grow

The market for socially responsible supply chain tools is well positioned for growth over the next five years. The market for new tools is somewhat nascent, especially when compared to social compliance audits, which have been in place for decades. Yet there is a growing market need for tools that go beyond audits, including tools that offer real-time transparency into practices of actors in the supply chain, programs that digitally facilitate sourcing from ethical suppliers, and grievance mechanisms that assist employers or buyers in intervening when workers identify issues. Interviews and research reflected the following themes which are helping accelerate the market:

- **Audits are insufficient and ineffective but still dominate practice.** Currently, there is a relatively large market for services that assess social and labor practices (e.g., social compliance audits). Audits are well-understood and accepted as the foundation of socially responsible supply chain management, yet widely considered ineffective

- **Mounting pressure and growing business risk.** Increasingly, stakeholders such as policy leaders (via regulations), NGO and media investigators, industry associations, investors, consumers, and even employees and leaders within corporations have pushed for greater transparency and accountability within global corporate supply chains

- **Global supply chains are complex and opaque.** In a study conducted by The Economist Intelligence Unit Limited in 2017, 49 percent of executives cited supply chain complexity as the greatest hurdle to responsibility.[6] Fortunately, technology solutions and tools designed to provide business leaders with intelligible data and options to make sense of this complexity have emerged

Our analysis indicates that over the next five years, the market for socially responsible supply chain tools could reach between $889 million and $2.7 billion (excluding social compliance audits). Among the five major categories of socially responsible supply chain tools—risk assessment,

Figure 1: Estimated market for responsible supply chain tools (excluding audit), 2018 and 2023

$807M-$2.1B
2018 Market

$889M-$2.7B
2023 Market
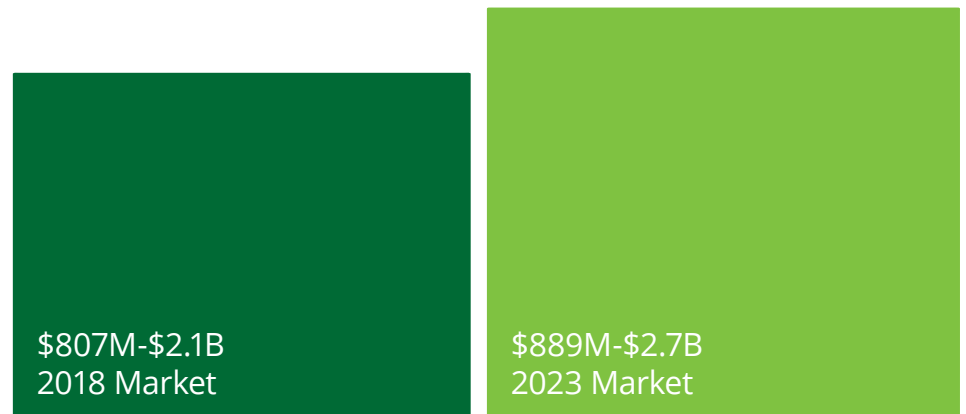
product traceability, ethical sourcing, ethical recruitment, and worker engagement—risk assessment and product traceability tools are expected to see the highest growth. By contrast, the market for social compliance audits is expected to remain flat over the next five years with the low end of the market spend at $361 million and the high end of the market spend at $671 million in 2018.

Additional details about market estimation calculations can be found in the Market Size Estimates section.

Behaviors Influencing Demand

Buyer and supplier companies alike are actively seeking tools that allow greater visibility and accountability into an organization's supply chain operations.

As the future vision of an increasingly socially responsible supply chain takes hold, innovation can play a disruptive and important role in how companies approach effective oversight, visibility, and management of their operations. Study participants thought the demand for tools will increase as companies continue to take the following approaches.

- **Working with fewer, better suppliers.** Companies noted that, increasingly, suppliers own the responsibility for labor and human rights practices. Working with a smaller number of credible suppliers with proactive management practices is one way to increase confidence in the integrity of supply chains, and tools can help identify and monitor leading supplier companies. Additionally, leading suppliers have begun to use new tools themselves

- **Channeling resources from audits to a more impactful approach.** Participants expressed a desire to streamline facility audits and repurpose resources from audits to other socially responsible supply chain tools

- **Increasing interconnectivity of tools to improve transparency throughout supply chains.** Many study participants share a vision for data sharing across industries, platforms, and levels of supply chains to enable greater end-to-end visibility of supply chain operations. New tools can help unlock this advanced data sharing environment

- **Embracing opportunities to collaborate.** Companies realize that an industry-wide commitment to upholding human rights and labor standards across value chains can accelerate the adoption of better tools and practices

Factors Influencing Supply of Tools

Tool developers should consider how their design and distribution may encourage or hinder uptake.

- **The impact of tools is not widely understood yet.** Innovations need to overcome their "unknown and unproven" reputation to achieve uptake at scale. Some interviewees expressed skepticism that third party tools are scalable across the breadth of diversity and complexity in their multinational supply chains. Developers of new tools should consider industry parameters, characteristics of the target company's supply chain operation, and the company's posture toward human rights and labor when designing tools

• **Tools are more effective alongside change management.** Interviewees who are implementing tools noted that the tools are helpful but not a total solution or silver bullet solution: fixing labor-related problems requires understanding root causes and undertaking change management processes to gain buy-in and influence attitudes and behaviors, both at leadership levels and on the ground. This means that tools should be supported by additional change management solutions to facilitate effective implementation

Effectively addressing labor risks in supply chains will require both bold action from individual companies and collective action across companies, suppliers, policymakers, and providers of new tools and solutions. Individually, leading companies can continue investing in innovative solutions and tools to close the gap between stated commitments and practices on the ground and help make tools more financially accessible to a broader range of companies. Together, companies can strengthen industry-wide strategies, develop data sharing agreements, and share knowledge and resources with industry partners. Finally, tool providers can continue to engage the various purchasers within companies (e.g., procurement/responsible sourcing, corporate social responsibility, and legal/compliance teams) by introducing tools that reduce the barriers to adopting socially responsible supply chain practices and integrating them with other responsible procurement concerns. Complications related to scaling—tailoring tools to meet company circumstances and building buy-in through change management—can be addressed to foster greater demand for these new tools.

The anticipated growth of the market for socially responsible supply chain tools points to enhanced opportunities to expunge labor exploitation from global supply chains.

Effectively addressing labor risks in supply chains will require both bold action from individual companies and collective action across companies, suppliers, policymakers, and providers of new tools and solutions.

Introduction

"We will not enjoy security without development, we will not enjoy development without security, and we will not enjoy either without respect for human rights."

United Nations Secretary-General Kofi Annan (Prague, November 2005)[7]

Companies can protect or violate the human rights of workers and communities throughout their operations. Resulting effects may be positive, such as increasing economic opportunities or expanding public services, or negative, such as creating unsafe working conditions, underpaying workers, or misusing natural resources. For decades, local communities, national governments, and international institutions have debated the responsibility of companies in managing these adverse impacts and the role of business in preventing them.[8]

Realizing this potential for impact, in 2011 the United Nations Human Rights Council endorsed the United Nations Guiding Principles on Business and Human Rights (UNGPs). The UNGPs apply to all countries and to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure.[9]

The UNGPs encompass three pillars outlining how states and businesses should operate:

- The state duty to protect human rights

- The corporate responsibility to respect human rights

- Access to remedy for victims of business-related abuses

Guiding Principle 13 outlines: *The responsibility to respect human rights requires that business enterprises: (a) Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; (b) Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.*[10]

As such, the UNGP asserts that companies have a responsibility to protect human rights along all phases of their value chain, inclusive of manufacturing and outsourced supply chains. Responsibility for supply chain operations proves particularly challenging, since today's global corporate supply chains include expansive and diffuse networks of both formal and informal relationships between buyer companies, factories, and workers where working conditions may vary greatly.[11] But increasingly—due in part to regulations as well as pressure from investors and/or shareholders, consumers, employees, the media, and civil society groups—many corporations have embraced responsibility for the safety, health, and wellbeing of individuals along all phases of operations, including deep into their supply chains.

This concept of "responsible supply chains" integrates environmental, social (including human and labor rights), and

"There's a limit to what we can do if governments do not have the right labor laws and do not have trained inspectors who have the capacity and authority to conduct investigations."

- Interviewee

good governance factors into the lifecycles of goods and services. Supply chain responsibility aims to create, protect, and grow long-term environmental, social, and economic value for stakeholders along a company's value chain. By implementing socially responsible supply chain practices, companies are able to protect the long-term viability of their business and secure a social license to operate.[12]

Interest in sustainably-managed businesses has grown rapidly. From the investor perspective, in early 2016, environmental, social, and governance (ESG) principles accounted for $22.89 trillion, or 26 percent, of professionally managed assets in Asia, Australia, New Zealand, Canada, Europe, and the U.S – a 4.5 percent increase since 2012.[13] On the regulatory front, several recent measures require reporting related to ESG topics, including the 2010 California Transparency in Supply Chains Act, the

2015 United Kingdom Modern Slavery Act, the 2014 EU Directive on disclosure of non-financial and diversity information, and mostly recently the 2018 Australia Modern Slavery Act. Legislation also has been proposed in Hong Kong, the Netherlands and Switzerland.[14]

Objectives
We offer this report to increase awareness and stimulate a discussion about the current resources available to companies that seek to manage responsible supply chains and identify strategies that might be used to strengthen the market for useful tools to help accelerate better practices across supply chains.

