Lancaster University Management School

Financial Reporting Council

Independent Anti-Slavery Commissioner

Modern Slavery Reporting Practices in the UK

Evidence from Modern Slavery Statements and Annual Reports

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Contents

1 Foreword

Dame Sara Thornton DBE QPM

Modern slavery is a heinous crime that generates an estimated US$150 billion annually. According to the ILO, there are more than 40 million people in slavery globally, of whom 25 million are in forced labour. One in four victims of modern slavery are children.

With an estimated 16 million victims globally working in the private sector, businesses carry significant material and reputational risk of modern slavery being found somewhere in their supply chains. Labour exploitation has been found in all major sectors, including agriculture, fishing, construction, mining, manufacturing, textiles and hospitality. It is perpetrated by organised criminals and cynical opportunists. However, irresponsible commercial practices and poor governance can also create the conditions that allow exploitation to thrive.

Section 54 of the UK Modern Slavery Act of 2015 requires businesses with a turnover of £36 million or more to write an annual statement, setting out the steps that they are taking to address the risk of slavery in their operations and supply chains. Corporate response has been uneven over the past few years, but companies that have demonstrated good governance and strong leadership on the issue have made significant strides forward.

This ground-breaking collaboration between Lancaster University, the Financial Reporting Council and my office sets out to explore how businesses are not only reporting on modern slavery, but the extent to which they are measuring the impact of their initiatives and interventions. Analysing the modern slavery statements and also the annual reports of 100 major companies, the researchers have found a disturbing disconnection between the two reporting activities. This suggests that modern slavery considerations are still not a mainstream concern for many boardrooms.

Alongside companies, this report should be of interest to investors, lenders, shareholders, NGOs, clients and many other stakeholders. I hope that it leads to improved reporting practices which demonstrate the actions that companies are taking in this area and paves the way for further research and enquiry into this pressing issue.

2 Executive summary

Modern slavery is moving up the political and legislative agenda within the UK, whilst shareholder and investor initiatives on the issue are increasing. Whilst recent global events, such as the war in Ukraine, are further increasing modern slavery risks within companies and portfolios, our research suggests that companies are not sufficiently equipped to deal with such risks.

In its Annual Review of Corporate Governance Reporting (2021), the FRC published findings from research carried out by Lancaster University on the extent to which companies are including modern slavery in their disclosures as part of their responsibility to consider the interests of their stakeholders in their annual report. The research also included a review of reporting on modern slavery governance, policies, and due diligence in modern slavery statements.

The present research was commissioned by the Financial Reporting Council, in collaboration with the UK Independent Anti-Slavery Commissioner, and carried out by Lancaster University as an extension to the preliminary research carried out as part of the FRC's Annual Review.

This report summarises evidence on how companies listed on the London Stock Exchange's Main Market report on modern slavery. The research examines reporting practice in modern slavery statements mandated under s.54 of the Modern Slavery Act 2015 (MSA). It also investigates the extent to which companies are reporting on modern slavery in annual reports as part of their requirement to describe how opportunities and risks to the success of the business have been considered and addressed. In this area, the research takes a particular focus on s.172 statements. The evidence is based on the reporting practices of a sample of 100 companies comprising FTSE 100, FTSE 250, and Small Caps. This is the same sample examined by the FRC in their 2021 Review of Corporate Governance Reporting.

Modern slavery statements

Overall, the research found reporting on modern slavery in both modern slavery statements and annual reports to be lacking the information needed for shareholders and wider stakeholders to make informed decisions.

Under the MSA, organisations with a turnover of £36 million or more must provide an annual statement on the steps that they are taking to ensure that modern slavery is not taking place in any parts of their business or supply chains. The accompanying statutory guidance recommends the organisations cover the following six reporting categories: policies, structures, due diligence, risk assessment, training, and effectiveness. For each area, this report sets out general conclusions, as well as areas where reporting can be improved and examples of good practice.

It was found that around one in ten companies did not provide a modern slavery statement at all, and therefore failed to comply with the s.54 reporting requirement. Where companies did comply, only one third of modern slavery statements were considered clear and easy to read. The majority of statements were fragmented, lacking a clear focus and narrative, or were unduly complicated. For example, longer disclosures did not necessarily mean more informative disclosures; excessively long disclosures often contained boilerplate reporting or were a sign of a poorly structured statement. Key performance indicators (KPIs) to measure the effectiveness of the steps taken to minimise modern slavery risks is an area where disclosure was particularly poor. Only a quarter of companies disclosed results against their KPIs and just 12% confirmed they have made informed decisions based on those KPIs.

12%

of companies failed to provide a modern slavery statement.

Within modern slavery statements, less than half of companies provided a clear and comprehensive discussion of modern slavery concerns in the context of their organisational structure, operating and supply chains. A similar proportion of companies (46%) described their policies on slavery and human trafficking in an informative manner. Disclosure therefore often lacked detail, often failing to provide information on how policies operated in practice, or how their effectiveness was measured.

