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**Understanding the Relationship Between Procurement Practices and the Utilization of
Forced Labor**

by

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**An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of
Science in Business Administration in Supply Chain Management.**

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1. Introduction

An advertisement pops up on a consumer's social media feed; a jacket on sale for just \$15. Instantly, this price catches their eye. Perhaps the consumer saw a coat that looks just like that one, selling for a much higher price. *How is this company able to offer such low prices? What's the catch?* Analysis of the supply chain that delivers this jacket to consumers can reveal where the costs are being cut. The production of this jacket may be outsourced to a supplier where raw material and labor costs are cheaper. In the Xinjiang Uyghur Autonomous Region in western China, textiles, thread, yarn, and cotton are produced and sold to retailers at an extremely low cost (Bureau of International Labor Affairs, 2021). The low costs suppliers in Xinjiang offer stem from their ability to significantly reduce their labor costs by utilizing forced labor. Ultimately, the catch for lower costs and company gains is the use of exploitative work.

Over the past several years, the topic of forced labor within the global supply chain has been discussed with an increasing sense of urgency. The International Labor Office defines forced labor as, "all work or service which is exacted from any person under the threat of a penalty and for which the person has not offered himself or herself voluntarily" (International Labour Office, 1930). The exploitation of individuals in the form of coerced labor is a global problem that is reinforced by our financial environment and supply chain management practices. Not only does the extensive use of forced labor in the production process infringe upon the individual freedom of millions, but also creates a financial market where corporations cannot thrive without the use of unethical practices. In 2016, the International Labor Office estimated approximately 24.9 million people, globally, to be victims of forced labor (International Labour Office, 2017). Within that group, women, and girls account for "99% of victims in the commercial sex industry, and 58% in other sectors" (International Labour Office, 2017). This topic requires a stronger focus from government legislators, multi-national corporations, and consumers. The problem has been intentionally avoided by firms, with several driving factors that maintain the supply and demand for forced labor. Increasing pressure in the financial market requires corporations to fight to hold their position in a competitive environment by utilizing unethical practices. Meanwhile, consumers purchase their products at low prices, unaware of the horrifying reality behind the production of these products. As consumers gradually become more conscious of the sustainability practices behind the companies they purchase from, the problem with forced labor has been brought to light and urges people to join the fight against it. The CSCMP explains that an increased focus on social issues "will likely feature prominently in the future of (supply chain sustainability). Both areas received much attention in 2020, and both pose long-term challenges that are unlikely to abate in the foreseeable future" (Council of Supply Chain Management Professionals, 2021). While consumer awareness is not primary solution to the forced labor issue, it can urge corporations to place more focus on the issue and encourage the development of legislation.

The fight against forced labor, starts by understanding its roots. This includes the governance gaps that reinforce it, the financial environment it thrives in, and its interaction with social science. The problem of forced labor is complex, requiring complex solutions. As the incentives that hold the continued use of forced labor together unravel, they reveal how deeply rooted this problem is and the immense amount of work that comes with attempting to derail it.

Tightening focus on procurement practices and strategies may reveal where forced labor usage is being introduced into the production process.

Improvements within supply chain management and procurement practices can shape the direction of forced labor. Potential improvements include stronger contractual agreements between suppliers and buyers that uphold their social commitments, a heavier focus on buyer-supplier relationship management that facilitates candid dialogue and contributes to long-term partnerships, and innovative auditing practices through the implementation of blockchain technology. While the issue of forced labor does not fully revolve around the state of supply chain management practices, the formation of these stronger practices that push corporations away from forced labor catalyze additional action from the rest of society. Spreading awareness about how supply chain practices affect forced labor among supply chain scholars and professionals alone, may contribute to a difference in the sourcing decisions they make. Universally, supply chain management departments are solely focused on raising the efficiency and accuracy of their supply chain while keeping costs low. With the added focus of sourcing from suppliers with responsible and traceable practices, the complexity of supply chain management only increases.

In 2022, the opposition of forced labor practices have gained further support from United States legislation with the development of the forced labor enforcement task force (U.S. Department of Homeland Security, 2021) and the Slave-Free Business Certification Act of 2022 (117th Congress, 2022), among several others. As governance increases and the regulations for labor laws become amended to protect victims of forced labor, the institutional reinforcement that upholds its use can be diminished. However, initial legislation may not be completely fool-proof and it will take time and detailed planning to close all the loopholes that drive the use of forced labor. Even in the present, more socially conscious climate, forced labor is still alive and well, gaining traction with the pressing financial circumstances that encourage corporations to be cheaper and faster. The balancing of the supply and demand drivers that facilitate forced labor usage require government interference, financial regulations, effective supply chain management practices, and strong reporting standards. The following sections will explain the roots of forced labor, supply chain practices that can be used to combat it, and the potential future of forced labor in supply chains.

2. Roots of Forced Labor

Mitigating the use of forced labor within supply chains begins with understanding where the concept of forced labor comes from, what it means for our society, and why it continues to prevail. Fully comprehending the foundations of forced labor, entails viewing the process as a never-ending cycle that benefits itself as the crime progresses. Forced labor is not limited to a few companies that can be labeled outliers but is found in many corporations all around the world. The factors that contribute to the increasing supply of disadvantaged people and demand for inexpensive labor are reinforced by deeply rooted issues including discrimination, poverty, monopolization, and faulty regulation. Forced labor can also be facilitated by institutional and political policies that marginalize certain individuals and foster an environment in which

corporations can get away with corrupt behavior. The roots of forced labor make it easier to recognize where to begin when combatting it and what a solution looks like in realistic terms.

2.1. Supply and Demand Dynamics

Simply put, forced labor continues to thrive because there is a supply of it and a demand for it. The supply is generally comprised of exploitable individuals who fall victim to the belief that the role they are taking on will provide opportunity for them. In reality, they will be mistreated and overworked as a result of debt bondage, coercion and threats, or deception. These victims tend to be made vulnerable to forced labor through poverty, identity and discrimination, limited labor protections, and restrictive mobility regimes (LeBaron, 2021).