Specifically, the report aims to define and quantify the market opportunity for socially responsible supply chain tools and services by:

01. Understanding the current landscape of tools and services being used to manage socially responsible supply chains;
02. Understanding the profiles of corporate actors whose operations impact vulnerable workers that may benefit from these tools and identify: priorities, needs, challenges, demand drivers, current approaches to building and maintaining socially responsible supply chains, willingness to pay, and budgets for these tools and services; and
03. Estimating the value of the commercial market for tools and services designed to create accountability and transparency in corporate supply chains, by prioritizing four industry verticals—apparel and footwear, food and beverage, hospitality, and information and communications technology (including electronics)—industries known to be of high risk for forced labor or labor abuse.

Authors

A team from Monitor Institute by Deloitte conducted research and synthesis for the report. Working Capital, founded by Humanity United, commissioned the report with funds from the United Kingdom's Department for International Development.

About Monitor Institute by Deloitte

Monitor Institute by Deloitte is a consulting team within Deloitte LLP that works with social impact-focused nonprofits, philanthropies, and businesses. The team helps leaders make the hard choices and take the required actions to advance progress on pressing societal challenges, crafting impact strategies and field-leading thought leadership.

Further, Deloitte Consulting is committed to and understands the fight against human trafficking. Since 2011, Deloitte Consulting has worked with the U.S. Government to expand its capability in preventing human trafficking, protecting survivors, prosecuting traffickers, and collaborating across industry, civil society, and governments in the fight against modern slavery.

About Working Capital and Humanity United

Working Capital is an early stage venture fund that invests in scalable innovations to meet the growing corporate demand for more transparent and ethical supply chains—addressing the urgent need to protect vulnerable workers and source responsibly. It was created by Humanity United, a foundation that is part of The Omidyar Group. Working Capital actively explores and supports innovative new technologies that can help companies better understand supply chain labor rights risk to ultimately protect and empower workers in global supply chains.

Methodology

The data collection process involved secondary research and interviews with representatives from companies (buyers and suppliers) as well as consultancies and vendors of responsible supply chains and tools.

Secondary Research

The team conducted secondary research to inform analysis and estimate the value of the current and future commercial market for responsible supply chain tools. As background, we reviewed more than 50 documents from sources including academia, scholarly reports, government policy memos (e.g., U.S. Department of State *Trafficking in Persons Report* 2018), news outlets (e.g., The Atlantic *Whose Job Is It to Prevent Worker Abuse Abroad?*; The Economist *No More Excuses – Responsible supply chains in a globalized world*; and Huffington Post *The Myth of the Ethical Shopper*), consultancies (e.g., BSR *State of Sustainable Business* and KPMG *Survey of Corporate Responsibility Reporting 2017*); think tanks, international governmental organizations (e.g., United Nations Global Compact *Supply Chain Sustainability: A Practical Guide for Continuous Improvement*) and non-governmental organizations. In preparation for interviews, we reviewed publicly available information related to each company's responsible supply chain operations. To estimate market size, we drew from industry briefs, investor reports, and market research reports (e.g., Gartner, Standard & Poor's Capital IQ), information shared by interviewees, and pricing information publicly available from vendors.

Interviews

This study incorporates findings from stakeholder interviews, which targeted representatives from the following stakeholder groups.

- Companies within four industry verticals
  – Apparel and footwear
  – Food and beverage
  – Hospitality
  – Information and communications technology (including electronics)

- Consultancies, subject matter experts, and vendors of technology tools and services

Building on findings from secondary research, interviews focused on the following topics.

- Current State of the Market
  – What documents, policies, and/or industry associations govern your company's approach and priorities on human and labor rights?
  – How does management and oversight of these issues work within your company's organizational structure?
  – What audits, tools and services, if any, is your company / industry using to achieve a socially responsible supply chain?

- Growing the Future Market
  – What would your optimal socially responsible supply chain look like in 3-5 years? What would it take to achieve this vision?

Detailed interview notes were captured and aggregated at the industry level.

Overall Findings

The market for responsible supply chain tools is growing, and our research identified several opportunities to further develop the market, including demand drivers and steps that leading companies have already undertaken that are likely to increase adoption of tools. This section includes trends related to the current market for responsible supply chain tools, as well as factors that are expected to contribute to growing the future market.

Current State of the Market

The market for different types of socially responsible supply chain tools remains somewhat nascent in comparison to the existing marketing for social compliance audits. We estimate the current market for tools tools to support socially responsible supply chains (excluding audit) to range from $807M to $2.1B in 2018. The lower bound reflects a continuation of "business as usual" including practices such as the repeated use of pilots rather than enterprise-wide adoption, a continued reliance on audits, and slow adoption due to other demands on operating money. The higher bound reflects the impact of higher mid- and small-sized company adoption, driven by things such as these companies following quickly on the demonstrated value these tools have for large-sized companies and systemic changes. The estimated 2018 market for tools by category is as follows:

- Risk Assessment: $308M-$823M

- Product Traceability: $226M-$604M

- Ethical Sourcing: $153M-$446M

- Ethical Recruitment: $94M-$166M

- Worker Engagement: $26M-$47M

Figure 2: 2018 Estimated Market Size (Deloitte Analysis)

| | | $226M-$604M Product Traceability | $153M-$446M Ethical Sourcing |
| $361M-$671M Audit | $308M-$823M Risk Assessment | $94M-$166M Ethical Recruitment | $26M-$47M Worker Engagement |
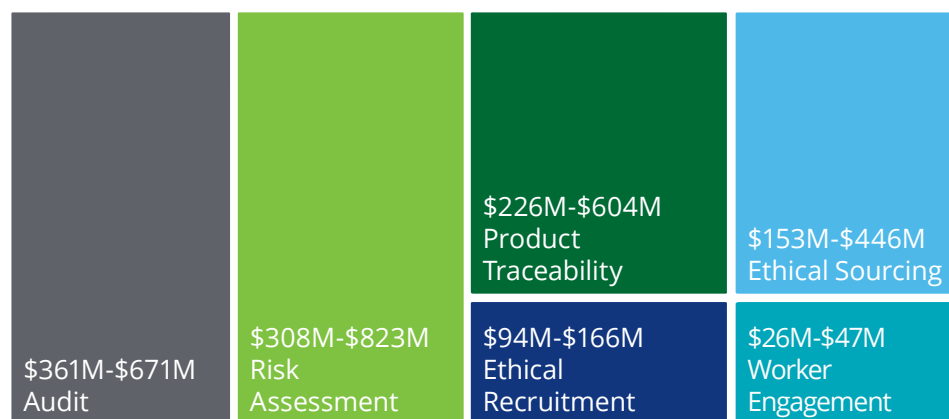
Total range (excluding audit) = $807M-$2.1B

Separately, we estimate the 2018 market for social compliance audits to range from $361M to $671M.

Additional details about market estimation calculations can be found in the Market Size Estimates section.

Study participants discussed several themes that may account for the current market size for socially responsible supply chain tools.

Audits are insufficient and ineffective, yet still dominate practice

Now in their third decade, social compliance audits are generally straightforward, clearly understood, and widely adopted as standard practice. In part, we heard from study participants that the market for audits has grown due to the lack of capacity of (or attention by) local governments to enforce labor laws effectively. Many interviewees

spoke of a highly flawed, corrupt system of social compliance auditing. However, because they are widely accepted across many industries to help companies meet their reporting requirements, audits will continue to play a role in supply chain management to help identify issues within supply chains. Audits will also continue to leverage the intersection of concern around other issues such as environment or corruption/governance.

Study participants noted, however, that audits tend to be insufficient as a vehicle for reforming supply chains: the goal should be to fix root problems once they are uncovered. Other tools will need to support or be integrated with audits until a broad enough coalition of stakeholders has tested and demonstrated that these alternative solutions can produce clear and tangible benefit to companies that use them.

Interestingly, few study participants mentioned certification schemes as a significant activity alongside social compliance audits. Thus, certifications were not explicitly included in our market sizing analysis.

The impact of tools is not widely understood yet

To date, technology-enabled tools have specific use cases. Several of the companies we spoke with want more visibility into operations without frequently sending auditors to factories, so have begun investing in pilots of technology solutions to test their effectiveness in increasing transparency of supplier operations. However, in running these pilots, other issues emerge, such as questions about

whether specific tools should be suggested or required, and by whom (the company or supplier)? Should the company or supplier pay? And, how do the tools fit into current operations and practices already in place? Although these pilots can begin to remove some business risks, they also seem to raise others, such as "pilot fatigue"—where companies or suppliers grow tired of developing the new systems and processes required to support the implementation of new tools.

