

Why Cos. Should Investigate Unethical Supply Chain Conduct

By **Dan Hudson, Jamas Hodivala and Maitreyee Dixit** (April 30, 2025)

As regulatory scrutiny on modern slavery intensifies, the U.K. government's guidance for businesses on reporting under Section 54 of the Modern Slavery Act 2015, updated in March, underscores the urgent need for companies to adopt transparent and measurable due diligence practices.[1]

These developments reinforce the broader need for proactive internal investigations into unethical or criminal conduct in supply chains.

This article explores why companies should take such steps. It considers legal, commercial, governance and ethical justifications for internal investigations; examines triggers for investigations; and offers practical guidance on how investigations should be conducted to ensure compliance, accountability and resilience.

Growing Legal and Commercial Imperative

The global economy depends on supply chains, but growing exploitation by organized crime groups and unethical actors has made rigorous scrutiny of supply chains a commercial imperative.

Since the Organization for Economic Cooperation and Development's 1976 Guidelines on Responsible Business Conduct, businesses have been encouraged to manage their supply chains ethically and responsibly. That imperative has evolved into legislation and regulatory risk. Recent decisions, such as R (World Uyghur Congress) v. National Crime Agency in the U.K. Court of Appeal in 2024, have confirmed that goods made with forced labor may constitute criminal property under the U.K.'s Proceeds of Crime Act 2002, or POCA.[2]

Environmental crimes, including illegal deforestation and mining, generate up to \$258 billion annually, per the International Criminal Police Organization, or Interpol,[3] increasingly overlapping with legitimate supply chains. In response, jurisdictions worldwide are enacting laws requiring companies to vet suppliers and report transparently.

China, the world's largest supply chain player, issued new sustainability reporting guidelines in 2023, aligned with the European Union[4] and U.K. laws, aiming for full environmental, social and governance implementation by 2030.[5]

There is also an increasing risk of criminal sanctions. Although still remote, U.K. companies and their senior managers, domestic or overseas, face prosecution for money laundering under the POCA, and corporate criminal liability under the Economic Crime and Corporate Transparency Act 2023, or ECCTA, for conduct of senior managers.



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Further, from Sept. 1, the new offense of failure to prevent fraud contained in the ECCTA comes into effect, which will require companies to consider implementing reasonable procedures to prevent fraud being committed by associated persons.

Any general counsel regulated by the Solicitors Regulation Authority will already be aware of guidance issued by the Law Society in November 2024, placing difficult professional obligations on them to report criminal conduct by their employer.

Investors, counterparties and civil society actors, such as nongovernmental organizations, also demand transparency. Failure to assess and remediate supply chain risks now poses significant reputational, civil and even criminal risks.

Furthermore, as consumer awareness grows and supply chain tracing technology advances, companies will find themselves increasingly accountable for upstream harms they previously overlooked.[6]

Triggers for Internal Investigations

Whistleblower Disclosures

Under the Public Interest Disclosure Act 1998, protected disclosures often alert businesses to internal misconduct, ranging from environmental harm to human rights violations. The 2024 U.K. Corporate Governance Code affirms whistleblowing frameworks as key to ethical corporate culture.[7]

Investigations triggered by such disclosures must be handled with confidentiality and fairness to encourage a speak-up culture and mitigate future risks.

Audit or Stakeholder Red Flags

Internal audits and stakeholder concerns often signal systemic gaps. These may be tied to compliance representations in financing or insurance contracts, or broader due diligence failures. Addressing red flags early demonstrates control and accountability.

Shareholder activism, including ESG-related resolutions, is increasingly triggering scrutiny of supply chain integrity and compliance.

External Investigations or Agency Inquiries

Engagements with the Financial Conduct Authority, Serious Fraud Office or other authorities necessitate a coordinated internal response. Organizations that conduct credible, independent investigations are better placed to negotiate or mitigate outcomes.

Preparedness through preexisting investigation protocols can reduce disruption, support prompt engagement with regulators and signal corporate maturity.

NGO or Civil Society Allegations

The EU Forced Labour Regulation, effective December 2027, empowers authorities to investigate companies on the basis of substantiated concern, including evidence presented by nongovernmental organizations.[8]

NGOs in the U.K. have previously served dossiers of evidence, including expert reports and witness statements, on companies and their senior managers in order to establish the required knowledge or suspicion of criminal conduct in supply chains for money laundering investigations.