Company size, sector and business complexity were found to be important factors influencing the level of transparency in modern slavery statements. Interestingly, however, the impact of company size did not appear to be constant (i.e. linear) across the entire size range. While FTSE 100 companies provide significantly more information in comparison with other size groups, the difference between FTSE 250 companies and Small Caps was much less pronounced. Indeed, transparency levels are broadly similar in some reporting categories, such as policies and training, while for descriptions of organisational structure, Small Caps provided better disclosure than FTSE 250 companies. These results are surprising and suggest that other considerations beyond public scrutiny and internal resources may shape modern slavery reporting. Company-specific aspects such as leadership style and corporate culture may, for example, be playing a significant role.

Perhaps more importantly, the vast majority of modern slavery statements were wholly backward-looking, with only a minority clearly identifying emerging issues or a long-term strategy. This finding is consistent with companies opting for a reactive, rather than proactive, approach to addressing modern slavery risks. A related finding is that, although the majority of companies report that they assess modern slavery risk in their own business and supply chain, less than a third of them (28%) disclosed an action plan based on the risks identified.

Reporting on modern slavery in annual reports

In the annual reports of the 100 companies sampled, reporting on modern slavery issues was surprisingly minimal. Although the UK Corporate Governance Code (the Code) does not include specific provision on modern slavery or human rights issues, a number of the Code's principles and provisions cover the board's ability to assess and manage the company's risks and to consider the interests of wider stakeholders in making key decisions.

Our assessment of annual reports suggests that many companies appear not to view human rights issues in their workforce and supply chain as a principal source of risk for their business. For some companies, this lack of concern may reflect strong and positive relationships with trusted suppliers coupled with relatively short supply chains that are easy to manage. For many others, however, the lack of disclosure might raise questions over whether sufficient attention is being paid to such issues.

Only 14% of annual reports provided a direct link to the corresponding modern slavery statement. The lack of appropriate cross-referencing not only reduces visibility and transparency on modern slavery issues but undermines efforts to address the risks. Companies that consistently fail to properly cross-reference information regarding their approach to modern slavery will likely struggle to see their work in this area recognised.

Only 14% of annual reports provided a direct link to the corresponding modern slavery statement.

The findings from companies' annual reports were consistent with evidence of patchy reporting on risk assessment and effectiveness in modern slavery statements, with very few referring to performance indicators in the context of modern slavery. Significantly, however, companies were more likely to discuss governance-related aspects of slavery and human trafficking, including stakeholder engagement, in their modern slavery statement than in their annual report. Relatively few (13) companies reported on internal controls linked to the oversight of human rights and slavery in their annual report, for example. Fewer still (7) provided any information about when and how frequently their modern slavery policies and governance arrangements are reviewed.

We hope this report prompts companies to consider their supply chain and the role that the board has in providing oversight to ensure that effective policies are in place which will drive real action to address this important issue. Assessment of the effectiveness of these policies at delivering outcomes should be demonstrated in future reporting.

3 Background and focus

The primary question on which evidence was sought is: How adequately are businesses disclosing modern slavery risks in their operations and supply chains, and how do they measure the effectiveness of their actions?

Modern slavery statements

Section 54 of the Modern Slavery Act 2015 (MSA) requires companies to publish an annual modern slavery and human trafficking statement that is signed-off at the board-level or equivalent. Although not yet a legal requirement, the legislation recommends reporting on the following six areas:

- organisation structure, its business and its supply chains;
- policies in relation to slavery and human trafficking;
- due diligence processes in relation to slavery and human trafficking;
- risk assessment and management;
- organisational effectiveness in ensuring that slavery and human trafficking is not taking place;
- training available to staff on modern slavery issues and capacity building.

A unique element of s.54 within the MSA is that it encourages stakeholders, such as shareholders, NGOs, clients and the general public, to scrutinise modern slavery statements and hold businesses to account. Therefore, the legislation requires that the annual modern slavery statement must be visible and accessible from the homepage of the reporting entity's website. In a drive to further increase transparency and accessibility for stakeholders, the Home Office also launched the government modern slavery statement registry in March 2021. As part of proposed changes to strengthen the legislation, companies in scope of the Act could be required to link their statements to the online registry and report on mandated areas in the future. However, until the new legislation passes, interaction with the registry remains a voluntary activity.

Previous evaluations of modern slavery reporting practice, such as the Business and Human Rights Resources Centre's (BHRRC) analysis of FTSE 100 companies in 2018, have identified three areas of particular concern: due diligence processes, risk assessment and management, and effectiveness. This report aims to present more detailed analysis for these three specific areas of concern.

Annual reports

Annual reports are the main source of information for shareholders and wider stakeholders. Although the UK Corporate Governance Code (the Code) does not include specific provision on modern slavery or human rights issues, it does ask companies to describe in their annual report how opportunities and risks to the success of the business have been considered and addressed. It also emphasises the need for boards to consider the views of the company's key stakeholders in making decisions. The complexity of global supply chains, coupled with the economic and reputational damage facing entities where human rights abuses are brought to light, means that modern slavery risks are live issues for most businesses, regardless of sector.

Similarly, s.172 of the Companies Act 2006 requires directors to have regard to the interests of employees, foster appropriate relationships with suppliers, and maintain high standards of business conduct. For periods beginning on or after 1 January 2019, all large UK companies must include a separate statement in their strategic report that explains how their directors have had regard to wider stakeholder needs when performing their duty under s.172 (a 'Section 172 Statement').[1]

This research aims to ascertain the extent of disclosure on modern slavery in modern slavery statements under the MSA and how companies are linking this to annual report disclosures on governance, supply chains and associated matters in the Code. Whilst this report highlights any comparison between the two where appropriate, the research generally does not aim to provide a comparative study.