Further, several participants pointed out the need for tailored or customizable solutions, as supply chain operations vary along several parameters, including (but not limited to):

- A simple, regionalized supply chain versus a complex, multinational supply chain

- Production done by a company in-house versus production contracted out to a network of suppliers and sub-contractors

- Producing own product versus licensing intellectual property (IP) to others to produce product

- Exporting goods outside of the country of production versus selling goods locally within the country of production

- Sourcing commodity or raw materials versus sourcing manufactured goods

The uptake of tools also varies according to the maturity of a company's human rights and labor risk posture. Even within an industry or within a company, the applicable tools need to fit the working/operating environment and local culture, which may vary greatly.

Since so much variety exists among companies, both across and within industries, off-the-shelf third-party solutions should be tailored to the specific conditions (e.g., industry, regional context, size (production volume, number of employees), and operating environment. Some companies have taken it upon themselves to develop their own responsible supply chain tools in-house, including risk management software programs and worker voice tools, to be sure that the solution meets their specific needs.

A few examples of the benefits of tools include:

- **Mapping the supply chain:** Provides transparency into products, processes, and suppliers; including geographic and operational risks; to focus efforts to improve quality and sustainability

- **Assessing risk:** Identifies potential risks of sourcing from certain suppliers or operating in specific geographies; to improve decision-making prior to production

- **Tracing products:** Allows for monitoring of goods throughout production and across borders; to increase consumer trust in the end product

Tools are more effective alongside change management

Meaningfully addressing labor rights issues requires understanding underlying root causes, then changing attitudes and behaviors. Labor-related abuses are interconnected to larger systemic problems—poverty, disenfranchisement, gender discrimination, and racism, to name a few—and cannot be solved via technology tools alone. We heard from interviewees that change management efforts are an essential component to realizing behavior change related to labor issues. Effective tool implementation is only part of the solution.

Change management includes taking steps to prepare and support individuals and organizations in shifting organizational behavior. This process requires bringing people along for the journey. Managing change is much harder than conducting a basic compliance audit, especially in the context of emerging markets. It involves having the appropriate staff to do the work, including the proper cultural understanding, language, and social class.

The representatives of the companies with whom we spoke noted that this systemic change is the shared responsibility of the buyer company, the supplier, and the local government and community. This kind of solution requires both leadership buy-in from the top and cultural/behavioral change on the ground (at the supplier facility level).

Purchaser Profiles

Within corporations, different business units engage in decisions related to responsible supply chain based on the company's structure and the history of its commitment to human and labor rights. As such, these business units—procurement/responsible sourcing, corporate responsibility, and legal/compliance—comprise the purchasers of responsible supply chains and tools. Descriptions of each purchaser type can be found below.

Procurement/responsible sourcing

Procurement involves the process of selecting suppliers, establishing payment terms, vetting and supplier selection, the negotiation of contracts, and actual purchasing of goods and services.

Many of the buyer companies included in this study have established a responsible sourcing team, with some variation by industry. Within some companies, the responsible sourcing team sits within the procurement group. Several study participants pointed to the value of this type of embedded structure. As part of the procurement group, these team members are expected to incorporate traceability, monitoring, auditing schemes, certifications, and human rights impact assessments when assessing procurement opportunities. One interviewee described the responsible sourcing team as "Procurement professionals who should consider responsible supply chain along with many other factors (e.g., competitive bidding, payment terms, etc.) when making procurement decisions." Procurement professionals (often referred to as "buyers") may be measured against performance of procurement practices that include responsible sourcing, with individual compensation and bonuses tied to achieving responsible sourcing targets in addition to other "traditional" targets.

Despite these emerging leading practices around responsible sourcing units, many general procurement teams have metrics to meet that do not include responsible sourcing (e.g., cost savings targets), so pressure to perform may outstrip motivation to source responsibly. In the words of one study participant, "Procurement needs to be able to negotiate

Procurement functions tend to have more budget dollars for responsible supply chain tools and services than corporate responsibility shops.

deals; it's about power and relationships." Procurement functions tend to have more budget dollars for socially responsible supply chain tools and services than corporate responsibility shops. Our analysis of the publicly-available reports of several leading companies we interviewed indicates that corporate responsibility budgets are typically one to five percent of sourcing and procurement budgets.

Corporate responsibility
Corporate responsibility is a business outlook that acknowledges responsibilities to stakeholders beyond shareholders, including suppliers, customers, and employees, as well as to local and international communities in which it operates and the natural environment.[15] This means taking account of a company's economic, environmental, and social impact, including consideration of human rights. By practicing corporate responsibility,

companies operate in ways that help to enhance society and the environment, instead of contributing negatively, in the normal course of business.

Responsibility for labor rights, as a subset of human rights, traditionally has fallen under the purview of corporate responsibility teams. However, the budget for corporate responsibility comes from overhead and is limited. Therefore, well-intentioned employees on corporate responsibility teams usually have a fixed pot of money that they then apply to an assortment of initiatives, efforts, projects, and pilots.

This often leaves very little funding for new innovations. In some companies, the corporate responsibility or human rights groups now report to the legal or compliance team. One study participant asserted that the corporate responsibility team should be part of the product creation team. Another

appealed to corporate responsibility teams, which largely use audits for compliance with sustainability standards, to "get out of the rut" of audits and to question the efficacy of the audit system.

Legal/compliance
According to consultancies interviewed, historically, points of contact within companies were employees in corporate responsibility positions, human rights, and responsible sourcing. Yet increasingly, purview over corporate responsibility and human rights has been folded into the general counsel's office or a broader compliance and ethics group likely due in part to new legislation outlining the legal implications of noncompliance. As evidence, for one consultancy it has become a more common occurrence to be asked to provide reports that are legally privileged. When an investigation could result in some form of legal liability for the company, either in-house

"We've heard from our suppliers that [Buyer] Company X comes in, makes us do their audit, Company Y does the same, then Company Z does too. So they end up having to do 42 audits and they have to pay for each one of them. It's a burden."

- Interviewee

or outside counsel manage the engagement. Budget becomes less of a constraint for a company if a salient issue occurs or emerges, such as when an allegation has been made or a report in the press points to reasonable suspicion of a serious abuse.

Demand Drivers

Although different for each company and industry, a handful of factors serve as the primary drivers for why a company may implement or improve socially responsible supply chain practices via purchasing tools.

Corporate Leadership: Several study participants described the importance of securing support from company leadership. In 2018, the positive economic value of environmentally sustainable supply chain practices is broadly understood and accepted.[16] However, the business case for investing in socially responsible supply chain practices is still emerging. For leadership

to fully buy into purchasing a new tool or service, they need to understand its value. For some, growing that understanding may require training on labor rights risks and the cost of compliance versus noncompliance. Interviewees also mentioned that leadership must realize that addressing labor risks represents an ongoing challenge, not a one-time investment.

Regulation: By legal statute, the United Kingdom and California now require companies to disclose efforts to prevent forced labor and modern slavery in supply chains.[17] In 2018, Australia joined the list.[18] Globally, the list of disclosure mandates continues to grow, with similar legislation emerging in Hong Kong, The Netherlands, Switzerland, and elsewhere.[19] As one participant explained, "The regulatory trend line can be thought of as a lagging indicator of consumer expectations, with regulation as a concrete example of societal expectations."

NGO/Media Investigations: According to one study participant, "This rising tide [of regulatory actions], taken together with media attention, is causing companies to sit up, take notice, and at least begin to act." Some study participants pointed to negative press and activist attention as a motivation for initially addressing socially responsible supply chain. Others highlighted that press and NGOs remain focused on the most severe forms of labor abuse, and have not emphasized issues of worker fairness, health, and wellbeing.

Industry Associations: Industry groups such as the Fair Labor Association, International Tourism Partnership, Responsible Business Alliance, Consumer Goods Forum, American Apparel and Footwear Association, Sustainable Apparel Coalition, and the newly-formed Compliance in Mining Network provide a forum for companies to better understand risks within the industry and aggregate leading

"This rising tide [of regulatory actions], taken together with media attention, is causing companies to sit up, take notice, and at least begin to act."

- Interviewee

mitigation practices and resources. As one participant described, "[The industry association] is a place for like-minded individuals to come together to have frank conversations on how to drive the whole industry forward."

Employee Engagement: Increasingly, employees of multinational companies demand socially responsible practices and greater transparency from their employers. According to the 2018 Deloitte Global Human Capital Trends survey, 76.7 percent of employees value their employer's reputation on citizenship and social impact.[20] Multiple interviewees cited employee engagement as a main consideration for their efforts related to socially responsible supply chain.

Investors: Socially responsible investors consider environmental, social, and corporate governance (ESG) criteria to help generate long-term competitive financial returns and positive societal impact. According to the US SIF Foundation's 2018 Report on US Sustainable, Responsible and Impact Investing Trends, as of year-end 2017, more than one out of every four dollars under professional management in the United States—$12.0 trillion or more—was invested according to SRI strategies.[21] Study participants acknowledged that some investors, certainly long-term investors, pay attention to labor compliance issues. However, one participant voiced doubt that attention from investors has driven changes that have actually benefited the workers: "Investors look at number of audits and get frustrated because the audits are not comparable." Rather than pouring additional resources into auditing, investors could encourage companies to build demand for alternative tools and solutions and "get people to convert their auditors into fixers/consultants."

