

## THE BUSINESS'S COMMERCIAL SUCCESS SUBSTANTIALLY DEPENDS UPON:

RED FLAG NO.

Sourcing low-paid labor from labor providers, where there is little visibility into or control over the protection of worker rights.

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RED FLAGS IN THE COST STRUCTURE AND THE REVENUE MODEL

**Such as:** Sourcing labor for construction, manufacturing, hospitality, call centres, agriculture and horticulture, social care and domestic work and other areas, where there is a risk that:

- Workers face low wages, salary delays, excessive deductions and uncompensated overtime
- Workers suffer discrimination and physical, verbal and sexual abuse
- Workers are unable to join trade unions
- Workers are housed in poor quality accommodation or subject to curfews
- Especially in the case of migrant workers, workers are trafficked, charged fees for recruitment services, or their identity documents are retained



### HIGHER-RISK SECTORS:

- Hospitality and food industry (e.g. cleaning, maintenance, security, entertainment, kitchen staff)
- Construction
- Manufacturing (e.g. apparel and electronics)
- Call centres
- Agriculture and horticulture
- Social care and domestic work (e.g. elderly care, youth homes, private maid and child care services)



### KEY QUESTIONS FOR LEADERS TO ASK OR BE ASKED:

- What percentage of the company's labor force is sourced from labor providers and what is the rationale?
- To what extent does the company have transparency into the conditions under which workers arrive and remain in our labor pool?
- How do we know that workers are not paying recruitment fees in order to work for the company?

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### RISKS TO PEOPLE

- People are the core business of employment and recruitment agencies. As such, labor providers can positively or negatively impact the direct hire employees they recruit for client companies and the agency workers they place, as well as their families, and local communities in the migrant worker's home state.
- Negative impacts can occur at all stages of the recruitment and employment process and affect workers' rights, including *their freedom from all forms of forced or compulsory labor; their right to just and favorable conditions of work; their right to privacy, women's and migrant workers' rights; the right to non-discrimination; the right to form and join a trade union and the right to collective bargaining; and the right to an adequate standard of living.*
- Cross-border recruitment of migrant workers intersects with heightened vulnerability where individuals experiencing extreme poverty may feel their choices are limited and/or lack knowledge about their rights in the host state. Moreover, regulation that ties a worker's immigration status to a particular employer (who acts as a sponsor), or which requires the worker to gain employer permission to exit the country, places the worker in a position of particular vulnerability: if the worker experiences abuse or exploitation, or sees his/her personal documents retained, it can be difficult to seek redress out of fear of losing a job and immigration status.
- Recent investigations into the practices of unscrupulous recruitment and employment agencies have revealed serious abuses in a variety of sectors:
  - Key findings from a recent report into the hotel industry in the United Arab Emirates and Qatar highlighted testimonies by some workers (mainly housekeepers, restaurant staff, security guards, drivers and stewards) who reported receiving half of the salary they were initially promised; ATM cards and other valuable documents were kept from them, deductions were frequently made from salaries for illegitimate reasons and their freedom of movement was severely curtailed.
  - There have been numerous reports of debt bondage and forced labor with respect to migrant workers in the electronics sector in Malaysia which supplies major brands in the Global North. There have been reports that workers, primarily from Nepal, Bangladesh, Indonesia and Myanmar, have not received the wages and accommodation promised by agencies, and moreover were forced to pay high sums (over \$4,000 USD) to become employed in Malaysia. Workers claim their passports were confiscated, they received violent threats and were deceived about major elements of their work agreements.

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RISKS TO PEOPLE

- In Italy and Spain, it has been reported that labor exploitation of low-paid migrant workers occurs more frequently in the agricultural sector due to the higher numbers of low-paid migrant workers. Investigations found that migrant workers were paid significantly below minimum levels stipulated by law and worked excessive hours to harvest fruits and vegetables with no protection and under unsanitary living conditions. Middlemen acting as recruiting intermediaries between landowners and workers deducted fees from the workers' already low wages. The same report found that Romanian female workers in the Ragusa region of Sicily were also subjected to sexual assault and exploitation, in addition to working 12-hour days in extreme heat with no water and substandard accommodation.

