Re: Structure Lab

Blueprint

A collaboration between:

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In an interconnected world facing dire economic, pandemic, and climate crises, there is no time for business as usual.

It is time to Re:Structure.
As set forth in the Re:Structure Lab’s series of Evidence Briefs, the globalised, financialised economy we have today stands on the shoulders of a model of capitalism born in slavery, colonisation, and extraction. Whether business or accounting practices, insurance norms, or financial strategies, the drive to reward productivity and efficiency above all — though they do have their place — while shifting ‘externalities’ to communities made marginalised and powerless is even more central to the world economy than when it emerged in the days of industrialisation and the transatlantic slave trade. With pandemic recovery providing an aperture for change even as the climate crisis puts unprecedented pressure on the future of human society and the human species, the Re:Structure Lab firmly believes that the time is now for lines to be drawn.

Advances in logistics capabilities, information technology, and forum-shopping have extended exploitation far beyond the local to have global impact. Localised abuses such as the enclosures and expulsions of rural communities in the United Kingdom of Adam Smith’s time are mirrored by human rights violations across companies’ supply chains. Modern practice conveniently criss-crosses jurisdictions and creates a situation in which companies headquartered in places with strong rule of law can ensure that products tainted by abuse can ‘come home’ free of the liability that would have attached if the same practices had been carried out in their home country — creating effective impunity under domestic legal regimes that have not caught up with global supply chains. Similarly, environmental externalities are no longer sited in end-user locations where domestic political or legal pressure might be brought to bear; companies instead carefully locate dirty factories on the upwind side of state and prefectural borders. When an entire infrastructure of sourcing and site selection
consulting exists to help multinational companies find and inhabit zones of impunity, the surprise shouldn’t be that there is forced labour in the supply chain, but that anyone is surprised that there is.

So too, financialisation and de-regulation are no longer an efficiency-advancing answer to state planning practices that appeared moribund in the closing years of the Cold War, but have hardened into tools of extraction and impunity. Long-term business relationships, seen as inefficient in the time periods by which firms are judged, are replaced by a Hobbesian race for immediate advantage — a contest that, without regulators or other intermediators, defaults to the short-term ‘efficiency’ of exploitation. If human rights imperatives are to meaningfully flow down the tiers of the supply chain, it will require, inter alia, a re-casting of supplier interactions as relationships, rather than simply as temporary, arms-length arrangements.

When an entire infrastructure of sourcing and site selection consulting exists to help multinational companies find and inhabit zones of impunity, the surprise shouldn’t be that there is forced labour in the supply chain, but that anyone is surprised that there is.
The COVID-19 pandemic and subsequent supply chain breakdown have exposed the costs of efficiency-based global business practices. ‘Just-in-time’ sourcing has broken down with the disruption of logistics infrastructure. Component parts and even chemical precursors are either not available or not in the right place at the right time. Companies that sought to retain profits during the pandemic through increased forced overtime or worker abuse are being exposed in the press and by regulators. Intensified enforcement efforts — including import bans — against goods tainted by forced labour are changing the risk posture of firms that have until now been able to profit from such abuse. Further, the pandemic has exposed the general public to the existence and nature of the interconnected global supply chain and how it affects our daily lives. That revealed interconnectedness has the prospect of also revealing the virtue-signalling or ‘freewashing’ of Corporate Social Responsibility (CSR) or Multi-Stakeholder Initiatives that are not meaningfully integrated into power centers of procurement and industrial operations but are tasked to sidelined community engagement teams or even marketing departments.

If businesses do not respond to these accountability signals, other forces will do it for them. Investors and insurors will only bear known risk for so long — and are beginning to demonstrate their intolerance. State regulators — whether using administrative or criminal law tools — will respond to growing societal consensus for meaningful accountability. Where firms evade responsibility through jurisdictional arguments or because of the inapplicability of outdated legal tools (as did cocoa companies in a recent U.S. Supreme Court case), they will find themselves eventually confronted by a growing body of due diligence and transparency legislation that, aggregated, will change reporting standards and business practices alike. Attempts to water down such accountability legislation will only have a short-term delaying effect, much as attempts to deflect regulation through self-policing and toothless audits are now failing as liability shields. The UN Guiding Principles on Business and Human Rights and OECD Guidelines for Responsible Business Conduct continue to drive innovation and create a consensus duty of care. Workers’ rights organisations, human rights defenders, and conscious consumers are not going anywhere.
Given that reality, the more rational response for a global company is to take up the tools of a re-structured global supply chain: more equitable value redistribution; contractual language with consequences for abuse; worker participation in standard-setting; workplace inspection and reviews that are designed and executed with worker input and real remedies; policy and practice claims assessed for actual impact rather than mere articulation; penalties for interference with audits or educational efforts; and effective labour and criminal law enforcement that is serious (and costly enough) of a threat to incentivise firms to enforce a rights-respecting, sustainable culture internally.