Consumer Pressure: Traditionally, companies with greater exposure to consumers have faced a higher level of scrutiny when it comes to human rights and labor abuses. Yet to date, there has been limited coordinated engagement from consumers on the issue of labor rights. As one participant described, "The big question about consumers is how much they care—some care a lot, but will there be a shift where consumers seek more information [about their products]? How can information be shared in a way that is digestible?" Another described a need for awareness-raising among consumers about the human cost of cheap products: "We have gotten used to steadily declining prices and have expectations that drive worse conditions."

Growing the Future Market
Our analysis indicates the market for certain socially responsible supply chain tools, such as risk assessment and product traceability, will experience high growth. Several trends—increased regulation, industry attention, and stakeholder demands for transparency—will continue to drive demand for socially responsible supply chain tools among buyer and supplier companies. Additionally, study participants described a set of corporate actions likely to catalyze adoption of tools, including simplifying supply chains, reducing the volume of audits, and creating greater transparency and collaboration.

We project that the market for tools (excluding audit) will grow from a range of $807M to $2.1B in 2018 to a range of $889M to $2.7B over the next five years. We would expect to see greater market adoption with significant inducements such as changing regulation, increased advocacy and support from key stakeholder groups and new tools.

"Traditionally, companies with greater exposure to consumers have faced a higher level of scrutiny when it comes to human rights and labor abuses."

- Interviewee

The estimated 2023 market for tools by category is as follows:

- Risk Assessment: $344M-$1.1B

- Product Traceability: $253M-$811M

- Ethical Sourcing: $161M-$520M

- Ethical Recruitment: $102-$209M

- Worker Engagement: $29M-$59M

Compared to tools, the market for social compliance audit is likely to be relatively static. As such, the market for audit in 2023 is estimated to remain between $361 million to $671 million. Despite interviewees' cited dissatisfaction with audit, we did not hear about any major moves away or indications that the audit market might significantly change in the next few years. Though there is interest among interviewees (representatives of leading companies on these issues) in streamlining the audit approach, it is likely to remain a part of the landscape for years to come, until the value and impact of tools are more proven, hence the constant market size reflected in the data and charts.
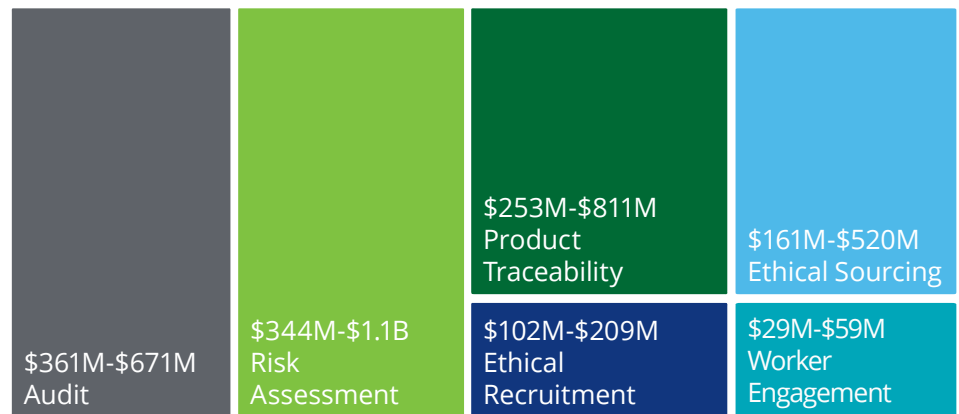
Additional details about market estimation calculations can be found in the Market Size Estimates section.

Study participants described several corporate actions likely to encourage adoption of tools, as described below.

Working with fewer, better suppliers
To reduce supply chain complexity and associated risks, several study participants described efforts to simplify their supply chains. Many supplier companies are large, multinational corporations themselves. By engaging at the corporate level, buyer companies can build direct relationships

Figure 3: 2023 Estimated Market Size (Deloitte Analysis)

$253M-$811M Product Traceability

$161M-$520M Ethical Sourcing

$361M-$671M Audit

$344M-$1.1B Risk Assessment

$102M-$209M Ethical Recruitment

$29M-$59M Worker Engagement

Total range (excluding audit) = $889M to $2.7B

with the supplier owners to ask questions such as, "If you employ 100,000 workers across all the facilities you own, how are you effectively supporting workers? What human resources tools or management systems are you using to support worker needs and shifting demographics?" Some companies have begun putting these challenges to their suppliers and assisting suppliers to improve practices. In the words of one interviewee, the company aims "…to help turn [suppliers] into world-class places to work." Several buyer companies financially support pilots for new tools, such as tools for elevating worker voice, for several years before transitioning ownership to supplier companies. This approach allows the supplier company to observe the tool's value before adopting into their own process. "In some ways it slows progress, but getting the kind of adoption where [the tool] will be most effective requires that level of buy-in" we heard from one buyer company.

One leading practice some companies have undertaken to discern supplier performance and compliance is through adoption of a supplier scorecard. Within the scorecard, sustainability is ranked equally with other procurement indicators such as cost and quality of outputs. Establishing incentive structures like scorecards can enhance supplier ownership over supply chain responsibility. Without influence and support from buyer companies, suppliers are unlikely to absorb the costs to make changes.

Channeling resources from audits to a more impactful approach
Our research identified an opportunity to repurpose resources currently dedicated to audits to instead support alternative models to uphold labor rights. Some companies we interviewed have taken steps to channel funds previously used for audits into innovative 'fixes' rather than just policing.

Several study participants pointed to an inflated, ineffective, or even corrupt social auditing system. Further, social audits only provide a snapshot in time of working conditions, and do not examine the broader labor supply chain. Because suppliers produce items for several different buyer companies, they often are subject to many different types of audits that are not standardized or compatible. This creates an undue burden for suppliers to comply with multiple codes of conducts and audit processes.

Technology solutions could reduce the need for in-person audits by highlighting risks. While new tools are unlikely to replace auditing in the next three to five years, they can provide real-time, end-to-end data to help focus in-person audits on the highest-risk facilities.

Additional opportunities for technology tools described by interviewees include using artificial intelligence (AI) to sort and scrape supplier data to identify anomalies, and supplier onboarding solutions that scrape from public databases to vet local suppliers that typically are not "on the grid."

Increasing interconnectivity of tools to improve transparency throughout supply chains
Companies share a vision for greater end-to-end visibility and sharing across their own supply chain and industry. The "unknown unknowns" keep business leaders up at night. As one participant told us, "Our biggest blind spot is the unauthorized subcontracting that happens all around the world." While not all traceability and visibility challenges can be addressed through interconnectivity, greater data sharing among industry players can reduce the burden of individual entities collecting this data and can contribute to models of collective action.

Some industry associations, such as the Responsible Minerals Initiative (part of the Responsible Business Alliance), share competitors' data related to audits and traceability on where the minerals are being sourced, enabling better decision-making across the industry.

In another encouraging example of data sharing, a consultancy that had historically provided client companies with private and confidential reports began to see a trend: for several entities employing vulnerable, migrant workers, many of the same labor recruiter "bad actors" in both the destination country (where work takes place) and the origin country (where the worker is from) were popping up in the supply chains of multiple suppliers, brands, and even sectors. In the past, the consultancy was unable to share this information due to non-disclosure and confidentiality obligations. But through a new membership-based risk screening platform, common exposure to forced labor risk is made available to companies to help focus their diligence efforts on their highest-risk suppliers and agents, without having to gather the information themselves.

Embracing opportunities to collaborate
In the words of one study participant, "Compliance is not competitive. Compliance is [addressing] worker conditions, which everyone is looking to improve and should be looking for the best way [to do so]." Effectively addressing labor rights abuses requires collaboration and coordination across buyer companies, suppliers, vendors, government, and non-governmental organizations. Specific opportunities for collaboration include:

"Our biggest blind spot is the unauthorized subcontracting that happens all around the world."

- Interviewee

21

- **Audit Standards** – At present, it can be challenging to compare results across audits since each uses different terminology and metrics. Through the Association of Professional Social Compliance Auditors (APSCA), some audit firms are coming together to develop standards and to level the playing field. This convergence of audit standards could further reduce the volume and market for social compliance auditing

- **Leadership Education** – As we heard in interviews, change management requires leadership that is bought-in to the value of responsible supply chain practices. Instilling this belief often requires training for top management so they can understand the human rights issues in terms of good business sense; some companies have teamed with industry partners to develop or share training resources

- **Code of Conduct** – Some companies would like to see a shared code of conduct that can be adopted industry-wide to help accelerate and facilitate monitoring of abuses

- **Data Sharing Platform** – Participants called for a platform where they can share audit results at the industry level. Such platforms do exist within certain industries, such as the Sustainable Apparel Coalition Social & Labor Convergence Project, and Responsible Business Alliance (RBA) Validated Assessment Process (VAP)

Adoption Challenges

As companies look to test and integrate new tools into their responsible supply chain management practices, several factors further complicate adoption of tools. Interestingly, many study participants did not speak to cost as the prohibitive factor in adoption of responsible supply chain tools. Instead, several other conditions were identified that prevent more widespread uptake of emerging tools, as described below. We provide this list as further factors for vendors of tools to consider as they design new products.