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### RISKS TO THE BUSINESS

**Operational, Reputational and Financial Risks:** Companies are increasingly subject to scrutiny for their own labor practices and practices in their supply chains, including around fair recruitment. For example:

- Europe's largest hotel group, Accor, has been the subject of reports linking it to the plight of its workers in the United Arab Emirates during the COVID-19 pandemic. While the group notes that it respects all local laws by continuing to provide workers with food and accommodation during furlough, it was reported that migrant workers are "trapped" in the country with no pay, making it impossible for them to reimburse the money owed to cover recruitment fees.
- UK apparel brands ASOS and John Lewis were criticized after a supplier factory closed down in Mauritius, leaving the Bangladeshi migrant workers stranded, with no severance pay, or proper accommodation and food after the factory cut their supplies and electricity. ASOS had to intervene by working with the local government to restore basic necessities, and with a local labor union to facilitate wage payouts.

**Legal and Regulatory Risks:** Companies sourcing low-paid labor from labor providers in circumstances in which they do not have oversight over treatment of workers may also expose themselves to lawsuits and formal complaints. For example:

- Criminal groups behind recruitment agencies in the UK supplying Sports Direct and major supermarkets were convicted of modern slavery after exploiting Polish migrant workers. The individuals convicted had sent migrants to work through agencies to pack shoes and clothes in warehouses, while they retained over half of their weekly wages.
- Woolworths in Australia agreed to conduct independent audits of cleaning contractors on an annual basis and rectify underpayment of cleaners after a Fair Work Ombudsman investigation uncovered rampant exploitation referred to as workers being "systematically ripped off." The company accepted that "in the past" its governance of contract cleaning had not "fully prevented an environment where employees have been vulnerable to exploitation." The company has committed to ensuring contract prices going forward are sufficient to meet minimum employee entitlements.

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### WHAT THE UN GUIDING PRINCIPLES SAY:

*\*For an explanation of how companies can be involved in human rights impacts, and their related responsibilities, see [here](#).*

- A company that sources workers from a labor provider may **cause** negative impacts where, for example, it does not fulfill its part of the responsibility to ensure safe working conditions, or where it otherwise mistreats the workers on site, such as through discriminating practices, or limits the opportunity to join a legitimate trade union. In that case, the company should take the necessary steps to cease the impact, prevent its recurrence and provide any necessary remedy to the affected workers.
- A company that sources workers from a labor provider may **contribute** to impacts where it is aware of and tolerates the poor treatment of workers by the labor provider, or where it does not conduct proper due diligence to ensure that the workers sourced from the labor provider are not mistreated or otherwise negatively impacted. A company may also **contribute** to negative impacts where it makes last minute requests of or for workers, pushing the labor provider to breach labor standards in order to deliver. In cases of contribution, a company should cease its contribution to the impact and contribute to remedy for the affected workers to the extent of its own contribution to the situation.
- A company that sources workers from a labor provider may be **linked** to negative impacts, such as those associated with the payment of recruitment fees, if such practices occur despite proper due diligence and credible attempts at using leverage over the labor provider to prevent or mitigate the impacts.

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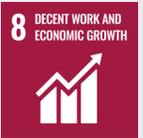
### POSSIBLE CONTRIBUTIONS TO THE SDGs:

Addressing impacts to people associated with this red flag can contribute to, inter alia:



**SDG 5: Achieve gender equality and empower all women and girls**, in particular:

- **Target 5.1** End all forms of discrimination against all women and girls everywhere
- **Target 5.2** Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation



**SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**, in particular:

- **Target 8.5** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value
- **Target 8.7** Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms;
- **Target 8.8** Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

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**DUE DILIGENCE LINES OF INQUIRY:**