Workers who experience poverty are often faced with no other choices when recruited to work in forced labor positions. Their poverty and vulnerability allow corporations to utilize inexpensive labor that meets the demands of the market. The state of poverty easily becomes reinforced when workers are forced to opt for short-term survival over long-term economic security (LeBaron, Kyritsis, Thibos, & Howard, 2019). When an individual is roped into a forced labor position, they are usually desperate for any kind of income. These workers typically have families to support and will send remittances to them with the money they earn. Remittances sent home to workers' families contribute a significant amount of income to many developing countries. In 2011, the World Bank reported that remittances account for “more than 10 percent of Gross Domestic Product (GDP) in many developing countries” (World Bank Group, 2011). While remittances can stimulate economic activity and provide numerous benefits in developing countries, they can also place undue pressure on workers to continue working under indecent conditions to support their families. Individuals are forced to continue exploitative work due to the combined burden of supporting their families while repaying their employer's debts.

A person who experiences discrimination for their identity would be subject to the vulnerability that forced labor recruiters look for. When someone is rejected by their society because of their race, gender, caste, or national origin, they are pushed to take on low-paying and low-status jobs. If a worker is a part of several minority groups, the disadvantages they face through discrimination may intersect with one another, pushing these workers further away from equal opportunity.

Limited labor protections from the government around non-standard forms of work will leave workers with lower wages and fewer protections. These non-standard forms of work may include temporary, part-time, on call, or agency work (LeBaron, Kyritsis, Thibos, & Howard, 2019). Low labor costs generally exist in industries without strong union representation since workers cannot defend their rights. With other limits placed on unionized activity, these systems have been reinforced to keep these workers underpaid with the inability to fight back. There aren't many individuals to police worker protections since labor inspectorates confront serious funding problems worldwide. Government policies such as immigration laws, trade laws, and labor laws can also play a large role in worker's vulnerability to forced labor. Most commonly, harsh border protection may push migrants to enter illegal forms of work without employment regulations since they are unable to find legal work without citizenship. While these workers consent to the conditions at their place of employment, their freedom to do otherwise is severely

limited by their citizenship status (LeBaron, Kyritsis, Thibos, & Howard, 2019). Factors such as the time and money spent funding a migrant worker's travel, obtaining their visa, and the relatives they have in their home country who rely on their salaries predispose these workers to take out loans from their employers and engage in debt-bonded labor. The components that contribute to the vulnerability of an individual constitute what they are willing to sacrifice for the means to support themselves and their families. With these clear components, the origins of the seemingly endless supply of forced labor workers becomes clear.

A large supply of vulnerable workers to exploitative work are employed by the urgent demand for inexpensive labor. This demand is fueled by concentrated corporate power and ownership, outsourcing, irresponsible sourcing practices, and gaps in government legislation (Lebaron, 2021). The drivers of demand for cheap labor are anchored in the massive growth of multinational companies and increasing global inequalities. An examination of how these elements contribute to the use of forced labor illuminates the challenges that businesses face during the sourcing process in the high-pressure business environment. When given a lack of information on the subject, people may view forced labor as a crime that happens randomly, in the shadows of production at a few “bad” companies. However, the demand for forced labor is stable, predictable, and largely utilized as multinational corporations outsource their production to third party suppliers. Outsourcing production allows organizations to retain the benefits of forced labor while distancing themselves from its practice. These organizations may feel better about themselves, but the horror of forced labor is not assuaged.

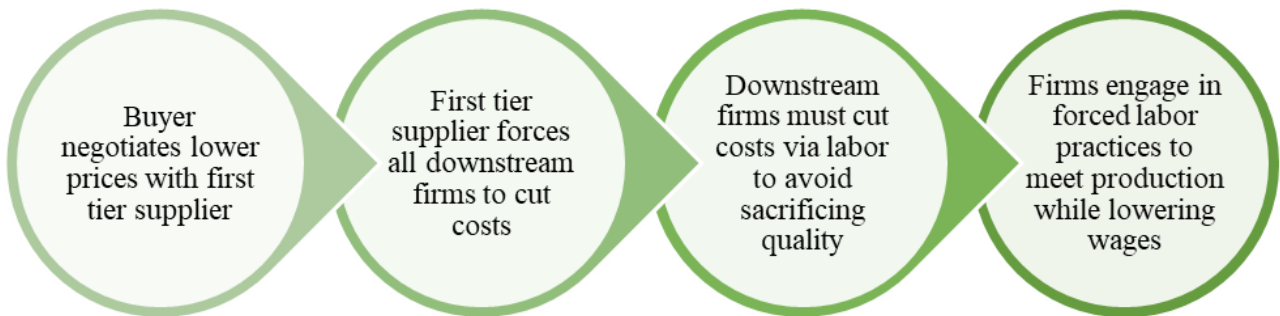
When multinational corporations monopolize their industry, it creates a huge buyer-supplier power imbalance. As many corporations grow into industry conglomerates, their buyer power skyrockets and allows them to dictate pricing and margins throughout their supply chain. Most companies don't own or operate their own factories, but rather employ supplier factories across the world to produce their goods. This phenomenon is known as global labor arbitrage; when the barriers to international trade are weakened, multinational corporations can access enormous profits by utilizing labor from countries where both the cost of doing business and the wage paid to employees are lower (LeBaron, Kyritsis, Thibos, & Howard, 2019). The prices multinational corporations set with their first-tier supplier will dictate the margins for all downstream suppliers and associated firms. This four-part figure (**Figure 1**) explains the process that occurs as buyers negotiate lower costs and suppliers attempt to meet their requirements by placing downward pressure on working conditions. With labor generally being the biggest cost for suppliers, wages and working conditions are the most negotiable components and are the first to be sacrificed. Continuous price squeezes inevitably push suppliers to either use forced labor practices or lose business with their retailer. Employers can lower costs by paying below the minimum wage and providing poor accommodations, or even generate revenues from workers by charging them recruitment fees and overcharging them for accommodations. This process mirrors a snowball effect, with the risk of forced labor usage growing as corporations demand lower prices from suppliers.

The tool of outsourcing production proves to be incredibly useful to multinational corporations in lowering costs and expanding capabilities. However, outsourcing production

provides a lack of traceability that stymies efforts to mitigate forced labor by keeping the reputation of multinational corporations clean while facilitating labor exploitation in downstream firms.

Figure 1

Process resulting from buyer pressure on prices



Note. Rauzi, C. (2022) Understanding the relationship between procurement practices and forced labor. University of Arkansas.

