

# How Well Do You Know Your Suppliers? Here Are the Risks

*Updated 13 October 2025*

**Steve Odland:** Welcome to C-Suite Perspectives, a signature series by The Conference Board. I'm Steve Odland from The Conference Board and the host of this podcast series. Today, we're going to talk about human rights in the global supply chain. What do business leaders need to know?

Joining me today is Andrew Jones, principal researcher at the Governance & Sustainability Center of The Conference Board. Andrew, welcome.

**Andrew Jones:** Thanks so much, Steve. Great to be back with you again.

**Steve Odland:** Yeah. So Andrew, this whole subject of human rights and the supply chain sounds like, if you're a listener, you're going, oh, why are they talking about this? Everything's OK, right? But let's start with what do we mean when we talk about human rights? What are the current issues, and where are they?

**Andrew Jones:** Yeah, sure. I think it's important to do some level-setting here because I think you're so right, Steve. It's such a broad topic and can mean a lot of things to different people. So, when we talk about human rights, we're typically referring to basic rights and freedoms inherent to people regardless of the background, the nationality, the gender.

But I think when we're talking about human rights in supply chains, particularly human rights, perhaps in global corporate supply chains, perhaps we would talk about something a bit more specific. I think we're talking about the recognition that in many complex supply chains, and perhaps particularly in certain high-risk sectors or geographies, there is a very real risk of human rights abuses, or failings, or violations. And that might include forced labor or child labor, or it could include unsafe working conditions or excessive hours, discrimination. There's a long list here, and I think these kind of violations can happen wherever there is a lack of transparency or weak enforcement or power

imbalances.

So this is an issue that's been rising up the agenda for a while, I think, and obviously this, human rights abuses, I think we all agree are ethically and morally wrong, but they also pose real risks to businesses in a variety of ways.

**Steve Odland:** It's interesting, Andrew, as we think back to the history of The Conference Board. We were founded in 1916 for entirely the same reasons. The issues were the same. So in those days, we were focused mostly on the US, and it was human rights and the supply chain. And The Conference Board is the organization that established the five-day, 40-hour workweek. We established child labor practices, safety practices, and factories, fire standards, all things that later became codified into regulatory law. But we were the first group to do that and to establish it and to have our members voluntarily adopt it.

So it's interesting now, 110 years later, that we're talking about the same issues, but we're not really talking about them in the US. We're talking about them elsewhere in the world because this stuff still is out there.

**Andrew Jones:** That's so right. So sketching out that history of The Conference Board was really interesting, especially that history, as well. Long predates some of the international human rights frameworks such as the Universal Declaration of Human Rights that came after the Second World War and in the late '40s.

But you're so right. These issues, I guess, haven't gone away. And actually perhaps, as supply chains have globalized and have become more complex, as well. And, with the rise of also, I guess, heightened scrutiny and media exposure and reputation exposure, have continued to be pressing issues.

And I think you're right Steve, that human rights abuses can show up anywhere where there is risks or there's power imbalances, but perhaps seem to be concentrated, particularly, in emerging geographies, where there is opaque supply chains and also informal labor practices and so on.

**Steve Odland:** So where does this predominantly exist today, geographically?

**Andrew Jones:** So I'd say again, it can exist anywhere, but I think we're really perhaps talking about markets in the Global South. I'm thinking particularly in perhaps areas such as Sub-Saharan Africa, south and southeast Asia. These are areas where you may have informal work, smallholder work, still strong agricultural and seafood, with seasonal labor and migrant dependence.

It shows up a lot in East Asia, but I think because supply chains are so complex and often it's very hard to trace down, particularly once you start looking beyond tier one and even tier two suppliers, that human rights violations can be there lurking in a way that we don't fully know. Even if it's not the actual where the product was assembled, it could be even

further stages down supply chain. So, show up everywhere, but particularly I think in certain geographies.

