









United Nations Guiding Principles on  
**Business and Human Rights:**  
A Six-Step Approach to  
**Supply Chain Implementation**



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# WELCOME

The Handbook is intended to be a practical guide to help you to develop and implement management systems to operationalize the UN Guiding Principles on Business and Human Rights in your supply chain.

Since being officially adopted by the UN in June 2011, the UN Guiding Principles have been welcomed by governments, the business community and civil society. They are designed to provide a coherent global framework for preventing and addressing the risks of adverse impacts on human rights linked to business activity.

Six Steps to Implementing the Guiding Principles	
1	Committing to a human rights policy
2	Assessing risks of adverse human rights impact
3	Integrating human rights in policies, procedures and responsibilities
4	Tracking human rights implementation
5	Communicating human rights impact
6	Remediating adverse human rights impact

The challenge is in the implementation. Many companies struggle with embedding the Guiding Principles into daily business practices. This Handbook focuses on how to embed the Guiding Principles into managing your supply chain.

This Handbook is applicable to companies in any industry. Our hope is that this can be of use to senior management, as well as

professionals in the human resources, corporate social responsibility, compliance and sourcing departments. If you have a strong social compliance program, you can use the Handbook to learn about the Guiding Principles and adapt your program. If you are new to the issues of creating a socially responsible supply chain, the Handbook will take you step by step to develop and implement the needed management systems.

Our goal is to assist you in taking the steps needed to improve – no matter where your company is now. To do this, we have developed a six-step process, with sample policies, procedures and implementation tools. We describe some of the common human rights risks, but, more importantly, provide possible solutions for them.

But the Handbook is not just about policies and procedures. We believe that to truly implement the Guiding Principles companies need to think and act differently. Companies need to develop and implement management systems that

integrate the respect for human rights into how they operate and ask their suppliers to operate. Companies need to move past the top-down idea of multinational companies issuing a code of conduct to their suppliers. We believe that to truly implement the Guiding Principles companies need to understand that their behavior is a contributing factor in supplier performance. We believe that existing supplier codes need to evolve into mutual buyer-supplier codes of conduct that include the responsibilities of the buyer.

We know that in the current economic climate companies are under pressure to perform, or even survive. We know that workers are being asked to do more and more. We realize that new initiatives are often met with resistance as people struggle to keep up with their day-to-day responsibilities.

However, workers are being abused around the world, every day, in violation of the many international agreements to protect people against such harm, and contrary to global social norms.



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**We** believe that to truly implement the Guiding Principles existing supplier codes need to evolve into mutual buyer-supplier codes of conduct that include the responsibilities of the buyer.

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The Guiding Principles outline a system of human rights due diligence for companies. Some managers may think this is onerous. But think back to the initial reaction to quality management systems. People complained. “Why do we need to document what we do? I don’t have time for this.” But now, for many companies, quality management systems

are completely integrated into their day-to-day operations. It has become a fundamental part of how they do things. And it is safe to say that the companies that have really taken quality management to heart have gained a competitive advantage and improved their performance. The same is true for management systems to respect human rights in the supply chain.

The Guiding Principles have made the respect for human rights a defined responsibility for any company. Our hope is that in going through the Handbook’s six steps you will see that embedding the respect for human rights brings benefits to your company and your supply chain.

Our hope is that we bring together innovative ideas, perspectives and tools that will accelerate your journey of continual improvement; a journey that will benefit your company and every link of the global supply chain – from the consumers to the workers.

## Acknowledgements

This Handbook and Toolkit was developed and written by Edwin Koster, Jane Hwang and Craig Moss of Social Accountability International (SAI). Key additional contributors were Alice Tepper Marlin, Eileen Kaufman, Doug DeRuisseau, Caroline Lewis, Salah Hussein and Matt Langan of SAI.

This Handbook was written with the guidance and feedback of Christine Bader, Non-resident Senior Fellow, The Kenan Institute for Ethics at Duke University. She served as Advisor to the United Nations Secretary-General's Special Representative for business and human rights, John Ruggie.

Graphic design was provided by Pam Henry.

We thank ICCO for the financial support which enabled the development of this Handbook. Additionally, Saskia van Drunen, Elise Kant, Mieke Zagt and Piet Posthuma provided expert input on the human rights risks related to conflict areas, gender equity, right to land and rights of indigenous peoples described in Chapter 11. In particular, we thank Marian van Weert of ICCO for her overall dedication to this project.

This Handbook and Toolkit takes the Guiding Principles and translates them into six practical steps. Information relating to the explanation, interpretation and implementation of the Guiding Principles is derived from the "Guiding Principles, An Interpretative Guide on the Responsibility to Respect Human Rights" developed by the Office of the United Nations High Commissioner for Human Rights, and draws upon SAI's 15 years of experience working on supply chain management and human rights around the world, as well as SAI's network of experts in human and labor rights. The Handbook and Toolkit also draws on good practices contributed by SAI Corporate Members and SAI multi-stakeholder project partners. Other resources include "How to do Business with Respect for Human Rights: A Guidance Tool for Companies", the Hague: Global Compact Network Netherlands.

## About Social Accountability International (SAI)

SAI is a multi-stakeholder, non-profit organization dedicated to improving workplaces and communities by developing and implementing social responsibility standards and assisting brands, retailers and suppliers in meeting labor and human rights objectives. Focused on the human elements of the workplace and the supply chain, SAI developed the world's preeminent social standard – SA8000®, which is firmly grounded in ILO and UN conventions. Almost 1,800,000 workers around the world work in SA8000 certified facilities.

SAI convenes stakeholders – companies, non-governmental organizations (NGOs), trade unions and governments – to conduct research, training and technical assistance programs focused on developing the management systems required to adequately address social compliance issues in a sustainable manner.

SAI works with corporations to use management systems for the continual improvement of social compliance in their companies and in their supply chains. SAI's global training programs, including Social Fingerprint®, have trained thousands of people in labor standards performance, including corporate managers, factory managers, workers, auditors, investors and government officials. Website: <http://www.sa-intl.org>.

## About Interchurch Organization for Development Cooperation (ICCO)

ICCO is the Dutch Interchurch Organization for International Cooperation. ICCO's mission is to work towards a world in which people live in dignity and prosperity, a world where poverty and injustice are no longer present. It gives financial support and advice to local organizations and networks across the globe that are committed to connect poor people to value chains and empower excluded groups in societies. Rather than supporting individual projects, ICCO believes in changing systems through a programmatic approach. ICCO works in 41 countries in Africa, Asia and Latin America in partnerships with civil society organizations, including development organizations, cooperatives, churches and businesses. Website: <http://www.icco.nl/en>.

### Quick Reference for Using this Handbook



This Handbook contains tools for your use, including forms, templates, checklists, and other useful documents to help you develop and implement the systems we describe. If you see a Toolkit icon, it means there is a relevant document in at the end of that chapter. The Toolkit is not intended to provide you with everything you need, but will give you a lot of what you need to get started quickly.

We suggest that you adapt each tool for your organization. Look for the "Tips". These give you pointers and shortcuts. Call-out boxes highlight a key part of the text.





Introduction to the  
United Nations Guiding Principles on  
**Business and Human Rights:**  
Implementing the  
**Protect, Respect & Remedy** Framework

## Introduction and Background

This document is based on the United Nations “Protect, Respect and Remedy” Framework for Business and Human Rights (hereafter referred to as **the Framework**) and the Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework (hereafter referred to as **the Guiding Principles**).

The Framework rests on three pillars

The State Duty to  
**Protect**  
against human rights abuses committed by third parties, including business, through appropriate policies, regulation and adjudication.