This lack of transparency keeps regulatory agencies from connecting the dots between dubious suppliers and the firms that employ them. In product supply chains corporations will generally outsource their lower value adding activities to third party suppliers and these suppliers may outsource parts of the production to other suppliers. The use of several intermediaries per one production activity makes it very difficult for labor standards to be monitored and regulated through an entire supply chain. Forced labor heavily thrives when outsourcing along labor supply chains where workers are recruited through third party agents. The informality and flexibility of many intermediaries allows corporations to utilize cheaper, temporary labor without their actions being traced. In a study of forced labor practices in Brazil and India by Nicola Phillips it is found that “the most severe forms of labor exploitation tend to occur in those parts of the production process that are associated with outsourcing practices.” Phillips develops these conclusions with analysis of data referring to the “more than 21,000 workers released from conditions defined as slave labor between 2003 and 2010” (Phillips & Sakamoto, 2012). Because outsourcing labor lacks traceability, it's much more difficult to hold companies accountable when the downstream firms they employ utilize exploitative labor practices. This accountability issue is what shields the consumer-facing business from the liabilities that come with the use of forced labor.

Organizations that utilize irresponsible sourcing strategies exacerbate the forced labor problem by unwittingly incentivizing suppliers to engage in questionable practices. Companies reward suppliers who continue to meet low-cost, high-production targets without examining the supplier's changes to meet those new targets. When a corporation outsources production activities to their supplier, the relationship they develop and manage with them dictates the potential use of exploitative labor. Companies with poor sourcing strategies will engage in short-term contracts with suppliers, demand high production with fast turnover, delay payments, and enforce unreasonable payment terms (LeBaron, Kyritsis, Thibos, & Howard, 2019). As global production speeds up, companies are under continuous pressure to reduce lead times while

simultaneously fulfilling high production quotas. This fast-paced instability in sourcing places pressure on suppliers to adapt quickly to changes without raising any costs. While it may seem senseless for suppliers to do business with companies who abuse their power and have extreme requirements, the suppliers know that if they don't comply to their demands the company can find another supplier that will. To stay in business suppliers are left with no choice but to pressure employees to work overtime, pay below minimum wage, and engage in methods like debt bondage and coercion to keep them working.

Within the production of forced labor, consumers misplace faith in regulatory agencies and labor laws to police and prevent forced labor from happening. The assumption that exploitative labor practices cannot coexist with labor regulations is a misunderstanding of these regulations' efficacy. Many regulations are poorly enforced with loopholes that are relatively easy for companies to work around. With a lack of funding and staff, a company's chance of ever being audited by Department of Labor inspectors is slim to none. Labor regulations become even more complex as more companies outsource globally and use informal intermediaries. Transparency legislation may be used to have companies provide evidence of responsible labor practices, however, most of the legislation loosely holds companies accountable by simply requiring them to share their due diligence plans without any evidence of the actions they've taken. Some propose that companies self-regulate their labor standards through social auditing practices. Though, when corporations are creating their own codes of conduct it is easy for them to ineffectively hold themselves accountable and give consumers a false view of their labor practices. The '2021 Global SRM Research Report' from the State of Flux, explains how self-reporting is common with suppliers that truly want to do better, "...a supplier admitting they have found modern slavery in their supply chains is 'probably a good answer' because it means they have investigated the issue closely enough to find it, they care enough to do something about it, and they are brave enough to say yes" (State of Flux, 2021). Allowing companies to give themselves social certifications via their own set of regulations would only falsely protect company reputation rather than mitigate the use of forced labor. Because businesses aren't effectively being held to these labor regulations, exploitative labor is widespread among corporations and is being considered a requirement in some industries to maintain competitive pricing. In the perspective of competitive strategy, a company's ability to choose whether to utilize forced labor must be viewed in tandem with the workers ability to say no to exploitative work.

2.2. Institutional and Political Reinforcement

While some may dismiss politics as insignificant in the study of forced labor, the status of the political environment is closely related to the state of forced labor. The dynamic of forced labor follows behind governance initiatives that affect immigration laws, the privatization of public services, deregulation of trade, and price controls. The current political climate may heavily contribute to an individual's vulnerability to exploitative work. The desire to eradicate the use of forced labor throughout supply chains is shared by many, however the problem with government initiatives reinforcing the supply and demand for forced labor continues to be avoided. Though government policies may not be the primary driving force behind the rise of forced labor, they are a valuable consideration in efforts to derail it.

Policies surrounding legal immigration into the United States are generally associated with polarizing opinions and strong emotion. In a simple context, one side advocates for the rights of migrants and amendments that make it easier for them to become legal, and another fights to defend the United States borders due to fears of increased crime and labor shortages. As discussed previously, a large supply of the workers that fall vulnerable to exploitative work come from migrants who are unable to obtain legal work without citizenship. The number of migrant workers employed through temporary work visa programs rose to over 2 million during the Trump presidency (Costa, 2021). Furthermore, the COVID-19 pandemic employed many migrant workers through temporary visa programs for essential jobs. However, these temporary work visas have limited rights and can still expose workers to debt bondage, lower wages, and lack of protection without a path to permanent citizenship (Costa, 2021). A report from the Center for Migration Studies found that from 2010 to 2018, “individuals who overstayed their visas far outnumbered those who arrived by crossing the border illegally” (Warren, 2020). This means many of the migrant workers who were initially granted work visas, remain in the United States after their visa has expired and fall subject to labor without any regulations or protections. Migrant workers can possibly face retaliation from their employer if they attempt to report the poor working conditions or low wages they face at work. When employers have control over their worker’s visa status, they are given leverage to exploit their workers by holding their potential path to citizenship over their head.

Regulation of labor, trade, and social services has a complex relationship with the facilitation of exploitative labor. Advocates of deregulation aim to stimulate economic activity, allow more freedom for businesses, and increase competition by removing corporate restrictions, lowering entry barriers to various markets, and decreasing the resources needed to comply to regulation. On the opposition, deregulation may also allow more businesses to monopolize markets, perpetrate fraud, and avoid disclosing their business practices. When regulations are lowered, companies can be urged to police their own labor standards through private ethical certifications. Asking companies to set their own regulations and hold themselves accountable can promote the use of unethical practices as companies fail to disclose them. Christopher Cox, past chairman of the Securities and Exchange Commission during the 2008 economic crisis stated, “We have learned that voluntary regulation does not work...The lessons of the credit crisis all point to the need for strong and effective regulation” (McNicholas, Shierholz, & Wilpert, 2018). In turn, tightening trade regulations may deter companies from utilizing forced labor when sourcing labor from other countries. By restricting imports into the United States by banning goods and services produced via forced labor, trade regulations can be aligned to protect worker rights while facilitating safe trade practices.