Complexity across geographies

Due to the vast nature of global supply chain operations, many companies manage across an array of dispersed sites. Crossing international borders, companies face divergent national laws and varying ability to coordinate with local and national governments, whose capacity to enforce the laws also varies greatly. As such, many companies face a wide variety of political, environmental, economic, and social risks within each operating context. To add to the complexity, "bad actor" labor agents operate across geographies and sectors, in both source countries and destination countries where migrant laborers work.

To help protect workers from labor violations, companies need tools that can account for the intricate geographic variation and resulting risk conditions. Technology offers a different opportunity to reach across geographies and flatten the complex structure of global supply chains.

Time to market (turnaround time)

Especially in manufacturing industries such as apparel and footwear, pressure to complete orders in a timely fashion and at a certain price point may squeeze the supplier to violate established standards. When orders come in late and the factory needs the revenue (and therefore needs the order), they don't have a lot of options – for instance, they can push the order out the door to an unauthorized subcontractor or impose excessive overtime. In this sense,

"The best would be just one system, because now we are dealing with six different systems."

- Interviewee

22

"There's a healthy tension between the competitive need for market share/ profitability and the need to collaborate."

- Interviewee

the buyer company (inadvertently) creates challenges that the supplier/factory bears and therefore cannot effectively provide better working conditions, protections, or benefits for workers. As one study participant explained, "It is not sustainable to put the community of suppliers in financial jeopardy due to unreasonable orders." Emerging tools give suppliers the opportunity to provide buyers with feedback on their purchasing practices to benchmark against other buyer companies.

Limited end-to-end visibility
Some companies are only able to track and monitor compliance at the first tier level. Others have pushed deeper into the supply chain, acknowledging that the bigger risks may loom beyond the first tier. Even when companies can account for several tiers of their supply chain, they do not have visibility into unauthorized subcontractors. We heard from interviews that companies are concerned about unauthorized subcontracting. As another shared, "To uncover hidden human rights risks, you need to ask the right question to the right person at the right time or else you won't get the response you need. So you may need to ask repeatedly from different angles, different people, different times." This likely results in a method of inquiry that is resource-intensive and inefficient.

Tools that automate data collection and extend end-to-end visibility beyond authorized first tier suppliers can have a major positive impact addressing current challenges.

Resistance to change
As we heard from one participant, "Suppliers have resistance to everything—[third-party] audits, entering data on the computer themselves, satellites entering data for

them, employees entering data for them. People are resistant to change. How do you change practices that have been practiced for ages into a new era of how you do business?" The burden of adapting to new processes or learning to use new resources should not be underestimated. Training staff on new tools requires time and buy-in. We heard that tools need to be simple and require minimal time commitment to learn (e.g., no three-day trainings).

As mentioned above, participants spoke of "pilot fatigue" and seeing a fluctuation of tools flood the market, with vendors claiming, " 'My tool is the only right one.' " However, participants also described success stories of capacity-building work and pilot projects that have made a real impact on changing behaviors and improving lives. As such, the anticipated positive impact of tools needs to be made to clear to stakeholders, so they understand the investment of time and money is worth the cost.

Industry-Specific Findings

"Social compliance audits are easily understood and easy to do. Every company knows how to do one and how to read them. Compliance auditing is in its third decade of working. These alternative forms are generating lots of optimism but people are still figuring out how to use the information."

- Interviewee

This study focused on the supply chain context of four different industry verticals – apparel and footwear, food and beverage, hospitality, and information and communications technology (including electronics). These industries were prioritized for inclusion in this study based on their potential risk for forced labor or labor abuse.

Apparel and Footwear

Apparel and footwear is a $1.7 trillion[22] industry that includes over 2,000 companies[23] with >$100M in annual revenue that produce clothing, footwear, athletic wear, bags and luggage, watches and jewelry, and other accessories. This study includes perspectives from three retailers and one supplier in the apparel and footwear industry, including a vertically-integrated multiple-use textile business, a major footwear and apparel manufacturer, a mass media and entertainment company that both directly sells apparel and licenses its intellectual property rights to third parties that produce and sell branded apparel, and a textile organization with plants around the world. Two of the companies have complex and widespread supply chains and have developed labor standards and technology-enhanced practices over several decades, while two have simpler supply chain operations and more often use manual and person-to-person practices.

Across study participants, several themes emerged. Unlike high-tech manufacturing, the apparel and footwear industry is a low-cost market that often sources the cheapest labor from around the globe. Participants spoke of needing to find suppliers who follow national laws and abide by codes of conduct and remain cost-competitive. They described the value of having a presence on the ground to monitor conditions as well as better real-time data to enable remote monitoring.

"The CSR market is quite fragmented, whilst there is a group of influencers, budgets in this group can be limited."

- Interviewee

As highlighted in the 2016 KnowTheChain Apparel & Footwear Benchmark Findings Report, engagement with employees via worker voice tools remains low across the apparel and footwear industry.[24]

Participants called for tools that meet the variety and complexity of supply chains and circumstances. They expressed interest in shared data arrangements (across the industry) to better target auditing efforts, especially as they expand responsible sourcing efforts into deeper tiers of the supply chain, and to make better decisions related to choice of suppliers.

Challenges:

- Often blind spots of unauthorized subcontracting. There's a fear that the worst conditions exist in the facilities that the company does not even know about

- Can be difficult to uncover the deeper issues, such as recruitment fees or sexual harassment and discrimination

- Can be challenging to identify the true ages of workers and maintain a consistent approach to child labor, given different countries have different minimum legal working ages

Bright Spots:

- Piloting new solutions, such as micro-trainings (delivering bite-sized training,

"The peanut butter approach [spreading audits across the entire supply chain operation] isn't something we want to apply at those lower tiers—we need to be more targeted, focused."

- Interviewee

typically in an online web-based or mobile phone format, and usually lasting less than 10 or 15 minutes) and facility fingerprinting (geo-chemical tracing capability that can tie a product component all the way back to the specific farm)

- Employing worker voice mechanisms to gather information from workers via mobile phones

- Shifting to a supplier ownership model by finding ways to go beyond auditing to support suppliers in developing strong management systems (e.g., human resource management systems and practices) to help turn them into world-class places to work. For example, some companies provide suppliers a choice of who to work with from a growing list of accepted third-party auditors

Food and Beverage

The food and beverage industry, comprising companies engaged in manufacturing beverages, food, pet food, and tobacco products, includes approximately 7,700 companies[25] with >$100M in annual revenue and an estimated $5.6 trillion market size.[26] This study includes perspectives from four companies in the industry: a large food and drink manufacturing company, a beverage manufacturer with global operations, a multinational retail company that operates grocery stores, and a global distributor of agricultural commodities.

Two study participants described a risk-based auditing approach (targeting high-risk suppliers only) at their companies, while the other two companies conduct audits for all suppliers above a certain size threshold. One company recently transitioned to a program that approves third party social compliance audits from internationally recognized programs which helps focus their work.

"It's nice to do a pilot in a particular place, but we are in more than 200 countries and territories."

- Interviewee

As in other industries, food and beverage companies work with suppliers to address issues that arise from audits. As one company explained, "Suppliers may think they just need to have the audit done, but the point is to address issues and maintain compliance going forward."

Challenges:

- Needs solutions that are scalable; there's "pilot fatigue"

- Food and beverage, in contrast to other industries explored in this study, more often "sources locally to sell locally." Solutions for managing these micro-supply chains should align with this reality and work for the local context

- Remote nature of agricultural work causes undue burden to effectively monitor

Bright Spots:

- The largest food and beverage companies have a consumer-facing presence across the globe, so they are not only sourcing from those locations but also selling there; this leads to an elevated sense of needing to maintain the social license to operate to maintain the bottom line

- Responsible sourcing professionals seem to be integrated with other functions and involved in sourcing decisions

- Some companies have developed a toolkit approach, where different tools are

"Embrace complexity and do not be afraid to deploy a complex toolkit of solutions."

- Interviewee

recommended or required depending on the risk or need for the specific product

Hospitality

The hospitality industry, which includes hotels, restaurants, and leisure, comprises over 2,800 companies[27] with >$100M in annual revenue and a total market size of $0.9 trillion.[28] This study includes perspectives from two global hotel and resort management companies and one real estate investment trust that invests in hotels.

Hospitality companies face an additional challenge related to labor and human rights that is less prevalent in the other industries covered in this study: since hotels are physical public spaces, perpetrators have been known to exploit them for sex trafficking. As such, hotel management companies have been aware of the risks of human trafficking for several years, and have taken steps to train staff on how to identify the crime. As we heard in interviews, mitigating human trafficking is also a major focus of the International Tourism Partnership, a membership organization that includes over a dozen major international hotel brands. More recently, many hotel management companies have also taken on the issue of forced labor in terms of hotel

construction, cleaning and foodservice staff, and procurement of goods.