These dossiers of evidence are nonstatutory notices, and a similar format can be expected to be used to establish a substantiated concern once the Forced Labour Regulation has fully entered into force. This will provide competent authorities with a means to investigate the supply chain conduct that goes into the constitution of a product sold on EU markets.[9]

Legal, Strategic and Ethical Drivers

Legal Defense and Risk Management

Various jurisdictions have enacted legislation addressing forced labor in supply chains, permitting detention of noncompliant goods at the border and providing powers of forfeiture of these goods unless satisfactory evidence of due diligence is provided, with penalties for noncompliance with certain requirements.[10]

Stakeholders, lenders and counterparties increasingly look to obtain contractual protection to mitigate the legal and reputational risks of association with such issues, and insurers are already considering their exposure to new risks from product rejection as a result of noncompliance.

It seems almost inevitable that standard insurance clauses for international trade will require adequate steps to ensure compliance with these new laws to the extent they do not already.

Governance Obligations

Legal duties for U.K. directors include acting in a company's best interests and exercising due care. Failure to investigate credible allegations may itself constitute a breach. Investigations offer boards an evidence-based understanding of what occurred and how to act. Independent investigations also help boards fulfill oversight duties and prepare for questions from auditors, regulators and investors.

Proactive Compliance

Voluntary investigations support cooperation credit with authorities. The SFO considers self-reporting as a gateway to deferred prosecution agreements. Investigations also help companies shape an accurate, defensible narrative. Companies that wait for external intervention often find themselves behind the curve, whereas proactive investigators control the facts, framing and mitigation.

ESG and Stakeholder Expectations

In addition to the minimum safeguards principle set out in Article 18 of the EU Taxonomy Regulation,[11] investors expect companies to align with frameworks like the United Nations Guiding Principles, the OECD guidelines and the Task Force on Climate-Related Financial Disclosures.

Robust investigations enable companies to demonstrate ethical responsiveness and ESG compliance. Importantly, they also support strategic business goals, such as ESG-linked financing, public procurement eligibility and supply chain accreditation.

In-House Counsel Duties

General counsel must balance professional duties with corporate responsibilities. While solicitors must preserve privilege and confidentiality, Law Society and SRA guidance on standards and regulations has complicated this by suggesting that public interest reporting duties may sometimes override client interests.[12]

The reality is more constrained. Internal escalation mechanisms must be strong enough to prevent solicitors from being forced into unresolvable ethical dilemmas.

General counsel are also expected to champion ethical business conduct across the organization. This includes influencing investigation protocols, protecting privilege strategically and advising on remedial measures following any findings.

The general counsel's role is evolving from gatekeeper to governance leader, and how general counsel handle investigations increasingly informs how their effectiveness is assessed by boards and stakeholders.

Company and Executive Liability Risks

Criminal Exposure

Conduct like forced labor, deforestation or child labor, while occurring abroad, may trigger substantive U.K. offenses under the POCA, the Modern Slavery Act 2015 and the ECCTA if the company or its senior managers are deemed complicit or willfully blind.

Under Section 340 of the POCA, property derived from or connected to overseas criminal conduct may be criminal property.

Knowledge or suspicion — however indirect — can be sufficient for liability, particularly where organizations fail to conduct proper due diligence or choose to ignore credible red flags.

The threshold for suspicion under the POCA is low, and courts have recognized that willful blindness can amount to constructive knowledge. Once suspicion arises, companies and individuals, particularly in the regulated sector, may be under a duty to report or risk committing a money laundering offense.

The ECCTA further sharpens liability: Section 196 introduced corporate attribution via senior managers, and Section 199, coming into force in September, creates a new offense of failure to prevent fraud.

Under Section 199, companies will be criminally liable unless they can demonstrate reasonable procedures to prevent associated persons from committing fraud where such frauds are perpetrated. These additional liabilities will result in obligations falling squarely on compliance and legal teams.

Civil Exposure

Companies that misrepresent the integrity of their supply chains in nonfinancial disclosures risk investor claims, e.g., under Section 90A and Schedule 10A of the Financial Services and Markets Act 2000.

This enables shareholders to seek damages for losses caused by misleading statements or omissions in documents such as annual reports, investor updates or ESG communications. Inaccurate claims about labor practices or modern slavery efforts, if relied upon by investors, could lead to litigation, particularly where the company has positioned itself as ethically robust to attract ESG-focused capital.

While reliance remains a challenge for claimants, the integration of ESG metrics into investment decisions makes such disclosures increasingly relevant to legal risk. Liability may arise where claims are found to be false or reckless.

Beyond the Financial Services and Markets Act, the Companies Act 2006 and related frameworks require certain U.K. companies to report nonfinancial and sustainability information, including at a minimum, social matters, and respect for human rights, environmental matters and anticorruption.

The Modern Slavery Act 2015 mandates an annual statement on efforts to prevent slavery in operations and supply chains. Although enforcement has been limited, proposed legislation would impose civil penalties, including fines and public contract exclusion, for failing to take reasonable preventive measures.