Government intervention may not always help the case of worker protection and is not a simple solution to the dynamic problem of forced labor. When companies outsource production to other countries and import the finished product, visibility is quickly lost along with the ability to apply labor regulations. Maintaining and enforcing trade and labor regulations comes with costs, however, these regulations may entail long-term benefits that offset initial expenses. When it comes to understanding the origins of forced labor, the institutional reinforcement that promotes its usage is crucial to explore as governments scale up their attempts to eradicate it.

3. Supply Chain Practices and Forced Labor Usage

Supply chain management operations can initially ignite the use of forced labor. Starting with the production of raw materials and ending in the hands of the consumer, the supply chain is far from simple; the complexity and lack of visibility it entails make it easy for unethical practices to be concealed along the way. The facilitation of exploitative work generally begins with the procurement of raw materials and continues down the supply chain as production is outsourced through multiple intermediaries. As the downstream suppliers fog the visibility to the supply chain, regulations are weakened, worker protections are lost, and forced labor can be employed. Since the initial sourcing of forced labor can begin in the procurement process, it is critical to understand the differences between sourcing raw materials for products and sourcing labor for production. Following that, an examination of the impact of supplier and buyer power could reveal the driving causes behind the sourcing of forced labor. Lastly, it is essential to consider what constitutes effective supplier relationship management and why it is key in establishing supply chain visibility to reduce the use of forced labor. A look into how supply chain practices shape labor standards may guide the direction of forced labor in the future.

3.1. Differences in Product and Labor Supply Chains

Supply chain management discussion generally revolves around the product supply chain and neglects the labor supply chain that is hidden behind production. In the context of forced labor, it is important to understand how the sourcing for these supply chains differ. A product supply chain is concerned with the transformation of raw materials into completed goods, whereas a labor supply chain is concerned with the series of employment ties that a worker must go through in order to be employed in a productive capacity (Crane, LeBaron, Allain, & Behbahani, 2019). These two distinct processes each have their own set of intricacies that can be overlooked when presented as a whole.

In research of forced labor within global supply chains, focus is generally placed on product supply chains where exploitative labor practices are seen in developing countries due to worker vulnerability, poverty, and lack of protections. However, when focusing on domestic supply chains, forced labor manifests itself more in the labor supply chain than the domestic product supply chain. Domestic labor supply chains in developed countries facilitate forced labor because of the common usage of labor intermediaries that cloud visibility to worker conditions. As stated previously in the discussion of the relationship between outsourcing production and forced labor demand, there is a general trend in the use of multiple intermediaries and forced labor. In the domestic labor supply chain, a lack of regulation enforcement and a supply for vulnerable workers allows for forced labor to exist in plain sight. It is valuable to understand where forced labor thrives in both the global and domestic context because it allows the approaches used in locating and removing forced labor to be customized based on the scenario. Furthermore, by distinguishing between labor and product supply chains, the focus on detecting forced labor within each phase may be narrowed.

3.2. Power Struggle Between Suppliers and Buyers

Market trends and developments are constantly reshaping the dynamic of buyer-supplier partnerships. Most industries with intense competition involve relationships among aggressive

buyers and susceptible suppliers. Consequently, these industries are the most likely to engage in the use of exploitative work to meet low market prices. The power asymmetries between buyers and suppliers can generally be traced to a continually decreasing market price offered by competitors in the industry. In section 2.1. *Supply and Demand Dynamics*, the effect of consolidated market power on price squeezes was discussed. When corporations monopolize their industry, supplier activity is limited as they are often forced to succumb to buyer demands or lose their business. These power struggles are heightened in industries of standardized commodities where the buyer's switching costs are low, and the supplier is heavily reliant on the buyer's business to remain afloat.

In exploitative buyer-supplier situations, buyers push risk onto suppliers through unpredictable ordering patterns, late payments, and inadequate communication. The high pressure placed on suppliers urges them to turn to unethical practices so they can meet buyer requests. Ultimately, suppliers are nearly forced to utilize such practices with the fear of losing the buyer that keeps them profitable or being charged heavy financial penalties if they don't meet buyer standards. In an increasingly competitive environment, suppliers must hold their position against competitors; especially, suppliers of standardized commodities where their production services can easily be replaced. The continuous price squeezes that buyers push onto suppliers cause them to cut their costs lower and lower. Generally, suppliers can meet these price squeezes by utilizing exploitative working conditions that lower labor costs. As discussed, this exploitation can be facilitated through subcontracting to labor intermediaries, paying below minimum wage, unpaid overtime, or fraudulent deductions from workers (LeBaron, Rumkorf, Brunner, C.deBaca, & Soundararajan, 2021). In most cases, suppliers try not to initially reduce costs by employing poor working conditions, but as buyers continue to negotiate lower prices, they eventually turn to cutting labor costs. Following this same nature, once suppliers begin pulling back on working conditions, they may slowly transition into fully utilizing forced labor through debt bondage, threats of retaliation, or legal entrapment.

The ongoing toxic relationship between buyers and suppliers that facilitate forced labor usage faces few solutions due to the financial structure that fortifies it. One solution may be the implementation of government legislation that regulates financial markets, so companies are unable to monopolize and hold intense power over suppliers. Anti-trust reforms and regulations around buyer power can ease the pressures that push suppliers to extreme lengths so they can hold their position in the market. This problem is deeply rooted in the financial environment and requires government intervention to truly be changed. However, since government intervention in this area would take a long time to implement and fully take effect, it is necessary to consider how supply chain management methods can help moderate the problem. While the power dynamic between buyers and suppliers is difficult to balance, firms' relationship management tactics and procurement processes can shape their prospective use of unethical practices.

3.3. Strategic sourcing in terms of forced labor mitigation

The techniques used to source suppliers and categorize them based on the business need, can contribute to the potential risk of forced labor usage. When strategically sourcing suppliers,

organizations must segment their suppliers based on the goods they are supplying and the extent of the desired strategic and economic contribution (Bruel, et al., 2017). Firms can establish a supplier approval process before they begin working with a supplier to ensure the supplier can ethically meet their standards. The right sourcing practices lay out a strong foundation for further collaboration in supplier relationship management.