1 Companies (Miscellaneous Reporting) Regulations 2018.

4 Data and method

Reporting practice for a sample of 100 companies listed on the London Stock Exchange was analysed. The companies whose practices were reviewed are the same set that the Financial Reporting Council examine in their 2021 Review of Corporate Governance Reporting. The sample included FTSE 100 and FTSE 250 constituents, along with Small Caps from the FTSE All Share index. All sample companies are caught by s.54 of the MSA and must therefore publish a modern slavery statement. The analysis covers reporting in the latest available modern slavery statements and annual reports as of June 2021.

The assessment framework used was based on a disclosure template developed by the BHRRC to evaluate FTSE 100 companies' modern slavery statements published in 2018. The template covers all areas recommended by the s.54 statutory guidance. The methodology captures variations in the quality of reporting using a three-part scale and has already been used as an effective tool for assessing the reporting on modern slavery by premium listed companies. Transparency of reporting practice was assessed according to the following three-level classification scheme:

- no/immaterial disclosure;
- some/moderate disclosure;
- comprehensive/full disclosure.

The BHRRC's template was augmented to include additional dimensions of reporting practice, including the accessibility of modern slavery statements, as well as relevant aspects of disclosure in companies' annual reports. In total, we evaluate 90 dimensions of reporting practice across modern slavery statements and annual reports.

Analyst assessments were subject to a review procedure to ensure consistency and minimise the subjectivity of judgements by analysts.

Differences in analysts' assessments that reflect ambiguity in reporting practices were retained and sensitivity tests performed using alternative scores to evaluate whether our results and conclusions changed in a material way. The findings presented in the following sections are robust to the treatment of ambiguous cases.

The subsequent analysis focuses on the fraction of companies that provide comprehensive/full disclosure. This is the standard of reporting deemed necessary to ensure transparency on modern slavery risks and methods for measuring effectiveness of company actions.

5 Main findings for modern slavery statements

A. Overall reporting behaviour

(i) Content

Results suggest some improvement in the overall amount of information that management provide in their modern slavery statements relative to evidence presented by the BHRRC in 2018 for FTSE 100 companies. Our sample includes a significant proportion of smaller (i.e. non-FTSE 100) companies where corporate disclosure levels tend to be lower, and yet we still observe higher than average transparency levels for our sample in most of the recommended reporting areas relative to BHRRC results. Good reporting practice is prevalent among FTSE 250 and Small Cap companies.

The research found that the CEO and/or board Chair signs-off on 80% of the modern slavery statements in our sample. A further 12% of statements are signed by a board member other than the CEO or Chair. Explicit evidence of board-level responsibility for modern slavery statements among the vast majority of companies is a positive sign that the profile of slavery and human trafficking issues within large organisations is increasing. For the remaining reports in our sample, 3% were approved by a non-board member and 5% did not contain information regarding final sign-off.

Overall, however, modern slavery statements remain largely descriptive and superficial, with little attempt to critique performance and highlight areas of concern. Many companies opted for broad-brush statements rather than precise descriptions on issues such as their policy on withholding wages or imposing recruitment fees. The lack of detail and critical assessment of performance is particularly evident for reporting on training, due diligence processes, risk assessment, and policy effectiveness. We therefore explore these areas in further detail.

Overall, modern slavery statements remain largely descriptive and superficial, with little attempt to critique performance and highlight areas of concern.

We found 42% of companies within our sample provided a clear and comprehensive discussion of modern slavery concerns in the context of their organisational structure, operating and supply chains. A similar fraction of companies (46%) also described their policies on slavery and human trafficking in an informative manner. Disclosure is nevertheless poor on detail and often failed to provide information on how policies operated in practice, or their effectiveness measured.

In addition to assessment of past performance, forward-looking discussion of evolving issues and the company’s strategy for dealing with them is critical information for shareholders to assess the company’s approach to addressing modern slavery risk. The research found, however, only a third of statements (37%) clearly identifying emerging issues and only 12% of companies providing a long-term plan. As such, the vast majority of modern slavery statements were wholly backward-looking. This finding suggests that companies opt for a reactive, rather than proactive, approach to addressing modern slavery risks.

Forward-looking discussion of evolving issues and the company’s strategy for dealing with them is critical information for shareholders to assess the company’s approach to addressing modern slavery risk.

(ii) Presentation and readability

In addition to scoring individual elements of modern slavery statement disclosures, our analysts assessed the overall clarity and readability of each report. Ratings considered aspects such as the structure of the report (including a clear table of contents), the ease with which relevant information could be identified, the clarity with which policies and data were presented (including the use of infographics and figures), and the overall time taken to collect and score our 90 dimensions of reporting practice. Only one third of reports (36%) were judged by our team of analysts as being clear and easy to read. The remainder were classified as being fragmented, disjointed, or lacking a clear focus and narrative. In particular, we found that longer disclosures did not necessarily mean more informative disclosures. Indeed, in some cases, excessively long disclosures often consisted of extensive boilerplate reporting or were a sign of a poorly structured statement.