The EU's Corporate Sustainability Due Diligence Directive, adopted in 2024 but currently in a state of postenactment refinement, will also likely require certain U.K.-based multinationals operating in the EU to identify and address human rights risks in their value chains. Where disclosures under these regimes are misleading or overly generic, companies may face not only regulatory scrutiny but also potential tort liability for negligent misstatement.[13]

Claims may also arise from overseas harm caused by subsidiaries. In 2019 in *Lungowe v. Vedanta* and in 2021 in *Okpabi v. Shell*, both U.K. Supreme Court decisions,[14] it was affirmed that parent companies can owe duties of care where they assume responsibility for the conduct of subsidiaries, especially when policies or codes are not effectively implemented.

Parent companies making groupwide human rights or sustainability commitments may find themselves bound by them in practice, and failure to enforce or monitor such standards may give rise to civil liability.[15]

The interplay of these legal regimes makes clear that investigations are not merely about compliance, they are a defensive legal strategy.

A failure to investigate can result in severe consequences for both the organization and individuals, especially in the context of an increasingly aggressive enforcement landscape across jurisdictions.

Conducting a Credible Internal Investigation

Key considerations include the following:

- Tailor the investigation to its intended audience, i.e., board, regulator, investors or courts.
- Investigations must be perceived as independent. Use external counsel where internal teams may be conflicted.
- Preserve privilege early. SFO v. ENRC in the High Court of England and Wales in 2017 confirmed that litigation privilege can apply where litigation is reasonably anticipated.[16]
- Limit access to investigation materials, mark documents clearly and maintain legal oversight throughout.
- Select a small, skilled and impartial team, and consult local counsel where cross-border issues arise.
- Use a phased approach if needed, but act swiftly where red flags appear.

Practical Takeaways

With modern slavery reporting under new scrutiny and global ESG obligations hardening into law, companies must treat internal investigations as a governance necessity. The risks of civil, criminal and regulatory liability are rising, while investors and the public demand genuine accountability.

For general counsel and external advisers, key actions include establishing effective whistleblowing and escalation channels, designing investigation protocols that preserve independence and privilege, anticipating cross-border disclosure and enforcement trends, and embedding investigatory capacity into ESG governance.

Companies that investigate supply chain concerns early, transparently and credibly are best placed to withstand legal scrutiny and liability, and to protect their reputation.

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[1] <https://www.gov.uk/government/publications/transparency-in-supply-chains-a-practical-guide>.

[2] R (World Uyghur Congress) v. National Crime Agency [2024] EWCA Civ 715.

[3] <https://www.unep.org/news-and-stories/press-release/unep-interpol-report-value-environmental-crime-26>.

[4] EU Corporate Sustainability Reporting Directive: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464>. Section 414CA of the UK Companies Act 2006.

[5] Finance and Accounting [2024] No.

17 https://kjs.mof.gov.cn/zhengcefabu/202412/t20241216_3949745.html.

[6] Such as human rights abuses such as forced labour, child labour, or unsafe working conditions in factories or mines; environmental damage like deforestation, toxic waste dumping, or illegal mining during raw material extraction or early production stages; and economic exploitation, where small suppliers or local communities are underpaid or displaced.

[7] <https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/corporate-governance-code-guidance/>.

[8] <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32024R3015>.

[9] Called "GLAN Notices" after the Global Legal Action Network, the first NGO that used them.

[10] Including the US, Canada, Mexico and now the EU.

[11] Regulation (EU) 2020/852.

[12] SRA Standards and Regulations: <https://www.sra.org.uk/solicitors/guidance/professional-privilege-in-house/>.

[13] Compliance with the Corporate Sustainability Due Diligence Directive is delayed following the EU's "stop-the-clock" directive in April 2025. Member States have until July 2027 to implement, with application for the largest companies postponed to 2028. See <https://www.europarl.europa.eu/news/en/press-room/20250331IPR27557>.

[14] Lungowe v. Vedanta [2019] UKSC 20 and Okpabi v. Shell [2021] UKSC 3.

[15] See Limbu v. Dyson [2024] EWCA Civ 1564, where the Court of Appeal held that UK-based companies may potentially be held to account in England for alleged abuses in their global supply chains, even where the conduct involves third-party suppliers and occurs abroad. The claim is notable for its reliance on the UK

parent company's promulgation of mandatory policies and standards said to have influenced working conditions at the supplier's factories — a novel basis for extending Vedanta-style liability beyond subsidiaries. The case has since been appealed to the U.K. Supreme Court (UKSC 2025/0019).

[16] SFO v. ENRC [2017] 1 W.L.R. 4205.