HIGH-LEVEL DECISION-MAKING

RISK TO PEOPLE

RISK TO THE BUSINESS

UNGPs & SGDs ANALYSIS

TAKING ACTION

THE BUSINESS'S COMMERCIAL SUCCESS SUBSTANTIALLY DEPENDS UPON:

RED FLAG NO. 20

WITH CLIMATE LENS

RED FLAGS IN THE COST STRUCTURE AND THE REVENUE MODEL

Minimizing inventory risk, including through **just-in-time delivery**, such that the risk from changes in demand is shifted to the supply chain and vulnerable workers

Such as: **Companies operating in various industries, including electronics, fast moving consumer goods and apparel requiring suppliers to meet the costs of supply chain disruptions, including by:**

- **taking a position that the [buyer] company will not warehouse goods**
- **withdrawing orders from suppliers with limited lead time when demand drops**

These risks are particularly acute when combined with a lowest cost to consumer business model (See *Red Flag 1: Lowest cost business models***)**

HIGHER-RISK SECTORS:

- Online and "bricks and mortar" retail
- Apparel
- Consumer products companies, particularly fast-moving consumer goods
- Consumer electronics / technology hardware
- Automotive manufacturing

KEY QUESTIONS FOR LEADERS TO ASK OR BE ASKED:

- Where is the risk associated with excess inventory absorbed in the company's business model: is it absorbed by the company or is this risk externalized, through purchasing practices, on suppliers?
- How does the company know whether its purchasing practices affect suppliers' ability to ensure respect for workers' rights, including providing fair wages and decent working conditions?
- How does the company know whether its buyers understand (and are incentivized to consider) the human rights implications of lead times and other purchasing decisions?
- How does the company mitigate the risks to people when withdrawing orders or severing supply chain relationships?

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RISKS TO PEOPLE

- Some business models support commercial viability by externalizing the risks associated with changing levels of consumer demand on suppliers, rather than absorbing it in the business model. Companies may do this by way of:
    - Making last minute demands, changes or cancellation of orders;
    - Using contracts by which the supplier assumes the cost and risk of the product until delivered;
    - Avoiding warehousing goods by utilizing a "just in time" inventory/sourcing model; or
    - Requiring suppliers to pay for air freighting if production delays result in deadlines for land/sea transportation being missed.

- As a result:
    - When demand spikes, and the purchasing company places large volume orders with short lead times, suppliers may see no alternative but to demand excessive overtime of their workers. *(Right to just and favorable conditions of work; Right to a family life; Right to Health).*
        - The 2025 Better Buying Partnership Index, drawing on feedback from more than 1,300 suppliers in 56 countries, found a modest year-on-year improvement in purchasing practices compared with the 2024 Index. However, many suppliers continue to report poor forecasting, short lead times and purchasing behaviors that undermine stable production planning.
    - The OECD notes that order fluctuations and aggressive purchasing practices can force suppliers into unsustainable production regimes, increasing the likelihood of compromised labour standards, while supplier surveys continue to identify predictable planning, reliable forecasting and stable lead times as critical to supporting decent work.

- Purchasing practices such as this may, without appropriate mitigation measures, place heavy **pressure on suppliers** working on narrow margins. Risk and its associated costs are pushed up the supply chain and absorbed by the **most vulnerable people** – such as factory workers, including migrant workers, women workers, producers and small-holder farmers – affecting their livelihoods and those of their families. Suppliers under excessive pressure may not pay wages or overtime, or not provide safe working conditions; in rare cases they may pregnancy test workers pursuant to a view that pregnant workers are not financially viable. Risks are exacerbated when the purchasing company(ies) provide little or no commitment to long-term sourcing, disincentivizing investment in improving working conditions. *(Right to just and favorable conditions of work; Right to Health).*

- These risks are particularly acute when combined with a lowest cost business model (See *Red Flag 1: Lowest cost business models*) as tight margins increase pressure in the value chain.