(iii) Visibility and accessibility

Key Stats
The majority of companies in the sample (87%) followed the s.54 requirement and include a link to their modern slavery statement that is visible on their homepage.
Using the search bar on the company’s homepage to locate the most recent statement **returns an unambiguous link** as the first search result in just 58% of cases.
Most companies (72%) provided a link to their modern slavery statement on the Home Office’s online registry. Of those companies, more than 20% failed to provide a direct link to the document.
The majority of companies (72%) link to either their 2020 statement or 2019 statement (14%), rather than their most recent statement.

Section 54 of the MSA requires that reporting entities must publish their modern slavery statement on their website with a direct live link from their homepage. The Act is explicit that the link must be in a prominent place on the homepage itself. Practice is evenly divided on whether the modern slavery statement is provided as a standalone link on the homepage (53%) or included in a list of other links.

While the registry was launched on a voluntary basis in March 2021, it will become mandatory to submit statements as part of the government's proposed legislative changes to strengthen the reporting requirements in the future MSA. According to the Home Office, this registry helps to 'enhance transparency and accessibility, by bringing modern slavery statements together in one place and will make it easier [for users] to find and compare them.' However, a recent exploratory study by the Independent Anti-Slavery Commissioner (IASC) suggests that companies are not always linking correctly to the registry and are sometimes submitting incorrect information about their online presence.

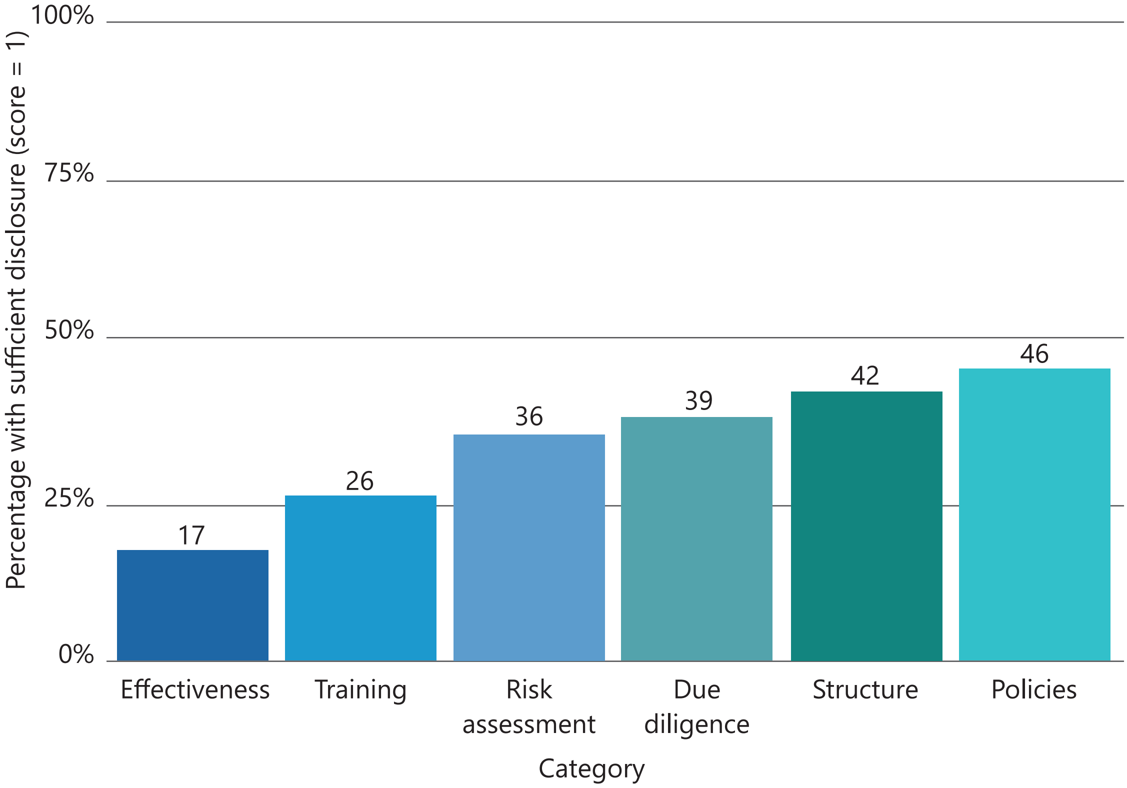
The present research examines how common it is for companies to submit their statements to the government registry. Where companies do use the registry, we assess whether users are able to access the most recent modern slavery statement. The data upon which these questions were answered was collected at the end of March 2022.

Almost three quarters of companies (72%) provided a link to their modern slavery statement on the registry. The approach to linking was inconsistent. In 6% of cases the links were broken, and in one case the company merely provided a link to its homepage. Further, just 14% of companies that have registered with the online platform provided a link to a statement relating to 2021. For the majority that are present on the registry (72%), the link pointed to their 2020 statement, while in 14% of cases the link was directed to their 2019 statement. This uneven performance undermines the purpose of the registry and shows that many companies are not using the system as intended. The decision by one in four companies to eschew the registry altogether is particularly disappointing. Collectively, our findings support the conclusion of IASC's previous exploratory study of corporate interactions with the registry.

When providing links to their Modern Slavery Statements companies must ensure that they are referencing their most recent reports and that the link works.