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See the latter section on How to Build a More Equitable Economy for specific actions for governments and lead firms around setting standards, commercial practices, assessment and monitoring, and enforcement and remedy.
The complexity of these issues, cutting as they do across business units, is such that they can only be addressed through whole-of-business responses and C-suite leadership. A company’s willingness to engage and their progress in instituting these changes should be the key criteria that should be used to assess their commitment to combatting forced labour, rather than flashy annual reports marketing sustainability initiatives, boilerplate Modern Slavery Statements extolling the benefits of auditing, or empty CSR-signalling while simultaneously lobbying against meaningful regulatory reform.

But the necessary changes are not just for companies or workers to take on. Governments have a key role in driving social and environmental innovations, through both positive and negative incentives. On the positive side, businesses who undertake Worker-led Social Responsibility efforts should be favoured in government procurement or access to governmental- (or international financial institution-) backed credit. Firms should be able to count on a regulatory environment with a degree of predictability and certainty, wherein they do not lose competitive advantage to unscrupulous actors who take advantage of inefficiency or even corruption. Labour and criminal law protections, as well as trade and anti-money laundering actions, should not be seen as wholly negative incentives; such actions, when well-funded and institutionalised, create the level playing field on which companies can compete without turning to exploitation to gain advantage.

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The restructuring of global supply chains to eradicate historical legacies and current realities of exploitation will require not only an empowered and organised workforce, due diligence across firms’ internal practices, and whole-of-government commitments, but also a cultural shift within the business community. We see early signs of this in recent moves away from the dominant 20th-century consensus that shareholder value maximisation is the sole purpose of the corporation; such realignment to stakeholder value re-envisions companies as part of the local and global communities in which they operate, rather than as transient extractors.

Through the work of the Re:Structure Lab, it is becoming clear that real accountability will be needed to truly achieve the vision of such critical instruments as the UN Guiding Principles on Business and Human Rights; the United Nations’ Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children (the “Palermo Protocol); and the International Labor Organization’s Forced Labor Convention. That means passing and strengthening mandatory Human Rights Due Diligence (mHRDD) and supply chain transparency legislation, ensuring robust state-led enforcement, centering workers in standards-setting and remediation, and rewarding firms that shift from short-term extractive arrangements to long-term relationships that maximise value for all stakeholders.

It will require broader reforms as well, such as new business models and pedagogy that — by being rooted in holistic sustainability — promote not just shareholder value but also transparency, living wages, fair prices, and respect between buyers and suppliers. Moreover, it will take a reassessment of companies that willfully skirt regulation and avoid proper taxation via such policies such as subcontracting, profit shifting, and the creation of shell companies. Restricting such practices will advance meaningful mechanisms for accountability while also combating the erosion of local governments’ tax bases and ability to provide social services and the rule of law. Taken together, these reforms must be — and should have always been — part of the cost of doing business.
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Furthermore, to make such a cultural shift, the very basis of business education needs to be re-examined. Just as the shareholder value ethos has resulted in counterproductive short-term profit-taking, dominant models taught in business schools (such as Porter’s Five Forces) fail to capture the value of an empowered workforce. Without a restructuring of business schools’ approaches, business leaders will continue to see labour and environmental issues as a drag on revenue/value or, at best, topics to be shunted off to CSR departments. The field will further benefit from the support of cross-disciplinary, empirical research to better understand the impacts of new, stakeholder-focused approaches.