Strategic sourcing begins with a supply market analysis for each product that is being sourced. Understanding the power balance in buyer-supplier interactions and identifying possible hazards and opportunities using primary and secondary data sources should be part of this research of each supply market (Mena, Van Hoek, & Christopher, 2021). This early research aids in the development of particular sourcing strategies for each supply market, allowing opportunities with each supplier to be capitalized on. To accurately measure the dynamics in each supply market, key market indicators can be established that identify economic, production, or pricing trends. The Kraljic matrix, developed by Peter Kraljic, categorizes supplier markets based on their financial impact as well as their supply risk. An adaptation of the Kraljic Matrix from ‘Leading Procurement Strategy’ by Mena, Van Hoek, and Christopher is shown in **Figure 2**. The Kraljic matrix divides the supply market into four item categories. These groups are distinguished by the complexities of their supplier markets and the strategic relevance of buying. Each category has unique complications and components that require distinct sourcing techniques. For example, if a purchasing department needs to source for items with small value per unit with a focus on cost minimization, they would want to utilize a strategy for routine items. After categorizing the supplier market, the company can streamline a suggested approach for that category that can satisfy its unique demands.

Figure 2
Kraljic Matrix Adaptation

STRATEGIC IMPORTANCE TO PURCHASING	HIGH	<p style="text-align: center;">LEVERAGE ITEMS</p> <ul style="list-style-type: none"> • obtained from various suppliers • represent a large share of the product cost • small changes in price have a strong effect on the product <p style="text-align: center;">Competitive bidding</p>	<p style="text-align: center;">STRATEGIC ITEMS</p> <ul style="list-style-type: none"> • obtained from one supplier • product for which supply is not guaranteed • represent considerable value <p style="text-align: center;">Partnership</p>	
	LOW	<p style="text-align: center;">ROUTINE ITEMS</p> <ul style="list-style-type: none"> • usually have a small value per unit • there are many alternative suppliers <p style="text-align: center;">Systems contracting</p>	<p style="text-align: center;">BOTTLENECK ITEMS</p> <ul style="list-style-type: none"> • represent relatively limited value in terms of money • vulnerable in regard to their supply <p style="text-align: center;">Secure continuity of supply</p>	
	LOW	COMPLEXITY OF THE MARKET		HIGH

Note. Van Hoek, R., Mena, C., & Christopher, M. (2021). Leading procurement strategy: Driving value through the supply chain. Kogan Page Limited.

When sourcing routine products, the 'Leading Procurement Strategy' adaption of the Kraljic matrix proposes engaging in systems contracting with a supplier to acquire a significant number of items or raw materials on a constant basis. This initial analysis of the supply market may allow for the most value to be realized for both sides in the supplier-buyer relationship. The categorization of suppliers lets companies understand how often they should source a new supplier and establish terms on which new suppliers are approved. This approval process can set ethical standards for suppliers per their categorization within the Kraljic matrix. Setting these ethical standards for suppliers before they are even contracted can mitigate the use of forced labor further down the supply chain. To reduce the use of forced labor further downstream in the production process, it is vital to prioritize strategically choosing suppliers for each supply market. This may ensure that the most effective suppliers are selected in each area and may be the first step in building effective relationships between buyers and suppliers.

3.4. Supplier relationship management in terms of forced labor mitigation

The supplier-buyer relationship that is developed in the procurement process, sets the precedent for how the entire supply chain will behave. When care for the relationship is neglected, behaviors can quickly become opportunistic and power asymmetries can arise. This establishes the necessity for strong supplier relationship management (SRM) in all supply chain practices. Deloitte consulting firm suggests SRM is comprised of four core competencies: supplier segmentation, SRM governance, performance management, and supplier development (Deloitte Consulting GmbH, 2015). Supplier segmentation categorizes suppliers by strategy, SRM governance holds both parties accountable to agreed upon expectations, while performance management monitors operational measures to establish metrics and benchmark performance. Once the first three competencies have been accomplished, the supplier development capability can be utilized to collaborate on business innovations, set long-term goals, and create an environment for open communication (Deloitte Consulting GmbH, 2015). Consideration of the components that characterize SRM can highlight the value it provides to the procurement function when it is developed properly, as well as the inefficiencies and toxic relations it can cause when it's not.

A study published in the Journal of Business Ethics from Mohammad Alghababsheh and David Gallear attempts to analyze the effectiveness of assessment and collaboration practices on suppliers' social performance and how these effects interact with social capital theory¹. Alghababsheh and Gallear offer two main approaches to managing supplier relations: assessment and collaboration. In the context of SRM core competencies, the assessment approach utilizes common processes found in supplier segmentation, SRM governance, and performance management while the collaboration approach holds close similarities to supplier development. The assessment approach "assume(s) supplier social misconduct represents cynical behavior so monitoring and auditing supplier operations will drive social performance" (Alghababsheh & Gallear, 2021). Processes within this approach involve monitoring supplier actions such as worker conditions, employee accommodations and benefits, and employee demographics to

¹ Social capital theory: social relationships should be considered resources that lead to the development and accumulation of human capital

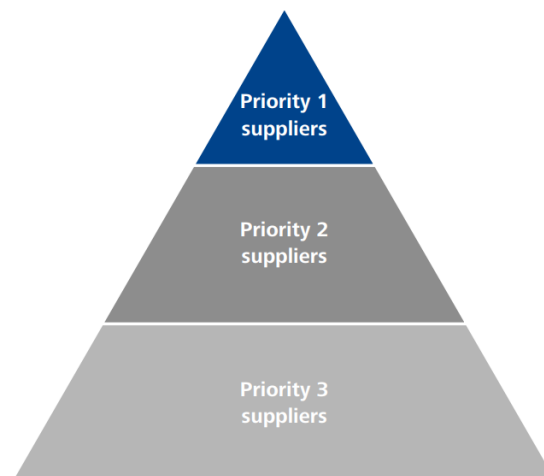
avoid working with suppliers employing forced labor. Alternatively, the collaboration approach attempts to facilitate collaborative discussion between suppliers and buyers to build supplier capabilities, establish trust, and opportunity for sustainable innovation. Based on research from Alghababsheh and Gallear, implementing both approaches will require intricate coordination and unity that can be difficult to achieve, however the integration of both approaches yields the most success (Alghababsheh & Gallear, 2021). Specifically, using SRM to combat forced labor usage can be most effective when both assessment and collaboration approaches are used. Assessment of suppliers can involve auditing production processes and intermediaries to give buyers visibility to the supplier's true labor practices. Collaboration can be used to prevent the use of forced labor by opening honest conversation with suppliers, assisting funding in sustainable-specific investments, and working jointly to develop innovative cost reduction techniques that serve as an alternative to forced labor usage.