B. Focus categories

Figure 1: Overall performance per category



(i) Due diligence

Key Stats	
54% of companies	reported that they assess forced labour or modern slavery risks before signing contracts.
61% reported	having modern slavery provisions in their supply chain contracts.
33% of companies	stated that they require first tier suppliers to cascade their human rights and modern slavery standards down the supplier's own supply chains.
39% reported	that they actively participate in multi-stakeholder collaborations or industry initiatives on human rights and modern slavery.
57% reported	that they monitor suppliers on slavery and disclose results of these monitoring processes, but only 15% disclose that they work with suppliers to improve their labour rights practices.
18% of companies	disclosed that they engage directly with workers in the supply chain using mechanisms such as site visits and worker interviews as part of monitoring processes.

Statutory guidance prompts companies to report on due diligence processes in relation to slavery and human trafficking in both their own business and their supply chains. The UN's Guiding Principles Reporting Framework identifies four essential stages for human rights due diligence process: assessing actual and potential human rights impacts, acting on the findings, documenting responses to findings, and communicating how impacts are addressed. Due diligence includes continuous assessment of slavery risks and the expectation that entities ensure the integrity of their investigations.

Half the companies in our sample (54%) reported that they assess forced labour or modern slavery risks before signing contracts, and 61% reported having modern slavery provisions in their supply chain contracts. While the majority of companies appear sensitive to slavery and human trafficking risk in their business operations, it is a serious concern that between a third and a half of the modern slavery statements provided insufficient detail on assessment practices for contract approvals generally, and supply chain contracts in particular. Companies should demonstrate how they have engaged prospective suppliers on modern slavery issues and, where necessary, how they have sought to improve labour practices before contract approval.

Many companies apply elements of good reporting practice. For example, 39% reported that they actively participate in multi-stakeholder collaborations or industry initiatives on human rights and modern slavery. Furthermore, 33% of companies stated that they require first tier suppliers to cascade their human rights and modern slavery standards down the supplier's own supply chains.[2] Whilst these actions are encouraging, the lack of reporting on follow-up actions or metrics to assess adherence means that reporting generally failed to provide insight into the true impact of a company's approach.

While more than half of our sample companies (57%) reported that they monitor suppliers on slavery and disclose results of these monitoring processes, only 15% disclosed that they work with suppliers to improve their labour rights practices. Similarly, only 18% of companies disclosed that they engage directly with workers in the supply chain using mechanisms such as site visits and worker interviews as part of monitoring processes.

A third of companies (34%) provided details of the specific actions they will take in the upcoming year to address slavery issues, but only 15% confirmed that they have a policy for verifying if these actions have been implemented (e.g. via spot-checks). Only 18% of companies confirmed that they ensure their suppliers operate a formal grievance process. This compares with 71% of our sample that confirmed they have established a similar mechanism in their own business.

Less than 40% of companies disclosed that they actively participate with stakeholders or industry initiatives on human rights and modern slavery, and only 18% of companies stated explicitly that they engage directly with workers in the supply chain. Examples of direct engagement mechanisms included interviews with workers as part of monitoring processes or site visits.

[2] In many cases, disclosures did not provide sufficient information to determine unambiguously whether the requirement to cascade human rights and modern slavery standards down the supplier's own supply chain was communicated before or after the supplier contract was signed.

(ii) Risk assessment and management

Key Stats	
55% of companies	reported that they assess modern slavery risks in their own business.
70% claimed	to undertake risk assessment in their supply chain.
Only **40%**	provided sufficient disclosure on slavery risks identified in their supply chain.
Just **29%**	provided clear disclosure on slavery risks identified in their own business.
Just **28%**	disclosed an action plan based on risks identified.

Section 54 of the MSA requires in-scope companies to report annually on the steps that they are taking to address the risk of modern slavery in their operations and supply chain. In addition, companies are also required to report their material/principal risks through other legislation. Companies that properly assess the nature and extent of their exposure to slavery risk should be more able to take targeted action to find it, to remedy it, and to prevent it occurring in the future. Particular business risks that companies are encouraged to consider when assessing and managing risks to workers include those relating to country, sector, transaction, and business partnerships. Modern slavery risk assessments may be seen as part of a company's wider approach to risk management and may form part of more general risk assessments that are carried out for a variety of reasons.

The majority (55%) of the sample reported that they assess modern slavery risk in their own business, and 70% of companies claimed to undertake a similar assessment in their supply chain. Disclosures confirming that risk evaluations are taking place are reassuring, although the material fraction of companies that provided no information is a matter of concern.

Equally as concerning is the finding that out of the subset of companies that confirmed they undertake some form of risk assessment, only a small fraction provided any meaningful description of the nature and scope of their assessment process. Details of the evaluation process are essential for readers to understand the scale of risks that the reporting entity is facing. Lack of detail on the form that risk assessments take severely limits the usefulness of the disclosure.

Thirty-eight per cent of companies in our sample disclosed that they sought input from experts when developing or carrying out risk assessment, including identifying the expert directly in the statement. However, only 11% of companies provided sufficient clarity on whether they have consulted with potentially affected rights holders when developing or carrying out risk assessment.

A critical aspect of risk assessment is identifying potential risks and then acting to mitigate them. Less than half our sample (40%) provided sufficient disclosure on slavery risks in their supply chain and only 29% provided clear disclosure on slavery risks in their own business. Less than a third of companies (28%) disclosed an action plan based on the identified risks. Reporting on modern slavery risk assessments was therefore undermined by a lack of strategic response by companies and a focus on procedure rather than outcomes.