—  
**PROTECT**

The Corporate Responsibility to  
**Respect**  
human rights means acting with due diligence to avoid infringing on the rights of others, and addressing harms that do occur.

=  
**RESPECT**

Access to Effective  
**Remedy**  
Even where institutions operate optimally, adverse human rights impacts may still result from a company’s activities and victims must be able to seek redress.

≡  
**REMEDY**



The development of the Framework and Guiding Principles was led by the United Nations Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises (hereafter known as the Special Representative on business and human rights).

The Framework and Guiding Principles are in part a response to the escalating tension between the growth of the scale, reach, and impacts of transnational business transactions, and the resulting adverse impacts on human rights. The risks of human rights violations by businesses became more visible in the 1990s as oil, gas and mining companies expanded in sensitive areas, and as the footwear and garment industry came under scrutiny for poor working conditions. These tensions have been difficult to address, since international governance is weak, guidelines or regulations on transnational behavior of companies are rare, and national regulation can be lacking or – more commonly – poorly enforced.

Due to the heightened awareness of these situations by consumers, investors, NGOs and other stakeholders (enabled by improvements in global technology and communications), and due to the myriad risks that these situations posed to business in terms of operational, reputational, legal, and other issues, responses began to emerge. Businesses started to work on their own codes of conduct, individually or with others in their industry. Civil society and nongovernmental organizations (NGOs) developed their own guidance and advocacy positions on business, and on occasion opted to collaborate with business through multi-stakeholder initiatives to protect workers' and communities' rights. Examples of these initiatives include the Ethical Trading Initiative (ETI), the Fair Wear Foundation (FWF) and Social Accountability International (SAI). Other initiatives followed in their footsteps, as various stakeholders undertook work in awareness raising, social auditing, training, capacity building and social reporting.

Many of these initiatives resulted in positive changes. However, there remained little clarity and consistency on the definition of and distinction between the respective responsibilities of states and businesses, which perpetuated the lack of a level playing field for business.

The Special Representative described this situation as 'the lack of an authoritative focal point around which the expectations and actions of relevant stakeholders could converge,' and aimed to provide that focal point with first the Framework in 2008, followed by the Guiding Principles in 2011. Both were developed through extensive global consultation and research.

The Framework consists of three pillars, aimed at distinguishing and clarifying the respective roles of States and business.

- I. The first is the State duty to protect against human rights abuses by third parties, including business enterprises, through appropriate policies, regulation, and adjudication.
- II. The second is the corporate responsibility to respect human rights, which means that business enterprises should act with due diligence to avoid infringing on the rights of others and to address adverse impacts with which they are involved.
- III. The third is the need for greater access by victims to effective remedy, both judicial and non-judicial.

## “The Guiding Principles’ normative

contribution lies not in the creation of new international law obligations but in elaborating the implications of existing standards and practices for States and businesses; integrating them within a single, logically coherent and comprehensive template; and identifying where the current regime falls short and how it should be improved.”

Guiding Principles on Business and Human Rights

human rights institutions and investors. Support for the Framework was further emphasized by the alignment of other influential initiatives that adopted key principles of the Special Representative’s work into their own standards. These include the revised OECD Guidelines for Multinational Enterprises, the ISO 26000 standard and the Performance Standards of the International Finance Cooperation (IFC). The Guiding Principles have also been recognized by the European Union as one of the key internationally recognized principles and guidelines representing an evolving and recently strengthened global framework for CSR.

The Guiding Principles elaborate and operationalize the Framework, also structured by those three pillars.

Both the Framework and the Guiding Principles were supported by all major stakeholders, including unanimous acceptance by the UN Human Rights Council, as well as individual endorsements by governments, business enterprises and associations, civil society and workers’ organizations, national



Even unanimous endorsement by the Human Rights Council does not mean that the Guiding Principles are so-called “hard law.” As explained in the Special Representative’s final report to the Human Rights Council:

“The Guiding Principles’ normative contribution lies not in the creation of new international law obligations but in elaborating the implications of existing standards and practices for States and businesses; integrating them within a single, logically coherent and comprehensive template; and identifying where the current regime falls short and how it should be improved.”

The Framework and Guiding Principles therefore do not contain new international law obligations. They provide high level guidance on how to operationalize the responsibilities or expectations of State and business on protecting and respecting human rights.

Uptake of the Guiding Principles has already been widespread: some governments are incorporating them into policies; investors and NGOs are using them in their advocacy work with companies; and businesses themselves are applying them because they have practical utility. Because of the variety of sanctions that these stakeholders could impose on companies, companies would be wise to treat the Guiding Principles as a matter of compliance and as a requirement of responsible international business.

The Framework and Guiding Principles provide crucial clarity on the distinction between the roles and responsibilities of States and companies, and are an important milestone in addressing governance gaps with the aim of preventing and addressing the adverse impacts that business can have on human rights.

## Foundational and Operational Principles

The previous section introduced the Framework and Guiding Principles. The focus of this Handbook is on Pillar II, which is most directly applicable to business. This Handbook does not cover Pillar I or Pillar III, but we encourage you to familiarize yourself with them by reviewing the UN documents listed here.

### UN Documents

**UN "Protect, Respect and Remedy" Framework for Business and Human Rights**

**The Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework**

**The Corporate Responsibility to Respect Human Rights: An Interpretative Guide**

It is important for companies to be aware of the implications of the Framework for States (Pillar I). The three Pillars of the Framework are interrelated. The operating principles for States listed in Pillar I will clearly have ramifications for business - for instance when performing commercial transactions with other States, when business is state-owned, or due to requirements set by States on corporations. In addition, the principles of Access to Effective Remedy (Pillar III) are relevant to business as they seek to appropriately remedy any negative human rights impacts.

This Handbook focuses on the application of Pillar II to your supply chain. We provide a method for you to take the Operational Principles from Pillar II and make them part of how you do business with your suppliers.

However, it is important for you to apply the same principles to your own operations.

For additional information on how to integrate the Guiding Principles into your company's internal operations, we recommend the following publication: Business & Human Rights Initiative (2010), "How to Do Business with Respect for Human Rights: A Guidance Tool for Companies," The Hague: Global Compact Network Netherlands.