Furthermore, the communication that is used between buyers and suppliers, independent of SRM approaches, can influence SRM effectiveness. The effects of power and communication in buyer-supplier relationships are classified in a study from the *Industrial Marketing Management Journal* as either coercive or non-coercive (Han, Handfield, Huo, & Tian, 2022). Per their definition, coercive power can involve manipulation, threat of retaliation or loss of business, and opportunistic behavior while non-coercive power can involve collaboration, joint process improvements, and positive reinforcement. This study explains that companies can utilize a combination of both coercive and non-coercive power to encourage a healthy buyer-supplier relationship while also holding suppliers to their standards. In short-term buyer-supplier relationships, buyers may find that using coercive power can be more effective in getting what they want, despite the effects it may have on the supplier. These coercive power techniques are the kind of approaches taken when buyers aggressively push price squeezes onto their suppliers and cause them to turn to exploitative labor usage. Even in less extreme cases, coercive power techniques from buyers may initially drive effectiveness, but will ultimately lead to negative repercussions. This study from Han, Handfield, Huo, and Tian states that, "Such opportunism is detrimental to the long-term development of both parties... and it is thus a major concern for managers" (Han, Handfield, Huo, & Tian, 2022). By evaluating the techniques that create poor SRM, the practices that contribute to a strong relationship between suppliers and buyers can be emphasized.

Once companies are committed to employing SRM that combines both assessment and collaborative approaches with non-coercive power, they can look to specific SRM techniques to shape their strategies. The process of implementing forced labor into a supply chain begins at the company's initial objectives. A buyer will generally communicate to a supplier that they want to reduce costs and increase efficiency while mitigating supply risk. When these expectations are assertively given to a supplier with a lack of resources to do so, the supplier will feel pressured to achieve the buyers' goals in any way they can. Due to their lack of resources and support from the buyer, suppliers are left with little options to turn to and can quickly end up shortcutting processes with unethical behavior. Instead of buyers taking an aggressive approach, they can clarify expectations with their supplier by establishing a contractual agreement. This contract can utilize metrics, set socially sustainable labor policies, and put governance systems into place.

This process can begin in the supplier segmentation competency by identifying the priority of the relationship and the amount of resources and spend that can be allocated to the supplier. The tiered structure shown in **Figure 3** from Deloitte Consulting depicts the general structure of a segmented supplier base, with priority one suppliers at the top of the pyramid and priority three suppliers at the bottom. SRM governance is extremely important in tracing the use of forced labor within a supplier's production. As previously discussed in 2.2. *Institutional and Political Reinforcement*, self-regulation by suppliers has been deemed faulty and can easily be manipulated to hide instances of labor exploitation. Developing strong internal governance processes within SRM require input from the right stakeholders and alignment from both buyer and supplier organizations. In the governance process it is vital to engage stakeholders that are external to the direct business of the supplier so that reports cannot easily be changed. Practices in this area can include ensuring above cost sale prices, holding buyers to minimum pricing structures and premiums, and verifying that suppliers are meeting wage policies. To specifically track labor standards in the performance management competency, companies should firmly outline labor standard and worker protection expectations as well as explicitly include a statement about the use of forced labor. Metrics can be developed to monitor worker accommodations through hire-on, shift, and recruitment data and labor finances through audits. These metrics can be used to set the standard when evaluating supplier performance and give suppliers tangible goals to work toward in terms of safe labor practices. The development of the first three competencies will allow for SRM to thrive in the supplier development competency. Once in the supplier development process, companies have already exchanged contractual agreements, set governance standards for accountability, and established metrics to measure supplier performance.

Figure 3
Supplier Segmentation Structure



Note. Deloitte Consulting GmbH. (2015). Supplier relationship management: Redefining the value of strategic supplier collaboration. Deloitte Consulting GmbH.

In this stage it is vital to continuously open discussion about labor practices and give suppliers the opportunity to share any concerns they have about meeting labor standards. If suppliers feel they will be unable to meet preestablished labor standards, companies can utilize joint process improvement to find innovative solutions that can allocate resources to invest in the supplier's labor conditions. Throughout the relationship, buyers should conduct regular meetings to evaluate supplier performance and share their ideas with suppliers. Additionally, metrics can be reestablished to meet new goals and contracts can be renewed, amended, or terminated based on the supplier-buyer relationship. An effective usage of the SRM competencies should allow companies to reduce costs and boost efficiency without having to sacrifice worker standards.

The dynamic between suppliers and buyers may differ based on the situation and hold their individual complexities and solutions. Developing a mutually beneficial SRM strategy is a detailed process that requires coordination between buyers and suppliers. However, once a SRM strategy has been implemented, the communication and efficiency can drastically improve. A large amount of the demand for forced labor revolves around abusive supplier-buyer power dynamics. By understanding how these power dynamics can be balanced to create further opportunity and productivity on both sides, the demand for forced labor can consequently be reduced as well.

4. Future of Combatting Forced Labor in Supply Chains

Due to the deeply rooted nature of forced labor, the process of eliminating it is difficult and requires a variety of multifaceted solutions to address all the factors that contribute to its continued use and perpetuation. With knowledge of the roots that ground forced labor usage and the supply chain practices that have continued its growth, the steps that need to be taken toward forced labor mitigation can be defined. To advance the fight against forced labor, it is necessary to adopt reliable and credible reporting systems, as well as implement government action and spread consumer awareness. Establishing regulatory reporting systems can combat false reporting from companies and accurately hold them to social sustainability standards. This can be done through auditing practices, blockchain usage, and reporting incentives. Government intervention is required to mitigate the consequences of the financial market through economic policies, to provide resources for external auditing, and to propose legislation on value redistribution that produces a supply of vulnerable labor. Consumer awareness and education regarding the use of forced labor in the supply chain may put further pressure on companies to improve labor standards and prioritize safe working conditions. The combination of these methods has the potential to catalyze the process of eradicating forced labor and pave the way for the complete elimination of forced labor in supply chains.

