

Leeds University Business School – Research and Innovation Podcast

Episode 6: Understanding SME engagement with the modern slavery acts

Speakers: Professor Hinrich Voss and Dr Dave Webb

Hinrich: Hello, I'm Hinrich Voss and I'd like to welcome you to this episode of the Leeds University Business School's Research and Innovation Podcast. I'm very pleased to invite and welcome today a special guest to this podcast, Dave Webb from the University of Western Australia in Perth, welcome to Leeds.

Dave: Thanks very much Hinrich, it's great to be in sunny UK.

Hinrich: Sunny for the moment. The point of you being here, the reason for you being here is to touch upon work we've done, started off a few months ago, on modern slavery and how it affects small, medium sized enterprises.

Dave: Absolutely, yes.

Hinrich: Now, can you remind us about how the Australian legislation which came into force early last year is talking about modern slavery and the kind of focus it has with respect to SMEs and firm size?

Dave: Sure, yes, very much. So, the Australian Modern Slavery Act of 2018 was modelled very much along the lines of the UK Modern Slavery Act 2015. There are, of course, some subtle differences, but the emphasis is really all about getting large organisations in Australia, its organisations with a turnover greater than 100 million, to write a statement about what it is that they're doing in respect to modern slavery in their operations, in their supply chains.

Hinrich: And that is, as you indicate, very similar to the UK legislation, where the threshold is £36 million for businesses to report on their modern slavery activities, how they are monitoring their supply chain and engaging on this.

Dave: Yes, very much, very similar I think in that respect. Yes. It's still, obviously, early days in Australia to see how organisations respond. We're only, sort of like, 12 months, I guess, since the implementation, which was 2019. But yes, time will tell.

Hinrich: Time will tell. The interesting question, though, is: so, what does it mean for SMEs? Most countries have a large amount of SMEs

and SMEs are very important to the local economies, yet this legislation doesn't talk about SMEs, directly at least. But I think in a conversation we've had previously as well, we recognise that SMEs are very important in addressing these aspect. So, how do they come into play here? And what does this legislation mean to the SMEs?

Dave: Yes, it's a really good question because, you know, if we take situation in Australia, SMEs account for, probably, about 97, 98% of businesses, whether we're talking in terms of financial turnover or whether we're talking in staff employee numbers. And so, with those sorts of statistics, obviously from an Australian business environment perspective, it makes a huge difference. So, the legislation focusses on large organisations with turnover greater than 100 million, very small proportion of Australian businesses. But of course, having said that, it's almost impossible to imagine that those large organisations, with their supply chains, don't also have small to medium enterprises and so whilst the legislation focuses on large corporates, \$100 million plus, without a doubt there are implications for small to medium enterprises, those who find themselves in the supply chains of large corporates, so definitely. And that's one of the focuses of our research.

Hinrich: Yes. With that being said, there is an implication for SMEs in the supply chain of large businesses, do you think SMEs are aware of that? And that legislation which doesn't address them, really has an implication on how they may do business, and maybe even be, if they are or not part of a value chain, because they have the occasions for them?

Dave: Yes, again, you know, if you had asked me that question a couple of years ago, I would have said, "Well, of course they're aware," but it seems that, you know, our early research indicates that they're not as aware, perhaps, of the implications as we would like to imagine. So, some of our early research, you know, where we spoke to a range of different organisations, either in the, sort of, commercial sector, but mostly in the, sort of, support area, indicate that there's very little knowledge, not so much... they're aware of modern slavery, but what the implications might be for them, in terms of their business operations, that really is... that's, for me, I found it surprising that they were not that aware. And so that's why I say it's early days, you know, time will tell, but yes, I think there will be some nasty surprises for some small to medium enterprises.

Hinrich: If they're not changing their perception operations and awareness, I suppose. With respect to the nasty surprises that may be faced by some of these SMEs, what do you think would be the potential implications of SMEs if they're not considering legislation like the Modern Slavery Act, and the implications on the operations?

Dave: Well I guess it will be similar to the UK and maybe you might want to tell me a little bit about that as well, tell the audience a little bit about that afterwards. But in an extreme case, I suppose, where you have a large corporate and they have small to medium enterprises in their supply chains, and there is any evidence or suspicion that there may be an aspect of modern slavery in, you know, could even be hidden, you know, that implicates a small to medium enterprise, as I say, in an extreme case, the large corporate may turn around and say, "You need to clean your act up or you're gone, you know, as a supplier to us." So, that's an extreme case, but of course, you know, hopefully large corporates will have much more of a relationship mentality and respond accordingly. And, you know, assist, if you like, small to medium enterprises, to do what is necessary within their operations to clean up their act so that the knock-on effect on large corporates is not great. So, that's, kind of, you know, our research, sort of shows. How about the UK?

Hinrich: It probably, though, starts before that. Before it gets to a stage where a large corporation is suspicious of an SME in the operations, it may even start before that with more compliance issues being brought in, right? SMEs being asked to provide documentation of how they operate, how they train, how they safeguard themselves against x, y and z, and thereby increasing bureaucratic hurdles and costs for SMEs, because these compliance aspects, regardless if a large business is suspicious of operations or not, would at some stage come in to ensure that a larger business can ensure to regulators that they're doing whatever they can in order to be sure there's nothing happening in terms of modern slavery down the value chain.

Dave: Yes, I think that's a really good point in highlighting that, rather than just being reactive, that large corporates can also be proactive in assisting all organisations within their supply chains to be ready, to be diligent and to be aware of what they need to look for. And I'm sure there are many examples of organisations, you know, doing exactly that.

Hinrich: And certainly, have a lot of experience of doing this overseas, I was going to look at auditing of factories and other activities. All of this is a compliance aspect, which they are very well aware of, but... as part of the legislation of course, we bring this back home more than we may have been used to.

Dave: Yes, and I think, you know, key as well is for organisations, all organisations, small to medium enterprises as well as large organisations, to see it as a strategic opportunity, because it really is about, you know, being... it's not just about compliance, it's about being more productive, if you like, enhancing their competitiveness and surely, I would imagine, from a customer perspective, that that would bode well in terms of their identity, their brand recognition. And so, you know, I think, you know, we shouldn't overlook that sort of strategic side of things as well for all of those organisations.

Hinrich: And this strategic aspect and the potential long term implications for large business SME relationships, the extent to which SMEs can become and retain their membership of a value chain, and thereby ensuring sustained revenue turnover for the long term, as well as the point you made earlier about the huge significance of SMEs for economies, in the case of Australia, 97% of the economy are SMEs. All of this indicates that research around the themes of modern slavery, compliance, complaints cascade down the value chains, it's very important as it has implications for the economy, it has implications for SMEs in how they can operate and stay profitable.

Dave: Sure, I think there are a huge number of opportunities out there for organisations, small to medium, or large.

Hinrich: Well I'm very much therefore looking forward to developing this research theme further with you and seeing how it pans out in the UK and Australia, and also to see how we might find their differences across SMEs globally, in other countries, for particular business and industries are operating. And then, looking forward to welcome you back in the near future for a second broadcast, where we can then talk about the findings... further findings across different countries and the policy implications, the managerial implications we draw from those.

Dave: Absolutely, looking forward to coming back, and also to reciprocating with you visiting Australia sometime, if you'd like to.

Hinrich: Very much so. Well thank you very much for coming to Leeds, not just for the podcast, but the broader visit of engaging in the research activities here with us. And thank you for listening to the podcast around SMEs, modern slavery and the implications legislation has on operations and practices of SMEs.

Dave: Excellent, yes, thanks Hinrich and thank you to the audience, too, for listening.