**Steve Odland:** So Andrew, you're telling us that slave labor still exists in areas of the world.

**Andrew Jones:** That's, I think, to put it bluntly, Steve, yes, that is correct. We still have, yeah, effectively, whether it's slave labor or effectively indentured labor, child labor, forced labor practices, these do continue to exist alongside perhaps less visible but still also problematic practices around excessive hours, wage theft, and gender imbalances, and so on. So yes, to answer bluntly, yes, this remains out there and remains a global problem.

**Steve Odland:** And when we're talking about child labor, we're not talking about 16- and 17-year-olds. We're talking about 5- and 6-year-olds.

**Andrew Jones:** That's potentially correct. Yes. Depending on the industry and the geography, and it's certain sectors, as well, that perhaps have—while I think it can be, any industry can be exposed, certain sectors are perhaps particularly exposed. Thinking potentially agriculture and seafood because of the dependency on farms and plantations and fishing fleets. Other industries are exposed, too. I think some of the high-profile violations have been around minerals and mining, whether that's upstream mining, and processing also has quite acute risks.

So these are real problems, and these are real challenges, and businesses are at risk of not even fully realizing they are there, deep down the supply chain in the more informal tier three or tier four categories.

**Steve Odland:** Yeah, and you're talking about kinds of industries where there's not—and kind of geographies—where there's just not a lot of automation. So in the developed world, you tend to see these kind of tasks automated. In the developing world, they're not automated, and so you've got heavy use of cheap labor, and cheap then devolves into these human rights violations. The problem with it is if you're a manufacturer sitting in a developed nation, Western Europe, United States, North America, and you're engaging in a supply chain that, goes back up through your supply chain, you may not know that some of these, materials, these raw materials or input materials, are coming from areas with these kind of violations. And I think that's really the wake-up call that businesses have had recently.

**Andrew Jones:** Totally agreed. And I think when you look at it from a global perspective, I think no major or complex global supply chain is completely insulated from these risks. I think all have some exposure. Obviously, some sectors might be considered higher or lower risk, but the commonalities here are I think any jurisdictions or geographies or markets that have, as you outlined, Steve, low-cost labor or migrant labor or informal labor or weak enforcement, is a challenge. And it potentially gets, it percolates into these deep, opaque, multi-tier supply chains where we don't know, and then we don't have that sort of oversight, and the oversight isn't clear.

So it's a real challenge. I think you're so right. There has been a wake-up call in recent years and decades, and there's been a gradual move towards heightened scrutiny and the development of frameworks and now, more recently, even seeing legal obligations emerge, as well. It's been a high-profile issue that has continued to, I think, emerge and develop and evolve.

**Steve Odland:** Now, Andrew, you referred to something called tier one, tier two, tier three. Those are common terms in the sustainability world, but can you just share with our listeners what you mean by those terms?

**Andrew Jones:** Sure, no problem. So when we talk about a tier one supplier to a company, that is the direct, most visible, contractually bound suppliers. So that might be a direct supply to the company, right? They're providing goods, materials, services that go directly into the company's production. Then you start looking, and effectively every tier is almost a little bit further away and a little bit less scrutiny.

So tier two, what we might call tier two, are the suppliers to those tier one suppliers, right? So they might not directly deal with the company, but they might be still providing essential inputs and garnered less scrutiny. Therefore, hidden risk start to emerge, and the chain goes on like that.

So when we talk about tier three suppliers, we're talking about the suppliers to those tier two suppliers, who that might be basic materials providers. And the hierarchy goes on and on, and tier four, we may be talking about even the raw material extraction of cultivation, which I think as we know, is perhaps where some of the highest human rights risks are.

So from a company perspective, they may have a universe of suppliers that are direct suppliers that have a relationship with the tier one, but there's a whole kind of constellation of suppliers out there beyond them that are still in the company's supply chain, but in much less clear and visible and direct ways.

**Steve Odland:** Yeah, and this has been a little bit invisible to most folks. They haven't paid attention to this because they go contract with somebody to provide, I don't know, steel trim for an appliance that they're manufacturing or something. They just, "Give us the trim." That's a tier one.