### DEFINITIONS

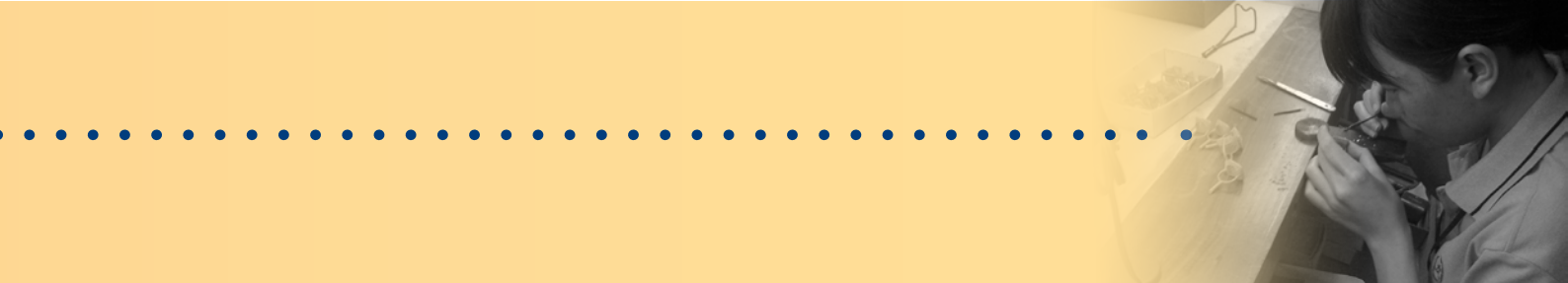
#### Foundational Principles

These outline the key fundamental concepts

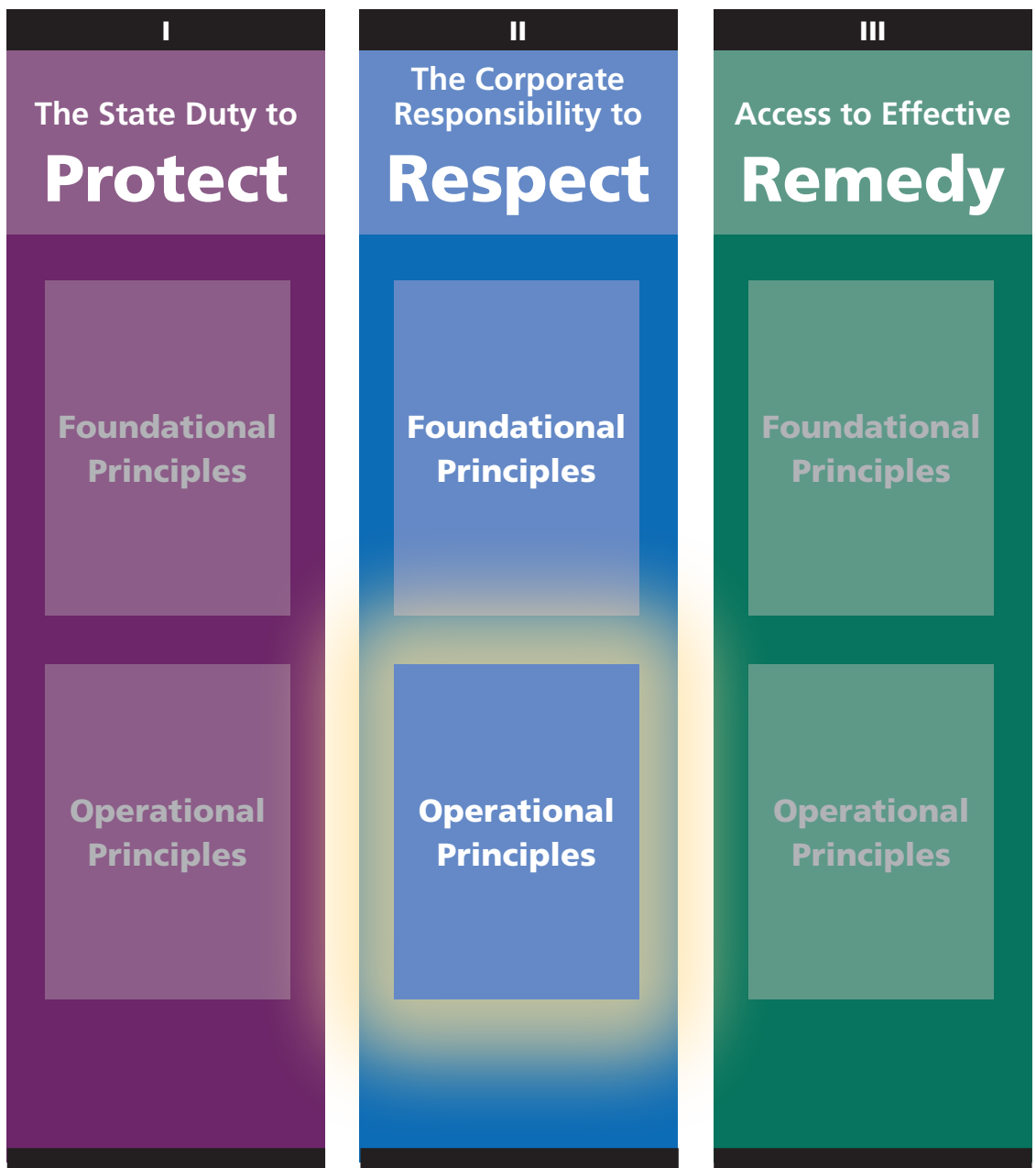
#### Operational Principles

These provide practical guidance to turn the concepts into actions





The focus of this Handbook is on the Operational Principles of Pillar II, applied to your supply chain.



We have designed this Handbook as a practical tool to put the Guiding Principles into daily practice. Here are some of the questions that the Handbook will help you to answer about implementing the respect for human rights in your supply chain.



**What human rights do I have to consider** when I address my supply chain? Are some more important than others?

To what extent can I be held responsible for **human rights violations happening at my suppliers?**

I do know my 1st tier suppliers but I do not know my 2nd and 3rd tier suppliers. **Does my responsibility to respect human rights include suppliers beyond 1st tier?**

What can I do? **I have hardly any influence or leverage with my suppliers.**

**What tools are available** to make this work?

I already manage my supply chain via our company’s CSR program. **Do we meet the Guiding Principles already?**







# Building the Business Case

## The Growing Importance Of Respecting Human Rights

Although companies need to look at respecting human rights from a fundamental rights perspective, you will also need to convince people in your company and at your suppliers that it makes sense from a business perspective. What we do in this chapter is to give you some background and information that will help you to make the business case.

Consumers, investors and other stakeholders are becoming more aware of a company's level of respect for human rights. Recent surveys show that a large and growing number of people in all areas of business and civil society are influenced in their decisions by a company's social, labor and environmental performance.

Further, there is growing evidence that there is a link between a company's social, labor and environmental performance and its profitability.

Over the past decade, companies with supply chains in emerging markets saw that they could be negatively associated with the labor and environmental problems of their suppliers. They dealt with these human rights issues from a risk-mitigation perspective. They wanted to avoid the pain and damage of an incident. They imposed human rights requirements on suppliers, and suppliers complied out of fear that business would be withdrawn. Most of this compliance was through the use of "the stick" (punishment). Most companies and their suppliers viewed human rights compliance as a cost and a burden, not as an investment or part of their core values or integral to the value of their brand.

### **This is starting to change.**

We have started to see a shift towards the use of "the carrot" (reward) for all types of companies to improve their human rights performance. As companies integrate the respect for human rights into their identities, and as consumers, investors and civil society increasingly factor human rights expectations into their decisions, companies can see opportunities to generate more revenue through improved human rights standards performance. More companies are starting to use a high-level of human rights performance as part of their brand identity. This is accelerating the trend away from risk mitigation to competitive advantage.



The UN's adoption of the Guiding Principles gives another strong boost to the trend and takes it even further. It is now very clear for all stakeholders that a company is required to respect human rights no matter where it operates or sources from, even in the absence of law or law enforcement. Thus, the expectations of stakeholders will only rise and lead to a social norm for companies. Avoiding negative human rights impact will be perceived as 'common sense' or 'the right thing to do'. Respecting human rights will be equated with important business principles like trust and integrity. Not meeting this social norm will increasingly disappoint stakeholders and potentially lead to the loss of a company's 'social license' to operate. Though this might not have legal sanctions, the implications for a company may be just as difficult, as consumers and investors punish poor corporate behavior.

The next decade will thus see more mainstream companies proactively use corporate social responsibility as a core element of their values and as a competitive advantage in the marketplace.

We will see companies viewing human rights standards performance as an investment. It will be an investment that generates a measurable return, through preventing damage to a company's reputation, promoting decent work, maintaining favorable access to capital, improving productivity and sales, maintaining a good reputation, or securing a more stable supply chain.