4.1. Establishing Reporting Standards

Despite the fact that some companies may appear to have ethical and sustainable certifications, these certifications may be upheld by false reporting practices. False reporting is a common practice used when companies are asked to self-regulate and provide audits of their labor practices. Insufficient and faulty verification methods foster a permissive environment in which corporations can avoid labor norms by exploiting loopholes and engaging in fraudulent auditing. By forcing firms to accurately disclose their labor practices through the development of

reporting standards, it will be possible to detect the use of forced labor and take appropriate action. Inaccurate reporting is a result of ineffective auditing processes, as well as a lack of external oversight and intervention in the process. A valid report should use both direct and indirect data so past and present information can be directly gathered from the company as well as compared with previously established acceptable labor conditions. It is also important for companies to assess the nature of their governance systems. A top-down² approach to reporting standards can lead to misalignment between the goals of reporting and those of middle management, as well as a failure to allocate the necessary resources to maintain correct reporting procedures. Using a top-down strategy may result in governance being implemented as a separate endeavor from day-to-day operations when it is more beneficial to fully integrate reporting procedures throughout all business divisions. Building strong reporting procedures requires alignment throughout the organization as well as commitment to governance goals and objectives.

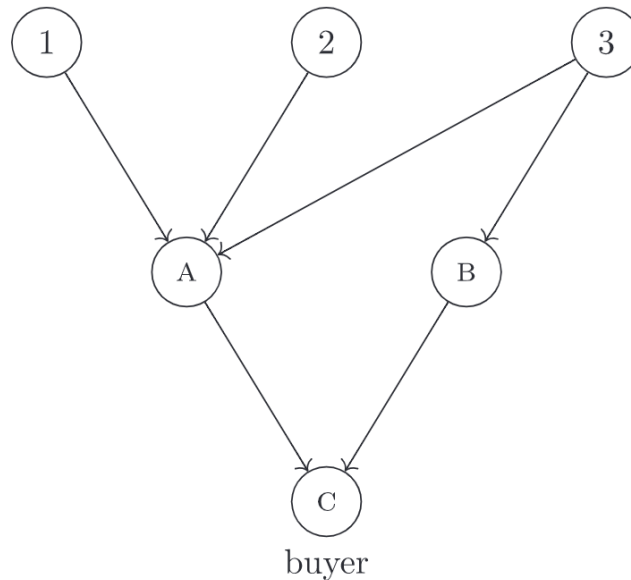
In the right circumstances, auditing can be the most useful technique to report unfair labor practices. The auditing procedures that firms employ, as well as the manner in which they are applied, can influence the quality of reports. Firms may typically utilize social audits, however, social auditing is said to lead to shallow and inadequate responses from firms (Helliard, 2021). One reason social auditing may be regarded as inefficient is because they tend to be built in the context of product supply chains rather than labor supply chains (Crane, LeBaron, Allain, & Behbahani, 2019). As mentioned in *3.1. Differences in product and labor supply chains*, product and labor supply chains require distinct methodologies and, as a result, unique auditing strategies. It is important that the labor supply chain is considered in auditing practices due to the frequent use of subcontracted workplaces that can be unaccounted for in product supply chain auditing. Social audits can also facilitate “soft forms” of corruption by reporting ethical practices while failing to report unethical ones. In the journal article ‘Governance gaps in eradicating forced labor’ from Regulation and Governance Journal, a social auditor is quoted stating that “(many auditors are) not trying to find things out, they are trying to prove that something is not there” (Crane, LeBaron, Allain, & Behbahani, 2019). Due to the corrupted nature of many social audits, they may perpetuate the use of forced labor rather than mitigate it by allowing companies to show a false depiction of labor practices.

In a study from the journal of management science, auditing techniques are evaluated from a buyer perspective to ensure social responsibility compliance (Zhang, Aydin, & Parker, 2022). The study follows a reporting model, shown in **Figure 4**, where buyers can categorize their suppliers into two tiers and use audits to characterize them as compliant or noncompliant. The first tier consists of two main suppliers and the second tier is made up of those supplier’s intermediaries. In the structure shows the web of supplier dependance by characterizing the buyer as C, the tier one suppliers as A and B, and the tier 2 suppliers as 1, 2, and 3. When using the ‘audit and drop’ subphase explained in the study, firms can drop (disengage business) or

² Top-down governance: an approach initiated by senior management that introduces governance objectives and sets various guidelines.

rectify (work with suppliers to correct noncompliance) suppliers if noncompliance is detected in their audit.

Figure 4
Supplier Dependence Structure



Note. The buyer is represented as ‘C’, tier one suppliers are represented as ‘A’ and ‘B’, and tier 2 suppliers are represented as ‘1’, ‘2’, and ‘3’. Here, suppliers 1 and 2 are dependents of firm A, but A is not a dependent of 1 or 2 firm B is a dependent of supplier 3, but 3 is not a dependent of B. Zhang, H., Aydin, G., & Parker, R. P. (2022). *Social Responsibility Auditing in Supply Chain Networks*. *Management Science*, 1058-1077

Firstly, the study concludes that it is most valuable for buyers to first enter the ‘audit and drop (AD)’ phase to filter out non-compliant suppliers and determine which might be valuable to rectify. In the AD phase, when auditing only tier 1 suppliers, buyers should always audit a least valuable unaudited supplier, and when auditing both tier 1 and 2, buyers should audit a supplier other than the least valuable. This process of auditing suppliers based on their location in the dependency structure provides a more balanced supply network to the buyer. In the event an audit detects noncompliance in a tier 1 supplier, this auditing process would drop all tier 2 subcontracted suppliers that are solely dependent on that supplier as well. This process can also build a list of noncompliant tier 1 and 2 suppliers that buyers can ban future suppliers from using as intermediaries. Finally, the study states the clear implication for buyers, “auditing suppliers in key locations early on can provide an important signal for the viability of the network, but the buyer must be willing to drop the supplier upon failing the audit” (Zhang, Aydin, & Parker, 2022). Analyzing the supplier dependence network within auditing can assist in developing criteria for auditing subcontracted labor within tier 1 suppliers. Businesses will often report labor standards for their immediate suppliers but fail to do so for their suppliers subcontracted labor, where forced labor is generally perpetuated.