What they don't realize is that if you go back through that company's supply chain, you find these abuses. And so this has been a huge wake-up call. And it's been pretty recent in the past couple of decades, but it has become urgent recently. Talk about why that is.

**Andrew Jones:** So I think there's a few reasons, and you're right, there's an interesting longer history here. And if you look over the decades, when you go back to, I think, the 1970s and '80s and even '90s, we had these frequent, periodic, perhaps high-profile campaigns or exposes or activist campaigns that, for example, highlighting child labor in certain supply chains or consumer boycotts.

They, I think, as you said, Steve acted as a wake-up call and prompted the setting up of voluntary codes of conduct. And that trajectory continued to develop into this century. And we've seen professionalization and global frameworks take shape, such as the UN Global Compact or the OECD guidelines. And then more recently, we've even seen harder laws begin to be enacted, whether it's at the US state level or in the EU or elsewhere.

So I think to answer your question, why this is moving up the agenda? I think it's a mix of regulatory momentum, and I think lots of governments are moving or considering moving from having voluntary guidelines here to actually having binding due diligence laws, which creates a whole new set of legal and financial operational challenges for companies.

But I think more broadly, there's also perhaps heightened reputational and consumer risk here, right? As public awareness has increased and information flows have developed, that mean some of these abusers can't very quickly capture attention and damage brand value and trust. Also think there's been a lot of focus on supply chains in general, right? So the perspective of supply chain resilience and nearshoring and reshoring and just this year, tariffs and trade. Trade policies that have also drawn attention to supply chains in new and interesting ways and, at the same time, perhaps shone a light on some of these human rights issues.

So it's been a lot of factors here. I think perhaps right now, regulation is actually one of the primary catalysts, but that in turn shapes some of the other factors, as well.

**Steve Odland:** And the regulation has come because of heightened awareness. I mean, people just, they didn't pay attention to it. They didn't know this was going on. Maybe some people did. I mean, maybe there were some deliberate abuses, but I would suspect that the vast majority of businesses who were along the supply chain here didn't realize it. And hence, the regulatory actions have brought it to the fore in order to highlight this for the end users.

Now, these regulations have come mostly in the developed world, North America and the EU, but there are differences. Describe what kind of regulatory schemes you see in each of those areas.

**Andrew Jones:** Yeah, sure. It's really interesting. And we do document some of these actually in a recent report we put out in the Governance & Sustainability Center, where we particularly focus on what's happening in the US and what's happening in the EU, which I think is, there's more going on elsewhere, but these are two of the really most interesting and dynamic jurisdictions right now.

So perhaps we start quickly with the US. The US is really interesting, cause the US is pursuing a targeted enforcement model. The US has been historically skeptical of broad mandates and regulation on business. And instead I think regulation in the US, on human rights in the supply chains, particularly on forced labor, is actually coming right now, at least at the federal level, more from foreign policy or national security concerns. And the

really big recent development was the Uyghur Forced Labor Prevention Act, the UFLPA, which was enacted in 2021 and made effective in 2022.

And this is a bipartisan US law, and a genuinely bipartisan law, that responds to concerns over alleged forced labor of Uyghurs and other minorities in the Xinjiang region of China, which is a significant source of raw materials for global supply chains, including cotton and polysilicon and other minerals used in using semiconductors.

So this law has been really fascinating, and it has real teeth, and it's been enforced by US Customs and Border Protection, and has been detaining and denying the import of significant amounts of shipments from China and the surrounding region in the last few years.

**Steve Odland:** We're talking about human rights in the global supply chain. We're going to take a short break and be right back.

Welcome back to C-Suite Perspectives. I'm your host, Steve Odland, from The Conference Board. I'm joined today by Dr. Andrew Jones, the principal researcher at the US Governance & Sustainability Center of The Conference Board. Andrew, before the break, we were talking about this new act, the Uyghur Forced Labor Prevention Act. Talk about, where did that act come from? It's been passed by Congress. And when did that happen? And to what companies does it apply?