## Reputational Risk

Reputational risk is broadly defined as exposure to the risk of events that undermine public trust in your company, project or product/service. More formally, the United States Federal Reserve has issued the following definition: “Reputation risk is the potential loss that negative publicity regarding an institution’s business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions (financial loss).”

In part, the increased awareness of reputational risk over the last decade is due to many companies being devastated by damage to their reputation. The accident in April 2010 on the BP oil rig in the Gulf of Mexico is a well-known recent example. It led to lost lives, enormous environmental damage and significant economic damage to the involved communities. In 2010 alone, BP spent US\$17.7 billion to respond to the accident. The reputational damage has cost the company another US\$12.5 billion in decreased market capitalization.

### 4 TYPES OF RISK

Companies and investors are becoming more aware of the critical importance a company’s reputation has on its performance. Many investment managers now measure and track four types of risk as part of their investment strategy:



In the same way, a company’s reputation can be harmed by its suppliers. There are numerous examples of multi-national companies receiving negative press and public scrutiny based on labor or environmental problems in their supply chain. This has happened repeatedly in several industries including apparel, footwear, electronics, jewelry and food.

According to the 2011 Edelman Trust Barometer, 85% of respondents in a global survey said that they buy products or services of

a trusted company, and 73% refuse to buy from companies they distrust. Clearly human rights standards implementation in your company and your supply chain are a critical part of managing your reputational risk. Using management systems to integrate the protection of human rights into your company’s operations will significantly reduce the risk.



It takes twenty years to build a reputation and five minutes to destroy it.... If you lose dollars for the firm, I will be understanding. If you lose reputation, I will be ruthless."

Warren Buffet Chairman of Berkshire Hathaway

Just as there are clear dangers to having a bad reputation, there are clear benefits to having a good reputation. According to the Reputation Institute's 2011 Global RepTrak100: "The better the reputation of a firm, the more support it earns from consumers, the better the company's operating performance, and the more money investors are willing to pay for their shares."



### Ways to Re-earn Public Trust After a Crisis

92%	Believe that safeguarding customers and employees is effective
90%	Believe that transparent and frequent communication from the CEO about repair efforts is effective
52%	Believe that justifying what caused the crisis is effective
47%	Believe that keeping information private to minimize damage to the company is effective

2011 Edelman Trust Barometer - global survey in 23 countries

## Importance to Investors

Social and environmental issues are an important, stated condition of investment or lending for an increasing number of financial institutions. The World Bank's International Finance Corporation (IFC) uses a set of Performance Standards to assess its investees. There are eight Performance Standards covering issues related to environment, labor, community and human rights – all linked by a management system requirement. The IFC Performance Standards are also used by export credit agencies around the world as a guideline for evaluating the performance of corporate borrowers. A growing number of the world's largest private banks have adopted the Equator Principles as a benchmark to manage social and environmental issues in project finance.

The UN Guiding Principles have been incorporated into the recent revisions of the IFC Performance Standards and the OECD Guidelines for Multi-National Enterprises. This will likely happen with other standards and guidelines as well. Respect for human rights will increasingly penetrate mainstream finance decisions. As financial institutions incorporate these standards and guidelines into their lending and investment criteria, they will screen clients on their human rights performance before providing them with capital or on an ongoing basis as a lender or investor. Access to capital at the most favorable terms will depend on the risk factors associated with a company's human rights performance and the sustainability impact of the related project.





<b>80%</b>	See the existence of high performing CSR programs as a proxy for how effectively a business is managed
<b>76%</b>	Say that sustainability performance contributes to long-term shareholder value
<b>60%</b>	Consider sustainability important to overall corporate strategy, beyond reputational risk

associated with a company's human rights performance and the sustainability impact of the related project.

The investment community is increasingly aware that corporations must consider environmental, social and governance issues as key elements of any long-term growth strategy. This belief has spawned the field of socially responsible investing. Originally a boutique sector, socially responsible investing and lending now comprise business units within many major multi-national banks and investment firms. According to the Forum for Sus-

McKinsey Quarterly (Mar. 2010) survey of 1,946 executives & McKinsey Quarterly (Feb. 2009) survey of 238 CFOs and finance executives





tainable and Responsible Investment, there is an estimated \$3.07 trillion in these socially responsible funds in the U.S. alone (2010).

Of equal importance, the ideas of sustainability and reputational risk are starting to work their way into more investment analysis.



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... companies and investors that integrate sustainability into their business practices are finding that it enhances profitability over the longer term. Experience and research show that embracing sustainable capitalism yields four kinds of important benefits for companies:

- Developing sustainable products and services can increase a company's profits, enhance its brand, and improve its competitive positioning, as the market increasingly rewards this behavior.
- Sustainable capitalism can also help companies save money by reducing waste and increasing energy efficiency in the supply chain, and by improving human-capital practices so that retention rates rise and the costs of training new employees decline.
- Third, focusing on ESG metrics allows companies to achieve higher compliance standards and better manage risk since they have a more holistic understanding of the material issues affecting their business.
- Researchers (including Rob Bauer and Daniel Hann of Maastricht University, and Beiting Cheng, Ioannis Ioannou and George Serafeim of Harvard) have found that sustainable businesses realize financial benefits such as lower cost of debt and lower capital constraints."

– **A Manifesto for Sustainable Capitalism by**

AL GORE, former Vice President of the United States and

DAVID BLOOD, former head of Goldman Sachs Asset Management

---

Lending and investment decisions are based on assessing the risk, and it is clear that a company faces performance risks based on its social responsibility performance. The risks to a corporation's performance are both short-term and long-term. Labor strikes, media exposés, product recalls and serious accidents are all examples of events that can have an immediate negative impact on a company's sales, ability to charge a brand premium price, and its related value to shareholders.

There are also long-term risks that can be mitigated through improved corporate social responsibility performance. Better worker-manager relations reduce worker turn-over. Integrated human rights standards performance and productivity systems reduce defect rates. The sustainable sourcing management of raw materials helps ensure supply and stabilize prices. Intelligent product design minimizes waste in production and packaging.

The investment research community is developing new measurements for the environmental, social, and governance factors that affect the company and how management is adjusting their strategy to account for the related risk factors. These new measurements are starting to get incorporated into traditional mainstream financial research. Results from traditional finance companies are encouraging. In a multi-industry review, Goldman Sachs found that companies that have environmental, social and governance (ESG) policies in place outperformed the general stock market by 25% from August 2005 - December 2007. In June 2007, Goldman Sachs created the GS Sustain Focus List of companies integrating ESG policies. Between 2007 and the end of 2011, this list out-performed a broad global benchmark index, the MSCI ACWI, by 39%. Similar findings were announced by PGGM, a leading Dutch pension administrator. The 3 billion euro PGGM invested in sustainable companies outperformed the market by 17% over the period 2007-2010.

Companies consistently participating in the Corporate Responsibility Index had decreased share volatility and outperformed the FTSE 350 by 3.3% - 7.7% per year on total shareholder return from 2002 – 2007, according to an article “Now is the Time” published by Business in the Community. Even after the financial crisis, the companies continued to outperform their FTSE 350 peers on Total Shareholder Return (TSR) in seven of eight years between 2002 to 2009.

A study by researchers at Harvard Business School and London Business School concludes that companies that have voluntarily embraced a sustainable business culture over many years significantly outperform their counterparts over the long-term, as measured by value on the stock market (+47%), return on equity (+23%) and return on assets (+61%). To come to these findings, the researchers followed a group of ‘high sustainability’ companies and a group of ‘low sustainability’ companies for 18 years through the end of 2010.