(iii) Performance indicators and effectiveness

Government statutory guidance encourages companies to include information in their modern slavery statements about their effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chains. A key part of assessing effectiveness involves measuring activities and outcomes against appropriate performance indicators.

Key performance indicators

Key Stats	
Only **39%**	of companies reported one or more KPIs relating to modern slavery risks, coupled with the rationale for using the KPI(s).
A mere **8%**	of companies disclosed that they have developed KPIs in collaboration with experts.
Only **25%**	of companies disclosed results against their KPIs, and just 12% confirmed they have made informed decisions based on those KPIs.

The analysis reveals that reporting on key performance indicators (KPIs) to measure the effectiveness of the steps taken to minimise modern slavery risks is an area where disclosure is particularly poor. Although companies in high-risk industries, such as mining, frequently report on KPIs relating to the number of occupational mortalities within routine health and safety disclosure, KPIs seldom deal with issues relating to modern slavery, directly or indirectly. Considering the ubiquitous risk of modern slavery, it is unclear why modern slavery issues do not feature more prominently in such performance indicators.

A company's effectiveness review should also involve reflection on how the metrics used to drive performance and shape operations influence the company's exposure to slavery risk (in its own business or in its supply chain). For example, a KPI to increase production turn-around time may in turn create an environment where suppliers face pressure to meet unrealistic delivery schedules and as a result turn to slavery practices such as bonded labour. Only 3% of companies disclosed that they have reviewed existing KPIs to determine whether they make their business and supply chain vulnerable to modern slavery.

Policy effectiveness

Key Stats	
39% of companies	in the sample did not provide any material commentary on policy effectiveness.
Only **17%**	of companies explicitly indicated that they have revised their KPIs in view of progress made.
12% of companies	disclosed the results of corrective action plans for slavery risks identified in the risk assessment.
Approximately **22%**	of companies disclosed complaints related to modern slavery or labour rights and the results of action plans implemented to resolve those complaints.

Policy effectiveness is an area where reporting practice is especially opaque. The absence of regular reviews and KPI revisions suggests that companies are taking limited practical actions to address modern slavery concerns. Companies providing the better disclosures in our sample on effectiveness include Tesco and Kingfisher. Tesco discloses KPIs with benchmark levels of performance to aid assessment of effectiveness, while Kingfisher presents performance measures and analysis in a simple and easy to understand reporting template.

The prospect of reputational repercussions may, in part, explain the lack of disclosure on the performance of a company's modern slavery approach. However, growing investor demand for transparency on the issue and greater regulatory focus in the UK provides insight into the potential costs of poor reporting. Effectively identifying modern slavery risk and communicating a long-term strategy will be critical to navigating such pressures and costs.

C. Cross-sectional variation

(i) Size variation

Reporting practice varies significantly across companies. Variation is partly explained by company size characteristics. Not surprisingly, FTSE 100 companies tended to report more information across all s.54 recommended categories, all else being equal. Large companies attract more public scrutiny, leading to greater pressure for transparency. Large companies also have more resources, including specialist investor relations teams, to support their reporting strategy.

Interestingly, the impact of company size did not appear to be linear across the entire company size range. While FTSE 100 companies provided significantly more information in comparison with other size groups, the difference between FTSE 250 companies and Small Caps is much less pronounced. Indeed, transparency levels were broadly similar for some reporting categories, such as policies and training, while for descriptions of organisation structure, Small Caps outperform FTSE 250 companies. These results are surprising and suggest that other considerations beyond public scrutiny and internal resources shape modern slavery reporting to a large extent.

(ii) Industry variation

Industry sector, in part, may also help to explain variation in reporting practice. Holding size constant, sampled companies operating in sectors which rely to a large extent on manual labour within their supply chain, and are therefore at greater risk of modern slavery, tended to provide more information, on average. For example, companies operating in the basic materials, utilities, and consumer staples sectors tended to provide more detailed disclosure in their modern slavery statements, while companies in the Tech and Financial Services sectors generally provided less information. Patterns likely reflect a combination of supply considerations (companies operating in these sectors have more issues to discuss) and demand factors (external stakeholders are more sensitised to the risks and therefore request more information).

(iii) Business complexity variation

The sample was also partitioned according to the level of complexity, as measured by geographic diversity and the number of product segments. All else being equal, more geographically diverse companies are likely to face more complex business operations, supply chain arrangements, and variation in cultural and regulatory practices that could increase slavery risk. Despite these considerations, we did not observe any systematic impact of geographic diversity on reporting practices. In particular, there was no consistent evidence of higher transparency levels found for companies with more geographically diverse operations.

Segmental diversity (as presented by the reporting entity in its segmental disclosure) may also create complexity that in turn drives modern slavery reporting. For example, multi-segment businesses are likely to face higher operational complexity than single sector 'pure-pays', which in turn translates into more complex supply chain arrangements and hence higher labour-related risks. Findings support this view, with multi-sector companies providing more transparent modern slavery disclosures on average. The effects are particularly pronounced in relation to reporting on organisation structure, modern slavery policies, and risk assessment. Note, however, that business complexity correlates positively with company size, which makes disentangling these two effects difficult in a simple comparison.