Within the hospitality industry, procurement is often disaggregated and regionally focused. As such, management companies have taken steps to incentivize hotels to purchase from responsible companies and suppliers. When hotels source at the local level, it's extremely difficult to track procurement activities. Companies have significantly more control over and visibility into facilities they own and manage directly, versus their franchised locations. Individual hotels are their own small / medium enterprises, often operating under small procurement contracts, and may be located in geographies that do not prioritize labor rights as a business issue.

Challenges:

- Companies have less control over and visibility into franchised facilities (versus owned facilities)

- Little incentive for individual hotels to adhere to standards, so an industry-wide approach is more likely to achieve the expected value

Bright Spots:

- High level of collaboration and sharing of educational and awareness-raising training resources in the hospitality industry

- Buyer companies have traditionally focused on sex trafficking but are beginning to assess supply chain risks from a procurement perspective

- Strong focus on employee wellbeing, since employees are the face of the brand and their presence and wellbeing contributes to the overall guest service experience

Information and Communications Technology

The information and communications technology (ICT) industry includes high-tech (computer devices, mobile equipment, etc.) and consumer/industrial electronics (electrical components, household and industrial appliances, commercial equipment).[29] Within the industry, there are over 12,000 software and services, technology, hardware, equipment, semiconductor; telecom, media, and entertainment companies[30] with an annual revenue over $100 million, for a total industry size of $2.8 trillion.[31] This study incorporated perspectives from three companies, including a global

consumer electronics company, a global semiconductor manufacturer, and an electronic commerce company.

In this sector, risk evaluation and prioritization involves assessment of safety, political, and ethical risks. One participant noted two major factors in assessing risk magnitude; (1) volume or spend from a supplier; and (2) geographic proximity of the risk to the company's core operations (e.g., facility maintenance activities). One study participant described developing and testing standards in their own own factories to determine what worked and what didn't work to update standards based on their own experience before developing a supplier code of conduct based on those same standards. "Testing [the standards] in our own facilities was very helpful, because suppliers weren't able to say the standards wouldn't work for them."

"I've always gotten full support from leadership--both in our own factories and in the supply chain. I never had to put a business case on the table for this."

- Interviewee

Challenges

- Manufacturing companies within the industry often work with a lot of chemicals, so involve significant environmental and health/safety risks (prioritized over labor risks)

- The products and some of their components are subject to additional legislation

- The industry tends to employ a lot of migrant/foreign labor that involves labor agencies where there is a potential risk of illegal and unethical activity, such as withholding of passports and recruitment fees

Bright Spots

- Some investors, especially long-term investors, are highly attuned to labor and social standards

- In cases where suppliers have difficulty resolving issues found through audits, buyer companies may provide support in the form of subject matter expertise and technical assistance

- Companies have employed leading practices such as hotlines, grievance mechanisms, drop boxes, and work with unions to source complaints

- Companies piloting worker voice systems consider the tool a useful addition to the grievance and communication processes already in place

Implementation Resources

To meaningfully address labor rights challenges at scale will require not just action from leading large brands, but also a plethora of other companies. We hope this report provides ideas that individual companies can consider and tailor to their own operations, as well as examples of vendors of tools to help better understand how to engage a broader set of companies in improving the management of their supply chains.

Regardless of the industry or how advanced a company's human rights program, a range of tools and services can enhance current operations. This section provides a menu of some of the primary tools/services available for use at the various stages of implementation. We introduce the United Nations Global Compact Management Model (UNGCMM) in an effort to apply structure to an approach in a field that typically involves a lot of ambiguity.

Landscape of Tools/Services

Entrepreneurial vendors have developed innovative responsible supply chain tools to support buyer companies and their suppliers in improving insight into operations. In this section we introduce some examples of tools and services. Tools are organized according to the United Nations Global Compact Management Model to aid companies in their selection of solutions most appropriate to their needs.

UN Global Compact Management Model

One way to understand the range of tools and services available to address supply chain responsibility is along the six steps of the United Nations Global Compact Management Model (UNGCMM).

Figure 4: United Nations Global Compact Management Model (2010)
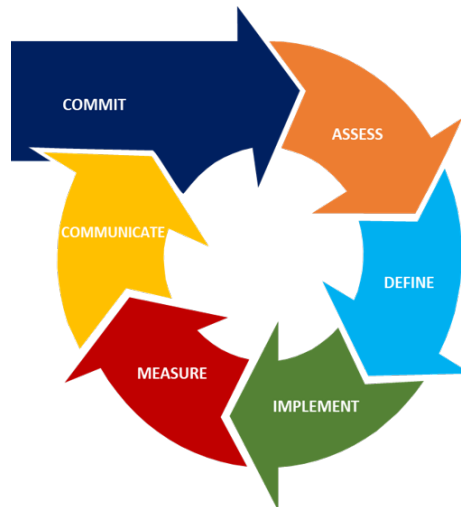
The UNGCMM is a practical yet broad tool to help companies evolve their sustainability efforts. Comprised of six management steps, it guides companies of many sizes through the process of formally committing to, assessing, defining, implementing, measuring, and communicating a corporate sustainability strategy. The model draws on widely accepted and understood management practices, and is designed to enable corporate sustainability performance. The steps in the UNGCMM are not linear.

Rather, they represent complementary actions that companies can take in an effort to achieve more sustainable supply chains.

For additional guidance related to the UNGCMM, see the following resources developed by The United Nations Global Compact, including the UN Global Compact Management Model: Framework for Implementation[32] and Supply Chain Sustainability – A Practical Guide for Continuous Improvement.[33]

Available Tools and Services
Responsible supply chain tools and services fall under each of the six management steps of the UNGCMM as outlined below. The list is meant to provide examples, and should not be thought of as comprehensive or exhaustive. Inclusion of the examples in this report does not imply endorsement of any tools or services, nor does exclusion imply the opposite. Note that some tools have been supported by funding from Working Capital.

1. Commit
During this step, company leadership publicly signals its commitment to stakeholders. Specifically, leadership commits to supporting fair labor practices as part of the strategy, culture, and day-to-day operations of the company, with oversight provided by transparent governance structures.

Code of Conduct: As a first step, a company develops a supplier code of conduct, which spells out the actions to which the company expects suppliers' adherence. Many companies follow established, widely adopted standards from leading organizations such as those listed below. Examples include Fair Labor Association[34] and Responsible Business Alliance.[35]

Strategy Development: Companies build a strategy to address specific challenges within their industry context and supply chain operation, and integrate social responsibility standards into procurement decisions with clear, actionable targets. Examples of companies that provide strategic development consultancy services include Impactt,[36] Shift,[37] and Verité.[38]

2. Assess
Equipped with a commitment to creating and maintaining a responsible supply chain, the company assesses its risks and opportunities—in financial and extra-financial terms—as well as the impact of its operations and activities on the issue areas, on an ongoing basis to develop and refine its goals, strategies, and policies. This includes two types: (1) "big picture" risk assessment; and (2) workplace risk (audits).

Risk Assessment: Technologies that leverage the capabilities of big data, machine learning, and Internet of Things to identify and act upon labor violations, focus resources efficiently, and predict associated risks within supply chains. Examples include Sayari[39] and Verisk Maplecroft.[40]

Workplace Audits: A facility audit or assessment serves to compare and document that a facility is complying with prescribed standards such as employee safety, health, freedom of movement, and correct pay along with local regulations and laws. Examples include ELEVATE,[41] Insite Compliance, [42] and SGS.[43]

Product Traceability: Solutions that enable companies to trace the flow of source goods and products through the full production process. This helps buyer companies intervene in previously hidden parts of the supply chain and helps increase consumer trust in the products they are purchasing. Examples include Phylagen[44] and Provenance.[45]

3. Define
Based on its assessment of risks, opportunities, and impacts, the company develops and refines goals and metrics specific to its operating context, and creates a roadmap to carry out its program. This includes tools for continuous monitoring and remediation of issues.

Strategy Implementation: Crafting implementation plans to help companies reach responsible supply chain goals. Example providers include Impactt,[46] Shift,[47] and Verité. [48]

Supply Chain Mapping: Software that enables companies to trace products to the source – tracking social, financial, and environmental risks. Examples include ChainPoint,[49] Sourcemap,[50] SourceTrace,[51] and SupplyShift.[52]

Audit Management: Includes management of the audit process from start to finish, such as scheduling, managing payment transactions, and coordinating with many parties on any follow-up remediation activities. Examples include Inspectorio[53] and Sumerra.[54]

Worker Wellbeing: Human resources tools and systems that provide emotional, practical and physical support for employees. Examples include the MicroBenefits Employee Portal,[55] QuizRR,[56] and Workplace Options.[57]

4. Implement
The company establishes and monitors ongoing adjustments to core processes, engages and educates employees, builds capacity and resources, and works with supply chain partners to address and implement its strategy.

Affiliations: Network organizations that connect member companies within or across industries to share resources and insights, build capacity, and collaborate to create solutions. Examples include BSR[58] and Sustainable Apparel Coalition.[59]

Certifications: Objective, third party assessment groups that carry out inspections to issue certificates to indicate a company's working conditions meet agreed-upon standards. Examples include Control Union (inspection audits for various certifications)[60] and Fair Trade Certified (a certification standard setting body and certifier).[61]

Ethical Sourcing: Centralized digital sourcing platforms to help buyers source sustainable and responsibly produced goods.