All of the above findings and the increased interest of stakeholders point to further growth for socially responsible investing in the near future.





### Rabobank Brazil; Integration of social and environmental risks in lending decisions.

Banco Rabobank International Brasil S.A. (“Rabobank Brazil”), part of the global Rabobank Group, integrates clients’ performance on social and environmental standards into lending decisions. The system for lending based on social and environmental risk originated in 2004, when the bank developed a portfolio of financial services specifically for farmers. This was a risky product at the time, considering the known and significant gaps between Brazil’s strong labor and environmental laws and compliance in the agribusiness sector. Around the same time, a major public campaign highlighted violations of labor and environment laws by agribusinesses operating in Brazil. In this context, Rabobank felt compelled to address the social and environmental risks of agribusiness in its financial activities. After an extensive stakeholder consultation process, in 2006 Rabobank

Brazil officially implemented its CSR risk management system. Today, Rabobank Brazil’s CSR policy aims to ensure consistency between operations and the bank’s values of respect, integrity, professionalism and sustainability while minimizing credit and reputational risks.

It identifies the minimum standards that clients must meet, audits facilities, establishes “Exclusion Criteria”, and provides good practice recommendations. The Exclusion Criteria include non-compliance with ILO Fundamental Rights at Work and non-compliance with standards on human rights, conservation, indigenous peoples’ rights, agrochemicals, land tenure, deforestation, corruption and protection of the Amazon Biome. The bank’s Qualification Criteria and Best Practices include certifications like SA8000, Rainforest Alliance, Utz, ISO 14001 and Global G.A.P.

Case study conducted by Social Accountability International under a grant from the MFA Forum

## Bottom-line Business Benefits

### Enhancing Business Performance

The message is getting the attention of CEOs and business executives. A recent survey by McKinsey & Company released at the UN Global Compact Leaders Summit found that 90% of surveyed CEOs stated that they were doing more now on environmental, social, labor and governance issues than five years ago. The CEOs increasingly view their business' performance as linked to environmental and human rights standards. These CEOs project that consumers will soon become the most influential stakeholder in shaping corporate policy.

"Corporate responsibility has begun to move from a defensive to an offensive position," said Jack Katz, managing partner of Grant Thornton's Financial Services industry practice. "It is not simply about complying with government regulations. It's about reducing costs, marketing products and services, raising capital, and winning talent."

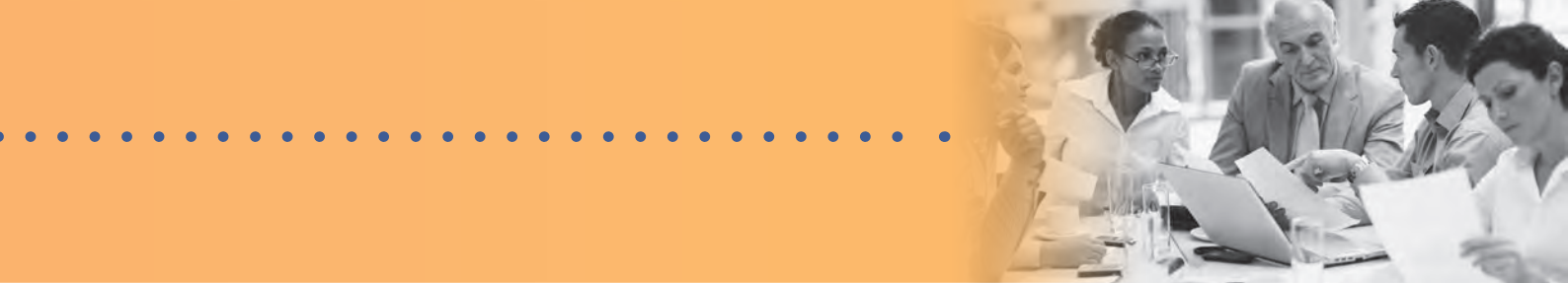
In another recent survey, Grant Thornton International reported that company executives believe that corporate responsibility programs can positively impact their business and help achieve strategic goals. Of the more than 500 business executives surveyed, 75% believed that corporate responsibility could enhance profitability. As a result, 77% said they expected corporate responsibility initiatives to have a major impact on their business strategies over the next several years.

Seems like the shift from thinking of CSR as a cost to an investment has started.

Real-world results have proven the CEOs to be right about enhancing profitability. The results are eye-opening.

In the UK, companies that implemented socially responsible employee management systems experienced a return on capital double the national average and pre-tax profit margin that is 50% higher, according to "The Business Case for CSR" published by MHC International Ltd.

A 2009 A.T. Kearney study found that in the face of the economic crisis, in 16 of 18 industries, companies committed to sustainability outperformed industry averages, including profitability by 15%, as compared to peers who maintained or cut back sustainability initiatives.



### What are the main business benefits to your organization of having a defined corporate-responsibility policy?



Having a better brand reputation	52%
Making decisions that are better for our business long term	41%
Being more attractive to potential and existing workers	38%
Meeting ethical standards required by consumers	35%
Having better relations with regulators and lawmakers	28%
Our revenue is higher than it would be otherwise	7%

A survey by the Economist Intelligence Unit released in January 2008

## Productivity Benefits

There seems to be a widely-held perception that when a company improves its human rights performance, the cost of its operations, products or services goes up. We hear this from a lot of companies. We hear this from senior management. We hear this from finance departments. We hear this from procurement and sourcing departments.

You may think, if I pay the workers 15% more and labor is 30% of the direct cost of my operations, the cost of my product/service must go up. But what if you're a manufacturer and the product defect rate goes down from 10% to 2%? What if you're a bank and your customer service representatives can handle 25% more calls per hour? What if you're a farm and the average output per worker hour goes up from 6 crates to 7 crates because workers are not constantly exhausted? What if your factory worker retention improves from 60% per year to 80% per year and you spend less money on recruitment and training?

These are direct cost savings. They may or may not fully offset the entire cost of paying the workers more money. But they clearly help to offset it. In some cases, they may actually reduce the cost of delivering the product or service.

When quality management systems were first introduced to business, there was resistance. At the time, people said it was a waste of time and money. But now in a wide range of industries, quality management systems have been completely integrated into day-to-day operations. The management systems that are now

considered essential to managing quality can also incorporate social, labor and environmental standards performance. The table on the right gives examples of how improved human rights standards performance leads to effective human resource management and direct business benefits.

### Business-to-Business Marketing Benefits

Clearly, improved human rights standards performance is an asset in business-to-business marketing. Multi-national companies have developed supplier codes of conduct. Many companies conduct a pre-audit before they start buying from a new supplier. Many supplier contracts now require adherence to a code of conduct and supplier audits. They use human rights standards performance as a criterion in selecting some as “strategic suppliers,” while eliminating others. Some companies are setting annual targets for improving the aggregated human rights standards performance of their supply base. Some retailers require a minimum human rights performance level for companies to even be able to participate in electronic auctions. Although e-auctions are typically used to get the lowest price, the human rights threshold rewards companies for improving their human rights performance.

In 2009, the IBM Institute for Business Value surveyed 224 worldwide business leaders and found that 60% believe corporate social responsibility increased in importance over the past year (a year with tremendous economic downturns). Only 6% considered it a lower priority.

So it is safe to conclude that improving your human rights standards performance is a valuable part of becoming a supplier to multi-national companies. Of course, strong human rights standards performance by itself won't get the purchase order, but it helps. It helps now, and it will help more in the future.

The next decade will see a business-driven, upward spiral of human rights standards performance in companies throughout the value chain.