**Andrew Jones:** Sure. Yeah. So it was enacted, so it's passed by Congress in 2021, and it was enacted with significant bipartisan support. And it was a very few dissenters, actually, and it was made effective in 2022. So it's been active for just a little over three years now. And it's a really fascinating law. and I think the drivers here, as I alluded to before the break, very much national security, foreign policy-related. That in the last few years been rising awareness of alleged human rights abuses in the Xinjiang region of China, which moved up, I think, the political agenda and the congressional agenda and became part of a broader policy pivot on China. And this law has effectively targeted any importers bringing in goods from the Xinjiang region or bringing in goods that may contain Xinjiang-sourced inputs such as cotton, polysilicon, tomatoes.

And it's been fascinating, just in the last three years actually has detained over—I should say, when I say detained, detained by US Customs and Border Protection, who enforce the act—have detained over 16,000 shipments with a value of nearly \$4 billion. So over 60% of those shipments were denied. The importer was unable to provide the necessary level of evidence to show that those goods are not linked to forced labor.

And it actually applies to all sorts of industries. But it's been particularly focused on a few high-profile industries, and that includes the automotive industry, aerospace, and any electronics feeding into renewable energy, along with a lot of footwear, textiles, electronics. And it just shows, yeah, this is, this kind of law is very much, this seems unlikely to have existed as recently as 10, 15 years ago. This perhaps marks a much more muscular and robust approach to the issues of forced labor in supply chains, and

really puts the burden of proof on companies to show that their goods are not linked to forced labor.

**Steve Odland:** Yeah. And the seizure and destruction of these goods at the borders, and you mentioned, \$4 billion worth, seems like it's anti-sustainability in a way, cause it's an enormous waste, but it's a small price to pay in order to send a signal back up that everybody, tier 1, 2, 3, you all need to check Where these supplies are coming from, and check beyond your immediate supplier, all the way back up to ensure that they're sourced ethically. And I think that's the logic here is that a little bit of price goes a long way.

Now we were talking about the Uyghur Act in the United States, but in Europe, there's something new called the Corporate Sustainability Due Diligence Directive. Talk about that.

**Andrew Jones:** Yeah, sure. So the EU is really pursuing quite an ambitious agenda. And this is different to what's happening in the States. This is a much more systemic approach aimed more at preventive and really codifying corporate obligations and responsibilities in law, and obviously builds on a long history of European action in this space.

So the EU has, and this was recently as I think last year, agreed the corporate sustainability due diligence directive or CSDDD. So it's a bit of a mouthful, but it's going to be phased implementation over the next few years. And the goal here is really to make, I guess to put it bluntly, to make companies legally responsible for identifying and preventing and mitigating and accounting for, whether it's actual or potential, adverse human rights impacts in their value chains.

And it applies to a lot of EU companies that meet the required thresholds of having certain amounts of employees and certain amounts of revenue. But it also applies to, or will apply to, a significant body of non-EU companies, including a lot of big multinationals headquartered in the US that generate revenue in the EU.

And it's got significant obligations around requiring companies to establish processes, to identify human rights abuses, and the board is expected to oversee due diligence processes, and regular reporting out and enforcement mechanisms that for companies that don't comply. So it's a very ambitious and very compliance-heavy obligation, and will introduce a lot of costs and burdens on companies in the coming years, but will, I guess at the same time, will compel many to enhance their understanding and their oversight of their supply chains.

**Steve Odland:** And when does this go into effect?

**Andrew Jones:** So it's a good question, because this is a phased implementation over the years. But as many of our listeners may know, the EU is currently revisiting and redebating a lot of this, a lot of sustainability-related regulation, with a view to cutting some of the reporting and the burdens on companies. And that includes the CSDDD. So there's actually an ongoing push within the EU right now to revise the CS Triple D and to refine it.