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RISKS TO THE BUSINESS

Operational, Financial and Reputational Risks:
Purchasing practices that situate inventory risk with suppliers can leave suppliers with cash flow challenges and unpredictability that disincentivizes them from investing in compliance with codes of conduct. Such practices can also cause suppliers to demand force overtime (as noted above) outsource (including illegally) to subcontractors (even in breach of contract), increasing the complexity of the supply chain and reducing visibility and control on the part of the buying company. Ultimately, these practices can also have negative impacts on the companies that adopt them, by weakening supplier resilience, reducing manufacturing flexibility, increasing the risk of supply disruptions.

Risks associated with this red flag increase during periods of **demand volatility** or **economic shock**, which can be caused by a range of events including pandemics, conflict, increased frequency and severity of extreme weather events as a result of climate change (e.g., floods, storms, droughts) or factors such as forced labour law enforcement, geopolitical instability or consumer softness. Some examples include the following:

- In 2020, in the wake of the global pandemic, major apparel brands delayed and cancelled orders in response, leaving suppliers holding goods and evoking criticism for risking livelihoods of millions of garment workers in their supply chains. In addition to the reputational damage, some cases directly resulted in financial costs, such as in the case of apparel company Primark who committed approximately £370 million to pay suppliers after receiving criticism and public pressure for cancelling or suspending orders as store closures sharply reduced demand. Companies leaving overseas suppliers with excess inventory received negative publicity, including through Workers' Rights Consortium's "Brand Tracker" which listed apparel labels and retailers that were and were not paying their suppliers for orders in production or completed.
- From an investment perspective, research on the link between public sentiment on corporate responses to the pandemic and financial flows found that companies with labor and supply chain practices that were seen as taking action to secure their supply chain experienced higher institutional money flows and less negative returns.
- In 2022, Target's efforts to reduce excess inventory attracted negative media attention after Reuters reported that the retailer had shifted inventory holding and logistics costs onto suppliers. The reporting prompted wider discussion among industry and labour groups about whether retailers were once again transferring the costs of demand volatility to suppliers and workers, echoing concerns raised during the COVID-19 pandemic.
- In mid-2026, as the global economy grappled with the implications of the US-Iran conflict and blockades across the Strait of Hormuz, similar questions were being raised again about the resilience of the garment sector's supply chains and how effectively garment companies were managing inventories.

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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.*

The UNGPs note that companies should "strive for coherence between their responsibility to respect human rights and policies and procedures that govern their wider business activities and relationships [including] .... procurement practices." (Principle 16, Commentary).

If a company engages in purchasing practices that place undue time and/or financial pressure on suppliers, incentivizing or facilitating them to cause human rights impacts on workers, they **contribute** to impacts.

POSSIBLE CONTRIBUTIONS TO THE SDGS:

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

SDG 10: Reducing inequalities within and between countries.
- This goal becomes relevant as profit margins and returns are concentrated at the buyer/investor level, with less and less value making it into the pockets of the poorest in the supply chain.

SDG 8: Decent Work and Economic Growth, in particular
- **target 8.8** on protecting "labor rights and promot[ing] safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

SDG 1: End Poverty in All its Forms Everywhere, in particular
- **targets 1.1** and **1.2** on eradicating extreme poverty and reducing by half the number of people living in poverty (according to national definitions).

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DUE DILIGENCE LINES OF INQUIRY:

- Do we have sufficient budget allocated to **warehousing** products? If not, how are we ensuring that factories can produce in advance and keep overtime within acceptable limits?
- Do buyers have sufficient knowledge, incentives and support to **assess how and when their decisions will place human rights at risk**, and to know from whom to seek assistance when they do?
- How do we know whether our buyers follow our processes, rules or guidelines in practice when engaging or contracting with suppliers?
- Do we **engage** with our **suppliers** in ways that help us understand how far they can go to meet our demands while still respecting the rights of their workers? Do we work with suppliers in countries of production to increase worker protections?
- Do we take a **short term**, transactional approach to supply chains or do we develop supply chain partnerships? For example, do we see high turnover among suppliers?