A potential solution to the issue of false reporting practices is the utilization of blockchain technology. The blockchain records digital information and stores it in blocks that are chained together and distributed across nodes (Simply Explained, 2018). This technology was initially utilized to record and publicly display all transactions made with bitcoin. However, due to the decentralized and transparent nature of the blockchain, it can be used to audit firms supply chain practices in the search for the use of forced labor. Data that is stored and encrypted on the blockchain cannot easily be manipulated, edited, or deleted. The decentralized structure of blockchain means no organization or computer owns the blockchain, so no one is able to censor the data that is published. This technology can give companies the capability to record and provide auditable transactions associated with recruitment, contracts, and visa arrangements (Helliard, 2021). However, blockchain has certain limitations that may not make reports completely free of false reporting. Before a firm's audits can be added to the blockchain, information must be certified by a gatekeeper³. This could allow for information to be filtered before it is added but it would be highly difficult for companies to accomplish. Another barrier to blockchain technology in terms of forced labor tracing, is the inability to track the movement of workers as could be done with physical products (Helliard, 2021). For example, QR codes and RFID scanners can be attached to products to give supply chain managers supply visibility, but humans can only be traced with the use of fingerprints or the iris in the eye. To combat this limitation, the MeKong Club, an organization that assist companies in using practices that combat modern slavery, is working to develop virtual identities for workers on the blockchain. While limitations exist in the use of blockchain technology, it can continue to be innovated and expanded. As blockchain becomes more commonly used across companies, greater and more accurate visibility can be given to labor practices.

4.2. Government Intervention

It is necessary that governments take responsibility in regulating the political and economic policies that reinforce the use of exploitative labor (LeBaron, Kyritsis, Thibos, & Howard, 2019). This can be implemented through better immigration policies that protect migrant workers, regulation of liability surrounding employment of intermediaries or subcontracted labor, and conformed global regulations on labor standards.

Within the United States government, an increasing focus has been placed on forced labor mitigation. The first comprehensive federal law to address human trafficking is the Trafficking Victims Protection Act (TVPA) of 2000 (National Human Trafficking Hotline). This law protects victims of labor trafficking including those forced into labor through involuntary servitude, debt bondage, and coercion and provides them with services to leave forced labor situations. Further on, California's 2010 Transparency in Supply Chains Act (CTSCA) mandates that retailers and manufacturers with annual global profits of more than \$100 million report on their efforts to combat forced labor, human trafficking, and slavery in their supply chains (Crane, LeBaron, Allain, & Behbahani, 2019). This act conducts random and unanticipated audits of suppliers to search for possible forced labor usage within their practices and hold them accountable to labor standards. However, the CTSCA does not consider whether companies are

³ Gatekeeper: an entity that develops the application and oversees the participant onboarding procedure.

providing accurate audits, free of manipulation, and does not issue penalties for noncompliance (Cusumano & Ryerson, 2017). In December 2021, the Biden administration signed an updated version of the ‘National Action Plan to Combat Human Trafficking’ with the development of a forced labor enforcement task force (U.S. Department of Homeland Security, 2021). This plan outlines a three-year approach to combat trafficking by enforcing prosecution of traffickers, improving victim protections, and preventing the future use of forced labor occurring both domestically and globally. The task force is comprised of two groups: one to develop innovative strategies for screening forms and protocols, and one to analyze rights and protections of temporary visa holders. In alignment, the Slave-Free Business Certification Act of 2022 requires certain entities to annually audit their operations for evidence of forced labor, including suppliers, secondary suppliers, and on-site servicers (117th Congress, 2022). Thorough implementation may require costly resources to effectively take action and years of strategizing. This initial step from the United States government to abolish the use of forced labor paves the way for further legislation to take place and increases the pressure on companies to comply to labor standards.

4.3. Consumer Awareness

The spread of consumer awareness and pressure on firms to change their labor policies can make a significant difference in the fight to eradicate forced labor. Consumer consciousness generally revolves around practices within the product supply chain rather than the labor supply chain. In recent years, an increased focus has been placed on the sustainability of the raw materials that companies use in the production of their products. This increased focus has brought great strides in the innovation of sustainable materials that mitigate material waste to help protect the environment. While sustainability efforts still have quite a way to go, it is important that they also account for ethical labor practices. Companies may be given sustainability certifications in terms of ethical raw material sourcing, but they still utilize forced labor to source the (now sustainable) raw materials. Corporations have also found loopholes in labor regulations by reporting their immediate labor practices to consumers but failing to report or even audit their downstream suppliers and intermediaries. This neglect of attention around labor protections gives consumers a false depiction of company’s practices and preserves their reputation despite the use of unethical practices.

Campaigns about the state of forced labor in supply chain can be used to educate consumers on the topic and urge them to become more conscious about the companies they purchase from. These campaigns can be funded by donations from companies and be released throughout social media to spur conversation. Use of social media campaigns can facilitate conversation directly from consumers to companies and spread awareness to younger generations. Educating the younger generation about the usage of exploitative labor practices could result in increased pressure on businesses to begin altering labor practices as those generations develop and begin to make their own purchasing decisions as they get older. Spreading consumer awareness may appear to be a little effort in comparison to the other activities that should be pursued to eliminate the use of forced labor; yet, the strength of consumer pressure can be quite strong and might make significant gains in the eradication of forced labor.

5. Conclusion

The mitigation of forced labor in supply chains is a journey, made up of complex challenges that require innovative solutions. In 2016, the International Labor Organization estimated that 24.9 million people were victims of forced labor around the world. Forced labor traps vulnerable individuals into exploitative work through coercive practices and strips them of their freedom to leave. Understanding forced labor begins at its roots; the supply and demand dynamics for forced labor and the institutional reinforcement that preserves it. The supply for forced labor is generated from poverty, identity and discrimination, limited labor protections, and restrictive mobility regimes. Alternatively, the demand for forced labor is driven by concentrated corporate power and ownership, outsourcing, irresponsible sourcing practices, and gaps in government legislation.

Government policies surrounding protections of migrant workers and deregulation create loopholes in labor standards that allow for exploitative labor to be utilized without a trace. Forced labor facilitation can also be understood in the context of supply chain management practices. Power dynamics in buyer-supplier relationships need to be balanced with strong supplier relationship management. This requires companies to tailor their SRM approach to the specific buyer-supplier relationship and work jointly to ensure labor standards are being met. Businesses can ensure their reporting standards aren't creating loopholes for the usage of forced labor by employing blockchain technology and homing in on their strategic sourcing and SRM practices. Moving forward, forced labor practices can potentially be mitigated through the governance of reporting standards, audit innovation, government intervention, and a spread of consumer awareness.

With the effective implementation of these practices, there is hope for the future state of forced labor. The freedom consumers hold to purchase products at increasingly low prices unfortunately sacrifices the freedoms of individuals trapped in forced labor situations. As the effort to eradicate forced labor becomes globally united, the structures that facilitate its use can be broken down to give exploited individuals freedom.

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