In an interconnected world facing dire economic, pandemic, and climate crises, there is no time for business as usual. It is time to Re:Structure.
In August 2019, months before the global COVID-19 pandemic began, nearly 200 business leaders from the United States’ largest corporations came together to craft the Business Roundtable’s Statement on the Purpose of a Corporation, overturning a long-proclaimed commitment to maximising shareholder value as the corporation’s driving force. In the statement, the business community makes clear that cultivating and investing in healthy, sustainable communities and an inclusive economy is a key priority. They acknowledge the significant power firms have in shaping society, which, given the widespread reach of today’s supply chains, could span the globe. They posit putting the value of the worker and their communities on equal footing with customer satisfaction and investor profit.

The Re:Structure Lab shares such a vision for a robust, inclusive, sustainable, rights-respective corporation — and achieving it necessitates the eradication of forced labour from global supply chains. Just as the signatories to this statement have voiced contempt for a model of capitalism that centres profits and shareholder value above all, the business community has likewise fervently voiced support for combating severe labour exploitation in public statements. In response to that appeal, the Re:Structure Lab offers the following concrete recommendations based in academic research across several disciplines — flowing directly from the Statement’s text — for how to realise the aspirations laid out by the CEOs of many of the world’s largest firms.
The promise of good jobs for all workers necessitates that both firms and governments take responsibility for rooting out forced labour and other forms of severe labour exploitation from global supply chains. As it stands, prevailing business models produce a deficit of quality jobs around the world. Fortunately, research suggests that better working conditions and wages can lead to higher productivity, reduced absenteeism and higher worker retention, better financial performance, and greater resilience. As it stands, millions of workers the world over face deplorable conditions, coercion and abuse, and sub-minimum wages. Rectifying this necessitates committing to investing in improved wages and conditions instead of ratcheting up pressure on suppliers to produce evermore quickly without meaningful investment in capacity improvements. Farms and factories often lack the capacity to meet these harsh demands, but risk losing business if orders are not fulfilled. Thus, they often pass the ‘squeeze’ onto their workers through depressed wages and poor working conditions, all in the name of efficiency and flexibility. The pandemic has highlighted the ways in which common sourcing practices, including order cancellations, invocation of Force Majeure clauses, refusal to pay for orders already produced, and demands for discounted prices on existing and new orders, led to widespread factory closures and bankruptcy, mass worker layoffs, and a deterioration of working and living conditions. Solutions to these practices must include workers playing a central role in designing and implementing new business models and informing a more robust auditing framework.
manufacture equipment and vehicles; support the national defense; grow and produce food; provide health care; generate and deliver energy; and offer financial, communications and other services that underpin economic growth.

While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders.

We commit to:

→ Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.
Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.

Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.

diversity and inclusion, dignity and respect

Particularly in the context of the resurgence of the Black Lives Matter movement in summer 2020, companies the world over made bold, public declarations about their commitments to diversity and inclusion. In order to realise both dignified labour for workers and sustainable, thriving communities along the full supply chain, the public and private sector must align to ensure we are rooting out legacies of historic marginalisation, dispossession, and discrimination from business models. At present, discrimination on the basis of gender, race, and other demographics makes some more vulnerable to forced labour than others. Meaningful change will require a rebalancing of profit allocation toward productive activities, including improved wages and working conditions. Furthermore, firms’ fiduciary duties must extend beyond shareholders to a broader stakeholder class and accounting for negative externalities of their operations. Likewise, governments must revisit the purpose of antitrust legislation to better protect suppliers and consumers.

Furthermore, various supply chains actors, including investors, must confront and address the deep and longstanding historical links between specific labour sectors (e.g. agriculture) and the institutions that enable their operation (e.g. investors) with slavery and the trade in enslaved people throughout the history of capitalism in the United States, England, and beyond.

Dealing fairly and ethically with our suppliers

It is encouraging that business leaders have identified supplier relationships as a key priority. Existing power imbalances skewed toward buyers enable them to make rigid demands of their suppliers, who have few options but to respond if they wish to continue to be a part of the supply chain. A common consequence is the reliance on outsourcing and subcontracting as a cost-cutting measure, which often shifts production to geographies with weaker legal frameworks, lower wages, poorer enforcement of labour standards, and lower rates of unionisation – all issues highly associated with severe labour exploitation. Academic research has highlighted that forced labour is a logical consequence of common sourcing practices such as sourcing beneath the costs of production; late payments to suppliers; heavy financial penalties for delays; refusal to adjust prices in light of improvements to minimum wages; and unpredictable ordering patterns. Fortunately, corporations can innovate their business models to deter forced labour in supply chains, such as by benchmarking living and minimum wage costs in purchase orders and contracts, and establishing binding, longterm, and enforceable agreements with worker organisations and unions.
Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.

Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.

Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.

Supporting the commitment to transparency must extend deep into global supply chains, with lead firms taking responsibility for the predictable outcome of labour exploitation that has historically arisen from business models oriented toward shareholder primacy and fast-paced, low-cost commercial dynamics. One key element of this move toward openness and accountability will be the enactment of mandatory human rights due diligence legislation that introduces a duty to carry out robust human rights due diligence across the entire supply chain and address any adverse impacts, including through access to remedy and redress for survivors. Unfortunately, existing transparency legislation is failing in rooting out forced labour and other forms of labour exploitation. States must likewise impose meaningful sanctions for violations, including civil liability and other public oversight.

Likewise, investors must weigh this commitment to transparency when making decisions about where to direct their resources, ensuring current momentum toward Environmental, Social, and Governance (ESG) investing has the stated impact of moving beyond pure financial gain to consider the broader costs and ‘externalities’ of doing business.

These and other key recommendations for lead firms and governments are explored more deeply in the following briefs from Re:Structure Lab:

- Due Diligence and Transparency Legislation
- Commercial Contracts and Sourcing
- Labour Share and Value Distribution
- Investment Patterns and Leverage
- Worker Debt and Inequality
- Social Auditing and Ethical Certification (coming soon)
How to Build a More Equitable Economy

01 Setting Standards

Governments

→ Enact mHRDD (or strengthen existing transparency legislation) that establishes a duty of care across the full supply chain and close legal loopholes that mask accountability for human rights violations.¹

→ Ensure consistent transnational labour standards and regulations, including via international trade agreements and use of extraterritorial jurisdiction when needed.²

→ Develop flexible paths for safe, fair labour migration.³

→ Address anti-competitive behaviour through antitrust reforms and financial market regulation.⁴

→ Tackle inequality — including that which drives precarious worker debt — by investing in social safety nets and setting progressive taxation regimes.⁵
Lead firms

→ Rewrite corporate purpose statements to reflect duties towards broad stakeholder groups.\(^6\)

→ Ensure there are fair and transparent recruitment policies across the chain.\(^7\)

→ Remove barriers to freedom of association and ensure workers are involved in informing revised standards.\(^8\)

→ Reform internal governance to address incentives that drive forced labour in the supply chain.\(^9\)

Investors

→ Acknowledge and address the historical links between investment and severe labour exploitation throughout the history of capitalism.\(^10\)

→ Establish reliable, comparable metrics for evaluation of companies across social issues and set clear standards for investment, with stringent clauses around forced labour, which are based in a solid understanding of social risks that align with current research.\(^11\)

→ Divest from businesses known to use forced labour in their supply chains, or those whose business models and tactics are associated with labour exploitation.\(^12\)
Commercial Practices

Governments

→ Effective regulation of labour and product supply chains to ensure all activities required to deliver goods or services have high labour standards.\(^{13}\)

→ Price goods produced with forced labour out of the marketplace by making goods sourced below cost of production illegal.\(^{14}\)

→ Establish industry-wide labour recruitment programmes with independent oversight.\(^{15}\)

→ Embed considerations of mHRDD compliance in government procurement policies.\(^{16}\)

Lead firms

→ Address forced labour through business model innovation, including adaptation of commercial practices that support better labour standards.\(^{17}\)

→ Establish long-term, more reciprocal commercial relationships with suppliers.\(^{18}\)

→ Give primacy to forced labour clauses in commercial contracts.\(^{19}\)

→ Establish predictable pricing structures that enable suppliers to pay living wages and ensure safe working conditions across the chain.\(^{20}\)

→ Reorient pay structures and value distribution more equitably across the supply chain, including through the adoption of living wages.\(^{21}\)
Governments

→ Require business to provide meaningful, comparable, and reliable data regarding efforts to combat severe labour exploitation based on standardised, rights-based metrics such as those set forward by the International Labour Organization.\textsuperscript{22}