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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.*

- In 2022, **Zeeman** adopted a Two-Way Code of Conduct that commits both the company and its suppliers to uphold human rights, including responsible purchasing practices, timely payments, responsible exits, open costing to avoid pricing below production costs, and a phased approach to supporting living wages.
- **ASICS** has been recognized for its efforts to address its purchasing practices. The company publicly *"recognizes the impact of purchasing practices to the workers in the supply chain and tackle to improve the working environment at our suppliers"*. Examples of actions the company takes to address the impacts include conducting ongoing business planning and forecast updates, as well as monthly check-in discussions with its suppliers.
- **Samsung** states that it prohibits unilateral changes or cancellations to order quantities or delivery dates without supplier consent, and instead negotiates changes where demand shifts occur.
- ACT (Action, Collaboration, Transformation) brings brands, manufacturers and trade unions together to improve purchasing practices, strengthen freedom of association and support industry-level collective bargaining to enable living wages. ACT has developed a common framework for responsible purchasing, including commitments on forecasting, pricing, labour costing, payment terms and responsible exits, alongside an Accountability Framework through which member brands report on their implementation.
- At a time of decreased sales during the 2020 Covid-19 pandemic, UK supermarket **Morrisons** committed to advancing payments to its smaller foodmakers, farmers and businesses that stock its shelves; **H&M** announced that it would take delivery of already produced garments, as well as goods in production, and that the goods would be paid for under previously agreed payment terms and prices; and **Unilever** offered early payment to its most vulnerable small and medium-sized suppliers to help them with financial liquidity (See Triponel and Sherman (2020)). **Primark** created the Primark Wage Fund, Asia to help pay the wages of garment workers affected by **Primark**'s decision to cancel clothing orders.

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ALTERNATIVE MODELS:

- Some independent fashion brands are adopting pre-order models that align production with confirmed customer demand, reducing speculative inventory and the need to transfer demand uncertainty to suppliers.
- Spanish fashion company **Alohas**' "business model revolve[s] around an on-demand production process." The company previews upcoming designs to customers early in the season and makes them available at a discount rate. Once it calculates how many units of each new style should be produced it commences manufacturing. **Alohas** notes that "on-demand reverts the sales cycle by applying a discount for early purchases and offering the product at full price only once stock has been made available. Meaning we don't adhere to the traditional sales calendar anymore."

OTHER TOOLS AND RESOURCES:

- ACT (Action, Collaboration, Transformation), including the *ACT Global Purchasing Practices Commitments*.
- KnowTheChain (2024) *Good Practice Guide*, provides practical guidance and company examples on responsible purchasing practices and other key elements of supply chain human rights due diligence across the apparel, food and ICT sectors.
- OECD (2024) *Handbook on Due Diligence for Enabling Living Incomes and Living Wages in Agriculture, Garment and Footwear Supply Chains*, provides practical guidance for companies on integrating living wages and responsible purchasing practices into human rights due diligence, including planning, pricing, purchasing and supplier engagement.
- *Better Buying* has created a tool for suppliers to anonymously rate their buyers against 7 purchasing practices, developed through consultation with suppliers.
- *Common Framework for Responsible Purchasing Practices* (2022) is a multi-stakeholder framework developed by ETI, Fair Wear, Ethical Trade Norway and partners that sets out practical guidance on responsible purchasing practices, including collaborative production planning, fair payment terms, sustainable costing and equal partnerships with suppliers.
- Ethical Trading Initiative (2024) *The role of responsible purchasing practices in human rights due diligence*
- A. Triponel and C Bader (2020) *Coronavirus is shining the spotlight on unhealthy supply chains: cleaning them up will help both business resilience and worker wellbeing*.
- A. Triponel and J. F. Sherman (2020) *Moral bankruptcy during times of crisis: H&M just thought twice before triggering force majeure clauses with suppliers, and here's why you should too*.

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