Responsible Recruitment: Innovations designed to reduce the exploitation of migrant workers from origin through destination. Examples include Fair Employment Foundation[62] and FSI Worldwide.[63]

5. Measure
The organization adjusts its performance management systems to capture, analyze, and monitor the performance metrics established in the Assess and Define steps. Progress is monitored against goals and adjustments are made to help improve performance.

Data Sharing Platform: Collaborative platforms for buyer companies, suppliers and auditors to store, share and report on information related to supply chain, such as purchasing practices, labor rights, and ethical recruitment. Examples include Better Buying,[64] Sedex Advance,[65] and Verité Cumulus.[66]

Performance Management: Data analytics platforms that help companies manage social performance, determine compliance, manage risks, and improve profitability by leveraging advanced technologies. One example includes Assent Compliance.

6. Communicate
During this step, the company communicates its progress and forward-looking strategies for implementing its commitment by developing a Communication on Progress, and engages with stakeholders to identify ways to improve performance continuously.

Stakeholder Engagement: Tools and forums that connect buyer companies, suppliers, workers, communities, and governments to address global supply chain risks. One example is the Bali Process Government and Business Forum.[67]

Worker Engagement: Mobile technologies that facilitate anonymous, real-time feedback from workers so that companies can monitor working conditions across extensive supply chains and suppliers can promote greater communication between workers and management. Examples include LaborVoices[68] and Ulula.[69]

Awareness Resources & Campaigns: By collaborating with foundations or NGOs, companies can help increase awareness of labor rights issues via creation of resources for investors, peer companies, consumers, policymakers, and workers. Examples include Behind the Barcodes by Oxfam America[70] and KnowTheChain.[71]

Market Size Estimates: Assumptions and Calculations

To estimate the value of the commercial market for tools and services related to socially responsible supply chains, and with a specific focus on labor rights, we began by exploring:

- Company spend on sourcing & procurement and CSR, to get a sense of relative budget among major functions interested in the topic

- Industry (or broader)-level data related to ESG investing and CSR activities, to provide a "ceiling" for the market

- Social responsibility consulting landscape, including volume of clients, to understand magnitude of interest in advisory services

- Cost of social compliance audits and tools and services on the market today, to provide a baseline

- Number of companies (globally) per industry of focus with annual total revenues >$100M (data obtained from Capital IQ). The $100M total revenue floor was selected as companies exceeding this amount are subject to the California Transparency in Supply Chains Act, if doing business in California.[72] This figure provides an estimate of the number of companies that might be interested in tools and services to support their compliance with the regulatory requirement

We focused on buyer companies for this study. A study focused on suppliers—their priorities, challenges, demand drivers, and budget constraints—would be a valuable next step to further refine the market opportunity.

Overall, there is a lack of good data on demand and cost, and where it exists it is fragmented and often proprietary. Therefore, we developed estimates based on assumptions, vetted in our interviews, to create broadly accurate estimates.

Assumptions to obtain the variation between the low end and the high end of the market estimate include:

- Categorizing companies' current and future adoption of tools by their total annual revenue
  - Companies >$1B have the highest adoption rates. With the exception of the growing number of "triple-bottom-line" focused companies, our understanding from interviewees is that the largest players are paying significantly more attention and putting vastly more resources towards social efforts in particular
  - Companies $500M-$1B have adoption rates estimated at a fraction of the >$1B players
  - Companies $100M-$500M have further scaled down adoption rates
  - Note: All companies are assumed to be participating in social compliance audits due to the increasing regulatory requirements. However, the cost of these audits varies significantly (and proportionally to company revenue)

- Percent of companies adopting social responsibility efforts into their supply chains
  - As described above, we started with the estimates below for companies >$1B, and scaled down for smaller companies

– High end saturation today is estimated at 70 percent per BSR's report The State of Sustainable Business 2018: "At least 7 in 10 consumer-facing and ICT companies are focused on human rights in Tier 1 supply chain"[73] (and adjusted based on industry variability shared in interviews)

– Average saturation today is estimated using baseline of McKinsey analysis: 26 percent of managed assets today are invested according to ESG principles[74] (and adjusted based on industry variability shared in interviews)

– Maximum annual growth rates are a generous 5 percent, developed from the McKinsey analysis on ESG[75]

– The current and future adoption rates vary for the five categories of tools, based on the maturity of the category. The variation between categories is informed by the investment perspective of Working Capital and within the bounds outlined above

• Cost of social compliance audits and tools estimated based on (limited) publicly-available or interviewee-shared data

Calculations incorporate the estimated number of companies (within each industry vertical and size) adopting tools each year and the cost of each tool by category to develop a range of the market size per category of tool.

Table 1: Estimated Market Size (Deloitte Analysis)

	Risk Assessment	Product Traceability	Ethical Sourcing	Ethical Recruitment	Worker Engagement	Total Tools	Audit
2018	$308M-$823M	$226M-$604M	$153M-$446M	$94M-$166M	$26M-$47M	$807M-$2.1B	**$361M-$671M**
2023	$344M-$1.1B	$253M-$811M	$161M-$520M	$102-$209M	$29M-$59M	$889M-$2.7B	**$361M-$671M**

Conclusion

Socially responsible supply chain tools can play a critical role in helping companies manage ethical supply chains. As new tools are developed, the demand for these tools is increasing and the market opportunity over the next five years is substantial. While many companies continue to employ social compliance audits for reporting purposes, both buyer and supplier companies have started seeking supplemental tools that enable greater visibility and accountability into supply chain operations, to better focus audit efforts, inform decision-making, and help improve conditions for workers.

By understanding the demand drivers and unique needs of each purchaser type, vendors can develop tools that are most likely to deliver value for end users, and ultimately help workers. Significantly reducing labor rights violations will require bold action and collaboration from buyer companies, suppliers, national governments, local communities, investors, and consumers. In the right hands, new socially responsible supply chain tools can provide this network of actors with the additional data and solutions needed to help vulnerable workers.

Glossary

This report uses several terms that have several different meanings. See below for a list of how the authors intend terms to be understood within this document.

- **Audit:** A facility audit or assessment serves to verify and document that a facility is complying with prescribed standards such as employee safety, health, freedom of movement, and correct pay along with local regulations and laws

- **Child Labor:** Refers to the employment of children in any work that deprives children of their childhood, interferes with their ability to attend regular school, and that is mentally, physically, socially, or morally dangerous and harmful

- **Corporate Social Responsibility (CSR):** A business outlook that acknowledges responsibilities to stakeholders beyond shareholders, including suppliers, customers, and employees as well as local and international communities in which it operates and the natural environment

- **Buyer:** Company that purchases goods and/or services from other companies

- **Environmental, Social, and Governance (ESG):** Refers to the three central factors in measuring the sustainability and ethical impact of an investment in a company or business

- **Forced Labor:** Forced labor is any work or service which people are forced to do against their will, under threat of punishment

- **Human Trafficking:** The trade of humans for the purpose of forced labor, sexual slavery, or commercial sexual exploitation for the trafficker or others

- **Human Rights:** Rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more

- **Labor Rights:** A group of legal rights and claimed human rights having to do with labor relations between workers and their employers, usually obtained under labor and employment law

- **Procurement:** Involves the process of selecting suppliers, establishing payment terms, vetting and supplier selection, the negotiation of contracts, and actual purchasing of goods and services

- **Socially Responsible Supply Chain Tools:** Tools that assist companies by providing better visibility and transparency to assess risk, diagnose problems, act on issues, and monitor labor practices and working conditions in their supply chains. These tools are predominantly technology or data-enabled, in contrast to the vast landscape of consulting or advisory services or certification schemes

- **Supply Chains:** System of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer

- **Supplier:** Company that provides goods and/or services to other companies as one of the contributors to the development process on the way to the ultimate customer

- **Worker:** A person who works. In this document, worker primarily refers to a person who works within one of many tiers of a global corporate supply chain

- **Vendor:** A company or firm that develops and sells a tool or service to support supply chain management activities

Endnotes

1 Interfaith Center on Corporate Responsibility. "Best Practice Guidance on Ethical Recruitment of Migrant Workers." April 2017.
https://www.iccr.org/sites/default/files/iccrsbestpracticeguidanceethicalrecruitment05.09.17_final.pdf.

2 Food and Agriculture Organization of the United Nations. "Many of the 450 million waged agricultural workers live in dire conditions."
6 October 2005. http://www.fao.org/newsroom/en/news/2005/107955/index.html.

3 Interfaith Center on Corporate Responsibility. "Best Practice Guidance on Ethical Recruitment of Migrant Workers." April 2017.
https://www.iccr.org/sites/default/files/iccrsbestpracticeguidanceethicalrecruitment05.09.17_final.pdf. Accessed 20 October 2018.

4 Ibid.

5 International Labour Organization, "Forced labour, modern slavery and human trafficking – Facts and Figures." No date.
https://www.ilo.org/global/topics/forced-labour/lang--en/index.htm. Accessed 29 October 2018.