- How does the company ensure protection of workers' rights for outsourced labor? To what extent do policies and protections apply to temporary/agency workers?
  - Have we reviewed the labor provider's Code of Conduct and other relevant policies to check whether they include commitments not to charge recruitment fees to workers and not to retain their identity documents? Are there any "red flags" present, e.g. where the labor provider is unwilling to provide details about their processes or where there are historical complaints or negative findings against the provider?
  - Is the labor provider offering "too good to be true" rates that would not allow it to meet minimum total wage costs (including sick pay and statutory holidays), business overheads, management costs, etc.?
  - Do we have a clear service agreement with the labor provider, including clauses on social compliance (no recruitment fees, no unlawful retention of documents and valuables) as well as detailed charge rates, a confirmation that workers will be paid, a clear agreement to ensure the health and safety of all workers as a shared responsibility between the labor user and provider?
  - Do we conduct checks or audits of our labor provider to check that proper recruitment and contractual arrangements are in place; wages paid are correct, on time and without improper deductions; there is no debt bondage, harsh treatment or intimidation; workers' accommodation is of an acceptable standard, etc.?
  - Are the auditors and our staff equipped to detect the potentially complex pressures, abuses and exploitation of workers by labor providers?
  - Are the workers on our site who work for labor providers aware of who to report problems to and are they likely to feel safe doing so? Are we sending the message that we take these issues seriously and are available to the workers who would want to raise issues? What is our process to handle any concerns or problems raised?
- Below is a set of questions to consider asking in interviews of labor providers (and workers, where applicable) especially in higher risks contexts:*
- Did the worker pay any money to the labor provider for the job?
  - Did the worker travel from abroad for the job? Did he/she pay transport costs? Is the worker charged for transport to work; how much?
  - Was the worker given a copy of the worker contract? Did he/she understand the content and expectations?
  - Has the worker retained his/her own identity documents?
  - How many hours a week does the worker work?
  - What hourly rate does the worker receive? Are there any deductions, other than standard ones?
  - Does the worker get paid regularly? Has the labor provider ever failed to pay the worker?
  - Where does the worker live? Is the accommodation provided by the labor provider? How many people is it shared with? How much rent does he/she pay?
  - Does the worker seem uncomfortable and are they willing to share any issues?
  - Do all the workers interviewed indicate they are happy and contented but do not seem so? Do they glance at anybody when answering questions?

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### MITIGATION EXAMPLES:

*\*Mitigation examples are current or historical examples for reference, but do not offer insight into their relative maturity or effectiveness.*

Given the complex nature of the problem, often mitigation efforts take the form of sector-wide or cross-sectoral initiatives.

- The **Responsible Labor Initiative** of the **Responsible Business Alliance** is a multi-industry, multi-stakeholder initiative focused on the rights of workers vulnerable to forced labor in global supply chains. Activities include engagement with recruitment agencies with respect to fees charged to workers, including capacity building and preferential treatment for responsible agencies, and the repayment of recruitment fees by manufacturers and buyers where fees have been charged to workers.
- The **Consumer Goods Forum's *Human Rights Coalition — Working to End Forced Labour*** is a CEO-led initiative working to “achieve decent working conditions across the consumer goods industry and worldwide” by establishing voluntary industry commitments, such as [its resolution](#) on the eradication of forced labor, and through its Priority Industry Principles, which highlight the three key standards the industry must adopt to respect the rights of workers. Coalition members commit to, amongst other things, establishing and deploying HRDD systems in their own operations, with an aim of “[reaching 100% coverage by 2025.](#)” At the time of publication, the coalition was finalizing [strategies focused on creating frameworks for implementing forced labor-focused Human Rights Due Diligence systems](#)

in Coalition members’ own operations, and implementing a forced labor-focused Palm Oil Roadmap to address forced labor in the sector.