Although size, sector and business complexity are important factors influencing the level of transparency in modern slavery statements, our analysis might suggest that company-level aspects such as leadership style and corporate culture play a material role. For example, there were cases of relatively poor disclosure among large companies and those operating in high-risk industries; and, in contrast, we also find some smaller companies and ones in low-risk industries who provided relatively detailed disclosures.

6 Main findings for annual reports

Although there is no legal requirement for companies to report on their approach to addressing modern slavery in their annual report, our research sought to determine the extent to which companies are including modern slavery as part of their responsibility to consider the interests of their stakeholders in their annual report.

(i) Section 172 statements

Key Stats	
13% of companies	referred directly to forced labour and slavery issues in their s.172 statement, and just 2% explained the long-term impact of modern slavery on their business.
9% of companies	also referred to modern slavery risk in the context of relationships with their suppliers.
9% of companies	reported evidence of engagement with stakeholders on slavery issues, while only 2% provided details on how stakeholder views have helped make informed decisions.
1% referred	directly to performance indicators on modern slavery.

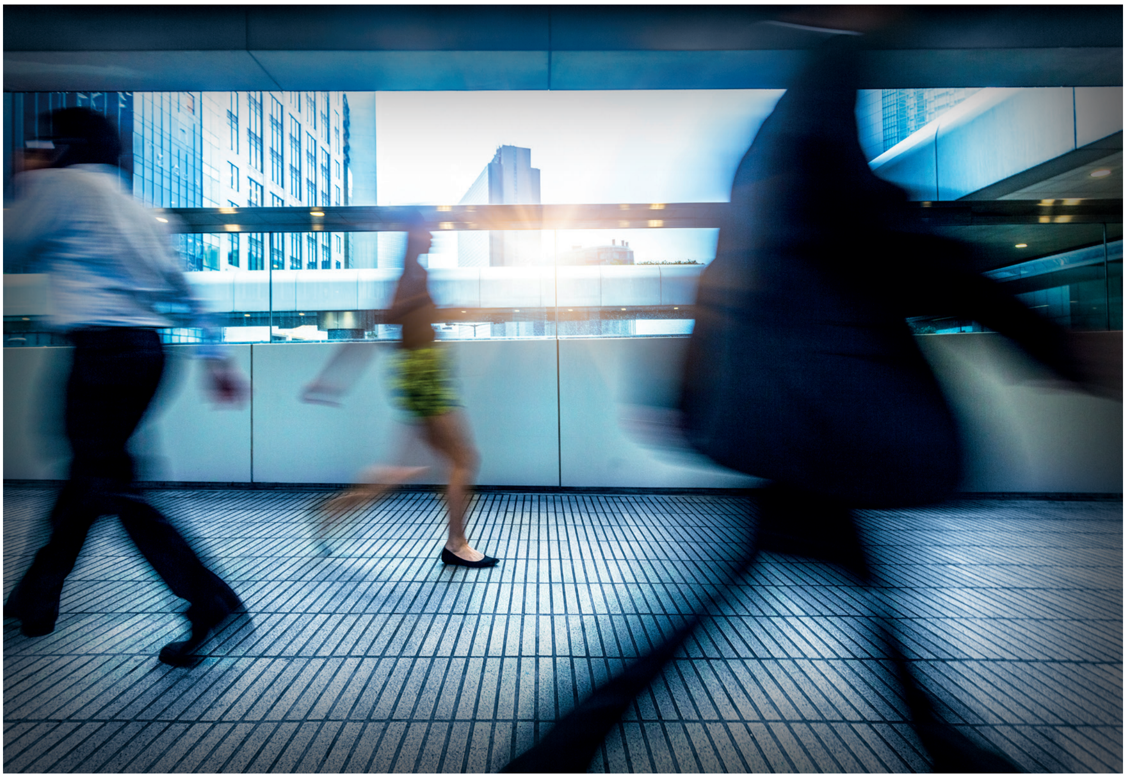
Section 172 of the Companies Act 2006 focuses on how directors engage with their company's stakeholders to promote the company's long-term success. Our evidence from s.172 statements, however, suggests that most companies appear not to view modern slavery issues as sufficiently important to be considered within the wider category of interests covered in s.172 statements.

Of particular note is the lower level of engagement reported in s.172 statements compared with modern slavery statements, with only 9% of companies reporting evidence of engagement with stakeholders on slavery issues and just 2% providing information on how stakeholder views have helped inform decisions. This supports the position that companies do not sufficiently appreciate the risk of modern slavery to their business, and rather understand modern slavery engagement and disclosure as a compliance exercise.

Indeed, not one s.172 statement in our sample discusses slavery risk in the context of either the preparer's own employees or the wider community. Commentary on slavery risks in the supply chain was also very limited. This contrasts with evidence from modern slavery statements, where a material fraction of our sample discussed engagement with various key stakeholder groups. It is unclear why some companies disclose engagement with workers in their supply chain, for example, in their modern slavery statement but not in their s.172 reporting.

Only one company in our sample included modern slavery KPIs in their s.172 statement. The company also reported on specific outcomes of policies, the impact of its activities and how it had improved its approach in the reporting year. This kind of reporting is an approach we would encourage companies to consider.