There are also some examples of successful business-to-business sustainability labels. The Forest Stewardship Council (FSC) has certification programs that include chain of custody requirements. The thrust of the marketing for their FSC certified label has been towards major corporations to change their internal purchasing to use FSC certified paper products. This business-to-business approach has been successful, as many paper mills, paper converters and printers now offer FSC certified papers. Corporations such as Coca-Cola and Disney use FSC certified paper in some of their corporate publications.



“The next decade will see an upward spiral of human rights standards performance in companies that is business-driven.”

The Cotton Made-in-Africa program helps African farmers produce cotton in a more sustainable, socially-responsible and profitable way. The program promotes the use of the Cotton Made-in-Africa brand

among apparel companies, increasing market access for the farmers in the program. The program has been successful in attracting over 30 companies to use Cotton Made-in-Africa in their products and to feature the label in their marketing communications.

## Business-to-Consumer Marketing Benefits

Some companies have already discovered the opportunity to meet consumers' increasing interest in sustainable products and services. It has become part of their brand image and a competitive advantage in the consumer marketplace.

Yet, strangely enough, other companies still question the willingness of consumers to buy more sustainable products and services. This is strange because there is a constant stream of surveys detailing the increased stated preference of consumers for sustainable products and, in some cases, their willingness to pay more for greener or more sustainable products. An important note is that this trend is not just applicable to the western world. The annually published Greendex3 by National Geographic and Globescan lists Brazil for the third consecutive year as the country with the largest number of sustainability-focused consumers, followed by

Benefits from Improved Labor Standards Performance Documented Examples	
<b>Cambodia</b> ILO Better Factories Project	Product Rejection rate reduced by 44% on average
<b>China</b> Chai Da/Ying Xie	Annual worker turnover decreased from 78 to 32% in three years
<b>Turkey</b> Yesim	37% Decrease in lost time from accidents and sickness
<b>Turkey</b> Topkapi	Receives 2.5% larger discount on insurance premiums for casualty and goods in transit
<b>India</b> Esstee	Worker Turnover reduced from 75% to 35%

India and China. Between 2008 and 2010, sustainable consumer behavior grew in all 17 surveyed countries, with the steepest growth in India, Russia and the United

States. Interestingly the survey shows that the biggest obstacle for consumers to buy even more sustainable products is the use of false claims by companies and not increased costs as often thought by companies.

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Surveys indicate that a majority of consumers would prefer to buy products made in workplaces with fair labor standards rather than alternatives and would be willing to pay a higher price for such products. There is no clear evidence, however, that many people would actually behave in this fashion when shopping. We provide new evidence on consumer behavior from experiments conducted on eBay. We find that labels with information about certified fair labor standards in factories making polo shirts had a substantial positive effect on bidding. On average, shoppers paid a 45% premium for ethically labeled versus unlabeled shirts.

– **Consumer Demand for Fair Labor Standards: Evidence from a Field Experiment on eBay, 2011** by

Michael J. Hiscox, Claire S. Litwin, Andrea Woloski – Harvard University

Michael Broukhim – Stanford University

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Examples of sustainable products embraced by consumers include Toyota and its Prius, low- temperature detergents, LED lighting (which will account for around half of the 80 billion euro general-illumination market in 2015), and Fair Trade products (+24% growth in the U.S. in 2009 and +40% growth in the U.K. in 2010). Organic food and beverages in the U.S. have grown from \$1 billion in 1990 to \$26.7 billion in 2010. The global organic market is now worth \$55 billion.

Besides being global, so far the business case for sustainable consumer products and services seems to be recession proof. While most economies slowed down or even shrank since the bank or credit crisis which started in 2007, market shares of sustainable products have continued to grow.





## Business-to-State Marketing Benefits

A new phenomenon that has just started to emerge, and will certainly grow over time, is government procurement that incorporates CSR. Triggered by the Guiding Principles' expectations of States for commercial transactions, governments have started to re-shape their public procurement policies. The EU started to define a new public procurement policy for its member states. In countries like the Netherlands the government has already integrated social and environmental criteria in the procurement policies of central and local government agencies, including the recognition of SA8000 as proof of meeting their procurement standards. The Dutch public budget amounts to 50 billion euro annually. More countries are expected to follow. In the near future, companies willing to do business or maintain business with governments will therefore be stimulated or compelled to adopt practices that respect human rights.

## Securing Supplies of Strategic Inputs

Although it is currently most prominent in the agriculture industry, supply chain security is an issue that all companies will increasingly face in the future.

A few years ago, a new debate surfaced in agriculture - the 'Food, Feed, Fuel, Fiber and Forest' debate. This debate centers on how these '5 Fs' compete for the available farmland in the world. Here's an example to illustrate the point. In the past, corn was used to produce food for people and feed for cattle. Today, as a result of the long-term declining availability and increased cost of fossil fuels, corn is still used for feed and food but also used to produce fuel (ethanol), fiber (PLA) and bioplastics. So the demand for available corn has increased, raising prices. This also creates market pressure for farmers to switch crops and grow corn. Combine this idea with a growing global population and growing consumption of this increased population, and it becomes clear why competition among food, feed, fuel fiber and forest will substantially grow in the coming decades.

Specifically, the debate has spurred new discussions, such as the sustainability of ethanol. Is it sustainable to use corn for fuel purposes if it threatens food security in certain regions and if it drives up prices of corn-derived food products? Besides these important ideological questions, businesses also started to worry about their

future supply of agricultural inputs: Will there be enough quality cocoa, coffee or cotton available in ten or twenty years to be able to produce chocolate, espresso or T-shirts? Will farmers continue to grow the agricultural products needed by companies or will they choose other more profitable crops? If they continue to grow the crops, will there be enough water available for irrigation? What will happen to the availability and prices of inputs? Will there be enough farmers to grow my crops or will they choose better-paid jobs in the city?


How does this relate to Protect, Respect & Remedy? As a result of these questions, companies are increasingly investing in the social, environmental and economic well-being of farmers and their communities. They do this for reasons earlier mentioned in this chapter but also to secure an affordable, long-term supply of strategic inputs. For many years, there has been very little investment in agriculture around the world – especially in emerging markets. Investing in farmers is now gradually perceived as essential, to optimize the use of farmland and scarce inputs and to raise yields per hectare in order to make sure there is enough food, feed, fuel, fiber and forest to meet the world's growing demand.

An example of large-scale investment in agriculture is the partnership between PepsiCo and China's Ministry of Agriculture to promote sustainable farming. Announced in September 2011, the partnership will focus on building and operating demonstration farms that leverage the most advanced irrigation, fertilization and crop management techniques and the promotion of best practices across China's farming system. It is hoped that the partnership will lead to improved yields, increased income levels and higher living standards for the farmers involved.

Tim Minges, Chairman of PepsiCo's Greater China Region, said: "PepsiCo takes great pride in creating tailored approaches to business investment that achieve both commercial and social objectives. Our success in promoting sustainable agriculture programs in China and around the world is a great example of our ability to drive PepsiCo's performance while also improving the communities in which we do business. Our experience and expertise in modern farming enables PepsiCo to get more 'crop per drop'."

Similar programs are set up by Nestlé. They invest in agriculture in order to have a reliable supply of high-quality raw materials and bring sustained growth for local economies. In August 2010 Nestlé launched the Nescafé Plan, an investment of 350 million Swiss Francs in coffee plantations around the world. This will help coffee farmers to rejuvenate their plantations, increase their production levels and improve their income.