So we don't know at the right now, at this time, if the timing will change, but it looks like it will probably take effect from 2027, which sounds kind of far away, but it's really not because obviously, it will apply to the 2026 reporting year, and then you'll have phased implementation.

So it will start very much with companies based in the EU, but will gradually extend to non-EU companies that do a lot of business in the EU. So there's a lot of uncertainty right now with the so-called omnibus push to streamline, but the direction of travel does remain clear, and this will still be implemented and it will still be a significant mandatory obligation for many companies.

**Steve Odland:** Yeah. And these laws apply not only to European companies or companies that are headquartered in Europe. In today's world, so many companies are global, or you're trading globally and so forth, so it applies to any company doing business in Europe, regardless of where headquarters may be, isn't that correct?

**Andrew Jones:** That's correct. Obviously, so there's obviously certain revenue thresholds and so on. But in practice, as well, I think if you're a big multinational, and you have complex supply chains, and you're doing business all over the world, really regardless of where you're headquartered, this is going to apply to you to some extent.

**Steve Odland:** Yeah. And so, '27 is a long way away, but it's not, because you mentioned the reporting requirements in '26, but also, look, you got to go figure this out, which takes a lot of time. Companies need to figure out for every ingredient, every input, every piece of what goes into whatever they're making or selling or producing, they've got to go back all the way up to the supply chain, to the source of every raw material, and make sure that's there.

And then if you find something that doesn't fit, doesn't follow this law, then you have to find an alternative. And that will likely be more expensive, and that then will require, possibly, reformulation, revision. I mean, this can be a huge deal.

**Andrew Jones:** It can, and I think it will be for many companies. And it's a huge—first of all, it's huge red tape. I think there's a huge cost of the compliance and the reporting and the management, but also, yeah, there is such a cost attached to supply chain mapping, increasing traceability, looking all the way down the supply chain. So doing risk prioritization, engaging, as you said, Steve, potentially having to change suppliers or engage with new suppliers or change products, change supply chains.

There's big implications here for companies, and it is a real challenge, And interesting, in our recent report, we surveyed a lot of senior ESG executives, and we asked, one of the questions we asked was, what do you think the cost implications might be for these new mandates? And there was a lot of uncertainty. I think at this point, people don't even really know how significant or how extensive or how much of a challenge this may be. So there's a lot going on right now and a lot that companies, and particularly boards and

C-Suites, need to really be preparing for and investing in.

**Steve Odland:** And so that's the corporate sustainability due diligence directive. The CSDDD. There are also EU regulations on deforestation and other specifics that are part of a broader framework. Talk about those.

**Andrew Jones:** There are and there's a really interesting new regulation that is actually effective this year, but with phased implementation, so it will take a few years to really apply to a broad range of companies. But there's a new EU deforestation regulation that effectively will require companies that are placing certain commodities or products—and there's a particular focus on products like beef and palm oil and coffee and rubber and timber, products that are seen as those raw materials that potentially harbor links to deforestation.

And really, it puts the onus on the company to prove that their raw materials are deforestation-free and compliant. So this is, again, is a huge task. It will require companies to potentially do a lot more work on actually looking at where the raw materials come from, and going right down to the plots of land and the farmers, and doing risk assessments and due diligence statements. And there's also new regulation coming, and only really just been agreed—I think it'll be till later in the decade when it's effective—on forced labor that in a similar kind of way will prohibit products made with forced labor from being placed on the EU market or being exported.

I think the way you can almost interpret these is they all form part of the same framework, right? The CSDDD is this big overarching corporate obligation to identify and prevent and mitigate adverse human rights impacts. These EU regulations on deforestation and forced labor almost add some product-specific market restrictions. Companies cannot sell into the EU unless they're good to meet these criteria. So it's again, really ambitious, really comprehensive, and will require potentially firms to really invest in, whether it's in new technologies or new processes or new governance frameworks to meet these new standards.