Evidence that slavery receives very limited attention when management discuss their duty under s.172 also supports the view that reporting practices on modern slavery often reflect a compliance mentality. When companies have the choice to report on modern slavery in their s.172 statement (as opposed to the obligation to do so in their modern slavery statement), the majority say little or nothing despite existing requirements to disclose significant risks. Although a lack of reporting in s.172 statements specifically is not in itself concerning if the information is provided elsewhere in the annual report, companies must ensure they have effectively cross-referenced to the relevant information in the annual report.



(ii) Beyond s.172 statements

Key Stats	
52% of companies	discussed modern slavery issues in other parts of their annual report.
45% of companies	referred to the issue directly when reporting on their purpose, culture, or strategy.
42% identified	the individual or team responsible for overseeing modern slavery issues in the annual report.
Only **18%**	referred to performance indicators in the context of slavery and human trafficking.
Just **15%**	discussed modern slavery in the context of principal risks and uncertainties facing the business.
Just **14%**	of annual reports provided a direct link to the corresponding modern slavery statement.

Half the companies in our sample (52%) discussed modern slavery issues in other parts of their annual report, whilst 45% of companies referred to the issue directly when reporting on their purpose, culture, or strategy. The level of recognition within other areas of the annual report statements is more encouraging than that within s.172 statements.

Some companies also provided information on accountability for decisions relating to modern slavery. Specifically, 42% of our sample identified the individual or team responsible for overseeing modern slavery issues in the annual report. This compares to 95% of companies disclosing such information in their modern slavery statement. Of the subset of companies that identified responsibility in their annual report, 13 (31%) reported on internal controls linked to the oversight of human rights and slavery. Meanwhile, just seven companies in the full sample provided any details in their annual report on when and how often their modern policies and slavery governance arrangements are reviewed.

Consistent with evidence of patchy reporting on risk assessment and effectiveness in modern slavery statements, less than one in five companies (18%) referred to performance indicators in the context of slavery and human trafficking, while only 15% discussed modern slavery in the context of principal risks and uncertainties facing the business.

The most unexpected finding was perhaps that only 14% of the annual reports we examined provided a direct link to the corresponding modern slavery statement. Several reasons may explain this failure to signpost slavery-related commentary that sits outside the annual report. These may include a view that the information provided therein does not form a sufficiently important part of value creation and governance narrative, an assumption that users are not interested in the company's approach to modern slavery due to a lack of reporting requirement for annual reports, or an attempt to obfuscate poor reporting. What is clear, however, is that companies who consistently fail to properly cross-reference information regarding their approach to modern slavery will struggle to see their work recognised.

Overall, our results for the annual report suggest that a large proportion of companies appear not to view human rights issues in their workforce and supply chain as a principal source of risk for their business. For some companies, this lack of concern may reflect strong positive relationships with trusted suppliers, coupled with relatively short supply chains that are easy to manage. For many others, however, the lack of disclosure is concerning.

Significantly, companies were more likely to discuss governance-related aspects of slavery and human trafficking, including stakeholder engagement, in their modern slavery statement than in their annual report. These findings present a clear opportunity for companies to adopt a more joined-up approach to modern slavery disclosures as they relate to their obligations under the MSA and the UK Corporate Governance Code.

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7 Conclusion

This report demonstrates that there are both pockets of good disclosure and areas for significant improvement when reporting on modern slavery in modern slavery statements and annual reports. The instances of clear, informative, and critical reporting identified demonstrate that, when boards make it a priority, companies can drive outcomes and provide insightful disclosures on slavery risk for their stakeholders.

Overall, however, the research found that many companies are still providing limited and often superficial commentary on this key business risk. The same patterns of poor reporting practice identified in previous research continues in key areas, such as due diligence, risk assessment, and performance measurement and effectiveness, even among the largest and most experienced reporters in our sample. Lack of information, an absence of rigorous performance evaluation, and little by way of strategic planning are common features of annual report commentary and many modern slavery statements.

The inattention to the long-term consequences of modern slavery on businesses was particularly pronounced in the lack of information on relevant governance arrangements in annual reports, and s.172 statements in particular. Companies were more likely to discuss governance-related aspects of slavery and human trafficking, including stakeholder engagement, in their modern slavery statement than in their annual report.

The prospect of reputational repercussions may, in part, explain the lack of disclosure on the performance of a company's modern slavery approach. However, growing investor demand for transparency on the issue and greater regulatory focus in the UK provides insight into the potential costs of poor reporting. Effectively identifying modern slavery risk and communicating long-term strategy will be critical to navigating such pressures.

Fortunately, a large proportion of the poor reporting practice observed – such as the failure to properly cross-reference modern slavery statements in annual reports and failure to correctly link modern slavery statements to the government registry – can be overcome by simple actions and should therefore be the first stop for companies seeking to improve their disclosures. The findings of the research therefore present a clear opportunity for companies to adopt a more joined-up approach to modern slavery disclosures as they relate to their obligations under the Modern Slavery Act and the UK Corporate Governance Code.

We hope this report prompts boards to effectively assess and improve their current practices and reporting to address the legal, reputational, and financial risks of modern slavery in their supply chains. Reporting on not only the policies and practices in place but the effectiveness of those efforts at producing real-world outcomes is the critical next step companies must make to assure stakeholders that modern slavery does not exist throughout the supply chain.

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