Chiquita's supply chain sustainability strategy incorporates a high level of labor and environmental performance. Over the last decade, they have focused on achieving SA8000 for high labor standards and Rainforest Alliance for high environmental standards at Chiquita owned farmed and key suppliers. This provides them with a more stable supply base that is more sustainable in the long run.

Investments of companies like PepsiCo, Nestlé and Chiquita show that investing in sustainable agriculture and realizing long term profits can go hand in hand. They can contribute to economic, social and environmental well-being of farmers, and can contribute to long term food security and responsible use of inputs, while bringing benefits to companies via secured qualitative, affordable and stable supply of strategic inputs. Of course, investments in agriculture can also have disadvantages. They certainly raise complex challenges in terms of local participation, social equity, access to natural resources, maintaining biodiversity, land acquisition and registration and the rights of smallholders and indigenous people. In order to make balanced decisions, stakeholders therefore increasingly cooperate via multi-stakeholder initiatives such as Fair Trade or Utz Certified coffee, cocoa, tea, the Better Cotton Initiative, Cotton made in Africa, the Roundtable on Responsible Soy, the Better Sugar Cane Initiative and the Rainforest Alliance. These are examples of collaboration between governments, businesses and NGOs working together to find mainstream solutions for some of the ideological challenges posed but also to optimize social, environmental and economic conditions in their sectors in order to make sure the sector will sustain over a longer period of time.

## Do You Agree?

We think that respect for human rights and making profits can be increasingly aligned. We think that more and more companies will understand that respect for human rights is an important pre-condition to stay profitable. After reading this chapter, we hope that you understand why key stakeholders from the business community and key stakeholders representing NGOs, unions and worker organizations support the Guiding Principles. They make sense for both worlds. They make sense from an ethical perspective, as respecting human rights is certainly the right thing to do. They also make sense from a business perspective, as not meeting the 'social norm' will disappoint stakeholders and hurt a company's reputation, access to capital and access to strategic inputs. It will also deprive the company of productivity benefits and the preference of consumers, companies and states who all increasingly favor responsibly-produced products and services.

### The Next Steps

Growing awareness of human rights standards performance issues is an important first step. However, there is still a significant gap between awareness, policy and performance. Remember the McKinsey survey we noted above - 75% of the surveyed CEOs believed that corporate responsibility could enhance profitability and 77% expected corporate responsibility initiatives to have a major impact on their business strategies over the next several years. However, the survey also found that only 27% of the companies have a policy that addresses social, labor and environmental performance in their supply chains, despite the fact the 59% of the CEOs said that they should. The next chapters in this Handbook will help you take the steps from awareness to implementation.



# Equating the UN Principles to CSR Standards

## Corporate Responsibility Codes, Standards and Guidelines

The expansion of global trade and investment has meant growth for companies, new opportunities for workers, and a growing range of high-quality, affordable products for consumers. But globalization also brings new risks. Responsible companies risk unknowingly doing business with firms that violate the rights of workers, damage the environment and undermine national labour laws. The global media web means that today's remote factory scandal can instantly become tomorrow's worldwide headline. The bigger your brand, the more likely your company will be a target.

The journey in this generation towards improvement in working conditions really began as a risk mitigation strategy by the famous brands and retailers. It started as a means of protecting brand reputation in response to activist and media attention on poor labour conditions in emerging market factories. US and European consumer-goods companies started to really take a look at what was happening in factories, farms and mines making their products. In many cases, it was ugly. Clearly, they did not want to tarnish their brand image by being associated with images of gross human rights violations. So to reduce the risk to their image, the companies that were under attack or identified a risk of being a campaign target, established and published corporate codes of conduct.

At this point, an estimated 9,500 global companies have a corporate code of conduct. Corporate codes vary widely in their rigor and credibility. In fact, companies that are suppliers to the large buyers are frustrated with the number of corporate codes they have to deal with, and their differing requirements. A big exporter can have dozens of corporate code audits per year – a wasteful duplication of resources. The resources could be better spent on making improvements on the factory floor that will benefit the workers and the operation of the facility.

Partially in response to the proliferation of corporate codes, industry codes emerged to seek to minimize duplication. Big buyers in a given industry agreed on a labour standards performance code and audit suppliers against this common code. Examples are the International Council of Toy Industries (ICTI) CARE program, the Electronic Industry Code of Conduct (EICC), Worldwide Responsible Apparel Production (WRAP) and the Responsible Jewellery Council (RJC). Despite these steps, one factory in India reported having 98 corporate and industry code compliance visits in one year. A factory group in Bangladesh had 120 audits at their 20 factories in one year. Many factories undergo dozens of audits a year.



## A step in the right direction?

There are a few key problems. First, in some cases, the industry code audit is not replacing the corporate code audit; it is actually being done in addition to the audits being done by the individual companies. So instead of reducing audits, it is increasing the number of audits. Second, from a retailer's perspective the growth of industry codes can actually be seen as a step backwards. Look at a mass merchandiser that sells apparel, toys, sporting goods, electronics and food. The corporate code was easy for them. It was theirs and they gave it to all of their suppliers to follow. Now they may have to deal with five producer-based industry codes.

Another issue to consider is that industry codes sometimes overlook the areas of labour standards performance that are most difficult for the particular industry to meet. For example, an industry code may be more lenient on overtime hours at peak production seasons.

Now there is a lot of talk in the corporate responsibility field about the convergence of codes, or reduction in audit duplication, principally led by the large retailers. Initiatives include the Business Social Compliance Initiative (BSCI) and the Global Social Compliance Program (GSCP). Part of their stated goal is to reduce the duplication of audits and focus resources on helping suppliers to improve their labour standards performance.

In addition to the evolution of corporate and industry codes of conduct, there is a parallel track promoting the use of standards. What's the difference between a code and a standard? Basically, a code is generated by the entity itself, whether it is a company, in the case of corporate codes, or an association, in the case of industry codes. A standard is issued by an independent party. There are published requirements that standard-setting agencies should follow in developing the standard, such as the ISEAL Alliance's Code of Good Practice for Social and Environmental Standards. Examples of organizations following ISEAL's requirements include the Forest Stewardship Council, Social Accountability International, and the Rainforest Alliance.

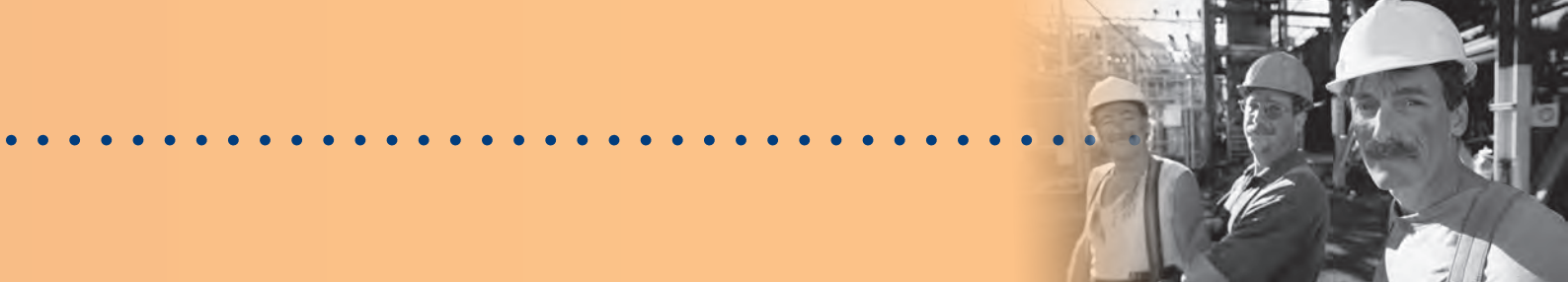
### **So what are the results of all these activities and how do the UN Guiding Principles on Business and Human Rights add value?**

Clearly, the rapid growth of labor codes and standards over the past decade has led to an enormous increase in awareness of human rights problems in a company and its supply chain. And the higher awareness of the problems has led to a wide range of activities designed to reduce the risk associated with human rights problems for the multi-national buyers and, at best, to try to minimize the problems at the suppliers.