- **Food Industry:** The Gangmasters and Labour Abuse Authority (GLAA) is the foremost investigative agency for labour exploitation in the UK. The “[Supermarkets and Suppliers Protocol](#)” aims to establish strong links between the regulatory body (the GLAA), the retailers (supermarkets), suppliers (food processing plants and agriculture and horticulture suppliers) and employment and recruitment agencies. It works to link up all the relevant actors within the food supply chain in order to strengthen respect for relevant standards at each step. See the latest [Best Practice Guide](#). In 2020, UK retailers united to drive the responsible recruitment of workers in global supply chain by sponsoring the [Responsible Recruitment Toolkit](#), a package of support for suppliers and recruitment businesses to better embed ethical and professional recruitment and labor supply practices.
- **Hospitality Industry:** Several labor rights initiatives are starting to take shape to tackle modern slavery and forced labor in the hospitality industry. The International Tourism Partnership’s (ITP) [Principles on Forced Labour](#) brings the world’s leading hotel groups together to tackle the three

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most problematic yet common employment practices that can lead to forced labor, especially amongst vulnerable workers: unlawful retention of passport and valuable possessions, recruitment fees and being indebted or coerced to work. The Shiva Foundation's Stop Slavery Blueprint is a toolkit intended to address risk of modern slavery for the internal use of hotels and other stakeholders in the industry.

- **Apparel Industry:** Fast Retailing and the International Organization for Migration launched an initiative to study the recruitment and employment conditions of migrant workers in Fast Retailing's supply chains, especially in Japan, Thailand and Malaysia. Fast Retailing has pledged to address these issues as a participant in the Industry Commitment to Responsible Recruitment by the Fair Labour Association and the American Apparel Footwear Association, which has been signed on by more than 123 apparel and footwear companies.

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### ALTERNATIVE MODELS:

Alternative models generally involve avoiding third party labor providers in circumstances of higher risk, in favor of direct employment relationships, to ensure greater visibility and control over hiring practices and working conditions.

- In response to reports of forced labor linked to migrant recruitment practices in the electronics industry supply chain in Malaysia, **HP** released its Foreign Migrant Worker Standard in 2014. The standard goes beyond general industry practice in addressing forced labor – which primarily focuses on implementing policies banning recruitment fees – to require that the company's **suppliers directly employ any foreign migrant workers** in their workforce. See Shift's analysis [here](#).
- One example of **producer-led** practices aimed at **tackling forced labor in the form of Sumangali schemes** in Southern India, is **Penguin Apparel's Program**. The garment manufacturer has eliminated labor brokers and recruitment fees from its hiring processes, ensures local language translation of employment documents, provides training to workers on their rights, conducts audits of its own suppliers and contractors in the search for Sumangali schemes and educates its partners on social management systems. See Shift's analysis [here](#).
- **Unilever** is continuing to review the employment of temporary workers within its operations and extended supply chain. Through the Joint Commitment on Sustainable Employment in Unilever Factories with the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF), the company agreed to strictly limit the use of non-permanent manufacturing employment to non-recurring tasks. Moreover, the use of "zero-hours contracts" is excluded. The rights-based commitment affirms that "temporary contracts and third-party agency employment relationships can potentially deprive workers of the protections and worker rights outlined in the ILO's Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprise."

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### OTHER TOOLS AND RESOURCES:

- Employment & Recruitment Agencies: *Sector Guide on Implementing the UN Guiding Principles on Business and Human Rights*, published by European Commission, developed by Shift and Institute for Human Rights and Business (2013).
- [Responsible Recruitment Gateway](#).
- [Responsible Labor Initiative of the Responsible Labor Alliance](#).
- Vérité, [Fair Hiring Tool](#).
- Temporary agency work in the electronics sector: SOMO (2012) *Discriminatory practices against agency workers*.
- Business and Human Rights Resource Center (2019) *Inhospitable: How hotels in Qatar & the UAE are failing migrant workers*.
- Löning (2018) *How Companies can deal with Labour Exploitation in the Agricultural Sector*.
- Dhaka Principles for [Migration with Dignity](#).
- International Labour Organization (2016) *Regulating International Labour Recruitment in the Domestic Work Sector: A Review of key issues, challenges and opportunities*.

This resource is part of Shift's collection of Business Model Red Flags, developed as part of the Valuing Respect Project and generously funded by Ministry of Foreign Affairs Finland, the Norwegian Ministry of Foreign Affairs, and Norges Bank Investment Management. Learn more at: [shiftproject.org/valuing-respect](https://shiftproject.org/valuing-respect)