→ Identify high-risk sections of the chain and establish a ‘follow the money’ approach, by investigating wage deductions and other financial ‘red flags’ of forced labour.\textsuperscript{23}

→ Ensure workers are centrally involved in monitoring activities, including when conceiving new, more effective auditing regimes.\textsuperscript{24}

→ Align policy with current research on patterns and drivers of forced labour.\textsuperscript{25}

Lead firms

→ Analyse both product and labour supply chains to assess risks of human rights violations.\textsuperscript{26}

→ Establish a whole-of-business approach and collaboration toward ESG compliance, sourcing practices, and corporate governance to ensure general corporate strategy supports achievement of social commitments.\textsuperscript{27}

→ Involve workers in the design of standards across the chain.\textsuperscript{28}

→ Establish monitoring programmes where workers can directly communicate workplace violations across the chain.\textsuperscript{29}
Governments

→ mHRDD should establish clear liability for lead firms, subsidiaries, and suppliers to strengthen due diligence accountability.  

→ Enact enforcement models that address wage theft and fraudulent deductions with direct input from workers.  

→ Ensure labour inspectorates conduct unannounced, periodic inspections, including a close review of payment methods and salary records.  

→ Duty of reporting human rights violations should be enforced by a public body.  

→ Establish clear paths for remedy in mHRDD, using legal damages to pay for remedy.  

Lead firms

→ Implement binding and enforceable sector-based, multi-stakeholder agreements that include independent enforcement bodies and established funding sources for remedy.  

→ Engage workers to help identify instances of workplace violations, such as wage theft and other indicators of forced labour.  

→ Publicly report outcomes from changes in business practices made to address forced labour.
Notes


3 See Re:Structure Lab brief on Worker Debt and Inequality p. 22–23.


5 See Re:Structure Lab brief on Labour Share and Value Distribution p. 30; Re:Structure Lab brief on Worker Debt and Inequality p. 11, 18.

6 See Re:Structure Lab brief on Labour Share and Value Distribution p.32.

7 See Re:Structure Lab brief on Worker Debt and Inequality p.15–16; Re:Structure Lab brief on Investment Patterns and Leverage p. 20.


9 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p.19; Re:Structure Lab brief on Commercial Contracts and Sourcing p. 26–27.


11 See Re:Structure Lab brief on Investment Patterns and Leverage p. 20, 23–24.

12 See Re:Structure Lab brief on Investment Patterns and Leverage p. 21, 24.

13 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p. 7–10.


15 See Re:Structure Lab brief on Worker Debt and Inequality p. 22–23.

16 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p. 17.


18 See Re:Structure Lab brief on Commercial Contracts and Sourcing p. 18; Re:Structure Lab brief on Investment Patterns and Leverage p. 20; Re:Structure Lab brief on Labour Share and Value Distribution p. 20.


21 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p. 15, 17; Re:Structure Lab brief on Labour Share and Value Distribution p. 11–13, 20–22, 30–32; Re:Structure Lab brief on Worker Debt and Inequality p. 6–7, 17.


24 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p. 16, 31; Re:Structure Lab brief on Worker Debt and Inequality p. 14.

25 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p. 15.

26 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p. 15.

27 See Re:Structure Lab brief on Investment Patterns and Leverage p. 20.


29 See Re:Structure Lab brief on Worker Debt and Inequality p. 21; Re:Structure Lab brief on Labour Share and Value Distribution p. 31.

30 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p. 10, 14–19; Re:Structure Lab brief on Commercial Contracts and Sourcing p. 27; Re:Structure Lab brief on Worker Debt and Inequality p. 19–20.

31 See Re:Structure Lab brief on Worker Debt and Inequality p. 5–7, 11, 18–23.

32 See Re:Structure Lab brief on Worker Debt and Inequality p. 12.

33 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p. 9, 16–17, 19; Re:Structure Lab brief on Investment Patterns and Leverage p. 17.

34 See Re:Structure Lab brief on Transparency Legislation and Due Diligence p. 5, 9, 18; Re:Structure Lab brief on Commercial Contracts and Sourcing p. 22; Re:Structure Lab brief on Labour Share and Value Distribution p. 25, 33; Re:Structure Lab brief on Worker Debt and Inequality p. 21.


36 See Re:Structure Lab brief on Worker Debt and Inequality p. 18.