6 The Economist Intelligence Unit. "No More Excuses – Responsible supply chains in a globalized world." 2017.
http://growthcrossings.economist.com/wp-content/uploads/sites/47/2017/07/EIU-SCB-RSC-WP.pdf.

7 United Nations Population Fund. "Quotes on Human Rights." 2004. https://www.unfpa.org/resources/quotes-human-rights.

8 The United Nations Working Group on Business and Human Rights. "The UN Guiding Principles on Business and Human Rights: An
Introduction." 2011. https://www.ohchr.org/Documents/Issues/Business/Intro_Guiding_PrinciplesBusinessHR.pdf.

9 The United Nations Office of the High Commission for Human Rights. "The UN Guiding Principles on Business and Human Rights:
Implementing the United Nations 'Protect, Respect, and Remedy' Framework." 2011.
https://www.ohchr.org/documents/publications/GuidingprinciplesBusinesshr_eN.pdf

10 Ibid.

11 Gillian White, "All Your Clothes are Made with Exploited Labor." 3 June 2015, The Atlantic.
https://www.theatlantic.com/business/archive/2015/06/patagonia-labor-clothing-factory-exploitation/394658/.

12 The United Nations Global Compact. "Supply Chain Sustainability - A Practical Guide for Continuous Improvement, Second Edition." 2015.
https://www.unglobalcompact.org/library/205.

13 Amy Whyte. "McKinsey: ESG No Longer Niche as Assets Soar Globally." 27 October 2017, Institutional Investor.
https://www.institutionalinvestor.com/article/b15cc1dxds8k97/mckinsey-esg-no-longer-niche-as-assets-soar-globally.

14 Ropes & Gray LLP. "New Australian Modern Slavery Reporting Requirements on the Horizon – A Primer for Multinationals." 17 August 2018.
https://www.ropesgray.com/en/newsroom/alerts/2018/08/New-Australian-Modern-Slavery-Reporting-Requirements-on-the-Horizon-A-
Primer-for-Multinationals.

15 Triple Pundit. "Corporate Social Responsibility." No date. https://www.triplepundit.com/topic/csr-corporate-social-responsibility/.

16 McKinsey. "Survey: The business of responsibility." October 2011. https://www.mckinsey.com/business-functions/sustainability-and-
resource-productivity/our-insights/the-business-of-sustainability-mckinsey-global-survey-results.

17 Erica Phillips. "U.K. Anti-Slavery Disclosure Law Will Apply to Thousands of Companies." 30 July 2015, Wall Street Journal.
https://www.wsj.com/articles/uk-anti-slavery-disclosure-law-will-apply-to-thousands-of-companies-1438287500.

18 Kieren Guilbert. "Australia targets big business with world's 2nd anti-slavery law." 29 November 2018, Reuters.
https://www.reuters.com/article/us-australia-slavery-lawmaking/australia-targets-big-business-with-worlds-2nd-anti-slavery-law-
idUSKCN1NY14K.

19 Ropes & Gray LLP. "Corporate Social Responsibility Compliance in 2018, and Beyond – An Overview for In-House Legal Counsel." 12 March
2018. https://www.ropesgray.com/en/newsroom/alerts/2018/03/Corporate-Social-Responsibility-Compliance-in-2018-and-Beyond-An-
Overview-for-In-House-Legal-Counsel.

20 Deloitte Insights. "The rise of the social enterprise: 2018 Deloitte Global Human Capital Trends." 2018.
https://www2.deloitte.com/content/dam/insights/us/articles/HCTrends2018/2018-HCtrends_Rise-of-the-social-enterprise.pdf.

21 US SIF. "2018 Report on US Sustainable, Responsible and Impact Investing Trends." 31 October 2018. https://www.ussif.org/trends.

22 Euromonitor International, "Article", https://blog.euromonitor.com/2018/05/global-apparel-footwear-valued-us-1-7-trillion-2017-millions-of-
used-clothing-disposed-every-year.html, last modified March 05, 2018.

23 Capital IQ. Company Screening Report. Retrieved November 12, 2018, from Capital IQ database.

24 KnowTheChain. "Apparel & Footwear Benchmark Findings Report." 2016.
https://knowthechain.org/wp-content/plugins/ktc-benchmark/app/public/images/benchmark_reports/KTC_A&F_ExternalReport_Final.pdf.

25 Capital IQ. Company Screening Report. Retrieved November 12, 2018, from Capital IQ database.

26 The Business Research Company. "Food and Beverages Global Market Report 2018." February 2018.
https://www.thebusinessresearchcompany.com/report/food-and-beverages-global-market-report-2018.

27 Capital IQ. Company Screening Report. Retrieved November 12, 2018, from Capital IQ database.

28 Tom Derhake, Mike Boushka, Alex Jay, Doug Laux, Jr. "Hospitality - Industry Perspective 2018". 2018, Liberty Advisor Group.
https://www.libertyadvisorgroup.com/insight/industry-persperctive-hospitality-vertical/.

29 Source Global Research. "The US Consulting Market, 2017."
https://reports.sourceglobalresearch.com/report/download/3025/extract/The-US-Consulting-Market-in-2017
30 Capital IQ. Company Screening Report. Retrieved November 12, 2018, from Capital IQ database.
31 Andrew Bartels, The Global Tech Market Outlook For 2018 To 2019, Forrester, January 05, 2018, last modified March 06, 2018.
32 The United Nations Global Compact Office and Deloitte. "UN Global Compact Management Model." 2010.
https://www.unglobalcompact.org/library/231.
33 The United Nations Global Compact Office and BSR. "Supply Chain Sustainability: A Practical Guide for Continuous
Improvement, Second Edition." 2015. https://www.unglobalcompact.org/docs/issues_doc/supply_chain/SupplyChainRep_spread.pdf.
34 Fair Labor Association. "FLA Workplace Code of Conduct." No date. http://www.fairlabor.org/our-work/code-of-conduct.
35 Responsible Business Alliance. "Code of Conduct 6.0." No date. http://www.responsiblebusiness.org/standards/code-of-conduct/.
36 https://impacttlimited.com/services/building-your-strategy/.
37 https://www.shiftproject.org/.
38 https://www.verite.org/services/consulting/.
39 https://sayari.com/.
40 https://www.maplecroft.com/human-rights-political-environmental%20economic-risk-indices.
41 https://www.elevatelimited.com/services/assessment/.
42 http://insitecompliance.com/.
43 https://www.sgs.com/en/audit.
44 http://phylagen.com/#technology.
45 https://www.provenance.org/.
46 https://impacttlimited.com/services/building-your-strategy/.
47 https://www.shiftproject.org/.
48 https://www.verite.org/services/consulting/.
49 https://www.chainpoint.com/solutions/supply-chain-traceability/.
50 http://www.sourcemap.com/.
51 http://www.sourcetrace.com/.
52 https://www.supplyshift.net/.
53 Anne Prahl, "PI (Product Innovation) Apparel World Series – Milan 2018." Innovation in Textiles. 6 November 2018.
https://www.innovationintextiles.com/pi-apparel-world-series-milan-2018/.
54 https://www.sumerra.com/.
55 https://www.microbenefits.com/employee-portal.html.
56 https://www.quizrr.se/.
57 https://www.workplaceoptions.com/.
58 https://www.bsr.org/en/membership.
59 https://apparelcoalition.org/.
60 https://www.petersoncontrolunion.com/en.
61 https://www.fairtradecertified.org/.
62 https://www.fairfoundation.org.hk/.
63 http://fsi-worldwide.com/services/staffing/recruitment/.
64 https://betterbuying.org/.
65 https://www.sedexglobal.com/our-services/sedex-advance/.
66 https://www.verite.org/cumulus-forced-labor-screen/.
67 https://www.baliprocess.net/bali-process-government-and-business-forum/.
68 https://www.laborvoices.com/.
69 http://ulula.com/.
70 https://www.oxfamamerica.org/take-action/campaign/food-farming-and-hunger/behind-the-barcodes/.
71 https://knowthechain.org/
72 Office of the California Attorney General. "The California Transparency in Supply Chains Act." https://oag.ca.gov/SB657.
73 BSR. "The State of Sustainable Business 2018." 18 September 2018.
https://www.bsr.org/en/our-insights/report-view/state-of-sustainable-business-2018-bsr-globescan.
74 Amy Whyte. "McKinsey: ESG No Longer Niche as Assets Soar Globally." 27 October 2017, Institutional Investor.
https://www.institutionalinvestor.com/article/b15cc1dxds8k97/mckinsey-esg-no-longer-niche-as-assets-soar-globally.
75 Ibid.

Monitor Institute
by **Deloitte.**

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

About Humanity United
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. HU is part of the Omidyar Group, which represents the philanthropic, personal, and professional interests of the Omidyar family.

About Working Capital
Working Capital is an early stage venture fund that invests in scalable innovations to meet the growing corporate demand for more transparent and ethical supply chains—addressing the urgent need to protect vulnerable workers and source responsibly.

About the Department for International Development (DFID)
The Department for International Development (DFID) leads the UK's work to end extreme poverty. We are tackling the global challenges of our time including poverty and disease, mass migration, insecurity and conflict. Our work is building a safer, healthier, more prosperous world for people in developing countries and in the UK too.