**Steve Odland:** Well, and some of the risk to companies is clearly violations of law and potential penalties. But there's a lot of reputational risk, which actually may be more costly, potentially, than paying a fine. So, even if companies are saying, "Ah, well, you know, I'm not going to worry about it, we can sustain a few parking tickets," yeah, but you could put yourself out of business if you end up on the front page of a newspaper.

**Andrew Jones:** It's such a good point. I think you're right that, I think there is, companies are right to maybe be frustrated by new regulation and new red tape. Regulatory costs are real, right? And noncompliance costs are real. But as you said, Steve, the costs perhaps, whether it's from shipments getting detained or the reputational damage that comes with exposures of violations or even losing market access. These are much more costly.

And it may be that, for big multinationals, complying with this high bar may be cheaper than the alternative of waiting and seeing and potentially being at risk of some of these

challenges.

**Steve Odland:** Now you've got AI and blockchain and a lot of really cool tools that are new that can be used here. Describe how companies should be thinking about that.

**Andrew Jones:** Yeah, sure. And actually, given how hard it is to improve traceability of supply chains and look down beyond those tier one suppliers, I think actually AI, along with other tools like blockchain, can really help here. We know AI can process big amounts of information quickly and recognize patterns and make predictions. It's all very useful, I think, for looking at supply chains and specifically supply chain human rights due diligence, right? Whether it's spotting hidden risks in complex data sets such as supplier reports, worker surveys. I think AI can also help monitor at scale by monitoring big streams of information like shipment data and satellite images to detect anomalies. So I think there's a big opportunity for AI.

I should add, when we surveyed our Governance & Sustainability audience a few months ago, only 4% told us they were using AI for supply chain human rights due diligence. Although many more are considering it. So I think this is still very a nascent practice. But we all expect to see this upscale in the next couple of years. And I think you can tell a similar story for blockchain. For those who perhaps aren't sure what blockchain is, it's effectively a digital ledger that is decentralized and tamper-resistant and can be shared and allow verification of information between parties. Again, very well-suited to, perhaps, recording steps that a product takes from raw material to finished goods, or logging worker information.

And I think all these tools can help companies see beyond their direct suppliers, which is really, as we've been talking about today, where most of the human rights risks really lie. And digital tools aren't a magic wand. They still require a lot of work and a lot of implementation and a lot of upskilling, but they can strengthen transparency and trust in, I think, quite a valuable way here.

**Steve Odland:** Yeah. So just to wrap up, as you look ahead, what trends should boards and management teams be paying closest attention to.

**Andrew Jones:** Yeah, so we've spoke a lot about regulatory expansion and convergence, and I think that's something that has to be top of mind, for many of the reasons we've said. And it is worth adding, we focused today really on the US and the EU. But there's a lot more going on elsewhere, whether it's at the US state level or even internationally in jurisdictions like the UK and Australia and Canada and Japan and beyond. And companies just have to stay very vigilant to this patchwork of human rights due diligence laws.

I'd also add something about boards and senior CXOs, specifically. I think a really strong recommendation that's come out of some of our work on this issue is boards really need to be involved here. Boards really need to clearly allocate oversight of human rights to specific committees, help management incorporate human rights risks into risk

management, and perhaps set standards and expectations for regular reporting on how these risks are being identified. And also how, if abuses are uncovered, how they're escalated to the board in a timely and appropriate way.

So I think perhaps to wrap it all up together, I think human rights and supply chains, it's pretty apparent it's moving from a voluntary practice to a legally defined and governance responsibility. And this is perhaps all may going to be a story about good governance and treating supply chain human rights with the same rigor as other material business risks. I think boards and C-Suites need to stay vigilant here, Steve.

**Steve Odland:** Yeah. All right, we'll leave it there. Dr. Andrew Jones, thanks for being with us today.

**Andrew Jones:** Thanks so much, Steve. Always a pleasure.

**Steve Odland:** And thanks to all of you for listening in to C-Suite Perspectives. I'm Steve Odland, and the series has been brought to you by The Conference Board.

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