The results of these activities have been mixed. There have been unintended consequences. Consumers and other stakeholders are confused by the proliferation of claims, seals and logos linked to codes and standards. Seals and claims differ and overlap, while some are more credible than others. Another unintended consequence has been confusion among the suppliers on how to meet the numerous corporate and industry codes. There is the old story about the factory with four sets of brackets on the wall for their fire-extinguishers, each at a different height. When an auditor comes, the factory manager moves the fire extinguisher to the brackets meeting the height required by that specific corporate code.

For the multi-nationals there has been an attempt to balance minimizing the risk to their own company with efforts to truly drive positive change in their suppliers. This is complicated by a few important factors. The multi-national is only one of many buyers purchasing goods from the supplier. This raises many challenging issues. What leverage do they have over the supplier if they buy less than 5% of the supplier's total output? Why should they allocate limited resources to try to improve this supplier while other buyers get a 'free-ride'? Where does their responsibility as a company end and the role of the local government begin in trying to address specific labor violations in a supplier? To an extent, wider acceptance and more effective implementation of existing standards and codes has been hindered by the lack of clarity on the line between the responsibilities of the state and the corporation. In part because of these issues, some companies hesitated to accept responsibilities, and refrained from action. Other companies clearly and publicly accepted the responsibilities and took action.





This is where the Guiding Principles come into play. The Guiding Principles delineate and elaborate the respective roles and responsibilities of States and companies. They were developed through extensive consultation with a diverse set of stakeholders around the world, and as such are the most authoritative and consensus-driven standard to date. They are already being integrated into other codes and standards, and as such provide a source of convergence and alignment. Using the same principles, scope and terminology should reduce confusion among all stakeholders and increase the effectiveness of existing codes and standards.

The Guidelines also further the alignment of codes and standards by creating more universal guidelines for scope and terminology. Although the Framework and Guidelines do not provide for an ‘off-the-shelf’ approach for every company, they do provide high-level guidelines that companies and initiatives can integrate in their existing programs. Using the same guiding principles, scope and terminology should reduce confusion among stakeholders, including suppliers, and increase the effectiveness of existing codes and standards. Some standard-holders and initiatives have already aligned their principles and procedures with the Framework and Guidelines, others will probably follow soon.

Below we review some of the most frequently used or influential standards and guidelines and describe the extent to which they are aligned with the Guiding Principles: the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the Global Reporting Initiative Sustainability Reporting Framework, ISO26000, the Performance Standards of the International Finance Corporation and the SA8000 Standard of Social Accountability International. The matrix below provides a brief background on the organizations and shows the alignment of the introduced standards and guidelines with the Guiding Principles.

Since the Guiding Principles are high level guidelines, companies may choose to use these standards and guidelines as part of their Guiding Principles implementation strategies in their companies and supply chains.

The above standards and guidelines are just a few of the many available. Some ini-

tiatives may believe that they need not align with the Guiding Principles. They may focus on issues other than human and labor rights, such as environment or corruption, or those human rights most at stake in a certain industry. While it does make practical sense to focus and prioritize, businesses can impact the entire spectrum of human rights, and there is a danger of overlooking some adverse impacts.

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As the commentary to Guiding Principle 12 explains:

Because business enterprises can have an impact on virtually the entire spectrum of internationally recognized human rights, their responsibility to respect applies to all such rights. In practice, some human rights may be at greater risk than others in particular industries or contexts, and therefore will be the focus of heightened attention. However, situations may change, so all human rights should be the subject of periodic review.

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Standard initiatives and companies with their own code are therefore advised to carefully evaluate their standards and implementation procedures in light of the Guiding Principles.





# United Nations Global Compact

## General Description

With over 8700 corporate participants and other stakeholders from over 130 countries, the UN Global Compact is the largest voluntary corporate responsibility initiative in the world, as measured by number of members. The UN Global Compact Board is appointed and chaired by the United Nations Secretary-General and is designed as a multi-stakeholder body. Companies sign on to the UN Global Compact's Ten Principles, which set expectations for responsible business.

## Scope of standard/guidelines

The UN Global Compact's Ten Principles have a broader scope than the Guiding Principles, addressing environment and anti-corruption in addition to human and labor rights.

## Character of the standard/guidelines

The UN Global Compact is a strategic policy initiative for business. It is voluntary and not legally binding. The UN Global Compact promotes principles for good corporate citizenship, but it is not a performance or assessment tool. As a membership requirement, companies must publish 'Communication on Progress' reports, which describe the ways they are supporting and implementing the UN Global Compact and its Ten Principles.

## Explicit reference to Respect for Human Rights\*

The UN Global Compact explicitly refers to respect for human rights in Principles 1 and 2. Additional references to human and labor rights are made in Principles 3, 4, 5 and 6.

\* as defined in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

## Explicit reference to the operational principles for business: \*

A July 2011 UN memo entitled "The UN Guiding Principles on Business and Human Rights: Relationship to UN Global Compact Commitments" explains that the Guiding Principles provide further operational clarity and reinforce the Global Compact's human rights principles.

\*Policy Commitment, Human Rights Due Diligence and Remediation.

## Links to resources

Further information on the UN Global Compact can be found via <http://www.unglobalcompact.org/>. Information on the relation between the Guiding Principles and the Global Compact can be found via The UN Guiding Principles on Business and Human Rights: Relationship to UN Global Compact Commitments, July 2011.

# OECD Guidelines for Multinational Enterprises

### General Description

The Organisation for Economic Cooperation and Development (OECD) works with governments to understand what drives economic, social and environmental change. The OECD is composed of 34 countries, including the United States, Canada, EU member states, Japan, Korea, Turkey, Mexico and Chile. The OECD Guidelines for Multinational Enterprises are recommendations for responsible business conduct, addressed by governments to multinational enterprises operating in or from adhering countries.

### Scope of standard/guidelines

The OECD Guidelines for Multinational Enterprises have a broader scope than the Guiding Principles. They set expectations for multinational companies of member states in the areas of disclosure, human rights, employment and industrial relations, environment, bribery and corruption, consumer interests, science and technology, competition and taxation.

### Character of the standard/guidelines

The OECD Guidelines provide voluntary principles for responsible business conduct. Though not legally binding for business, signatory governments commit to encouraging companies operating in their territory to observe the Guidelines. In order to implement and enforce such principles, governments are required to establish National Contact Points, which have the mandate to handle complaints over alleged violations of the OECD Guidelines.

### Explicit reference to Respect for Human Rights\*

The revised OECD Guidelines published in May 2011 contain a new section on human rights which explicitly refers to the respect for human rights and describes such rights as those defined in the International Bill of Human Rights and the core ILO Principles.

\*defined in the International Bill of Human Rights and the principles concerning fundamental rights set out in the ILO's Declaration on Fundamental Principles and Rights at Work.

### Explicit reference to the operational principles for business\*

The OECD Guidelines explicitly advise business to establish a policy commitment, execute human rights due diligence and remediate adverse human rights impacts.

\*Policy Commitment, Human Rights Due Diligence and Remediation.

### Links to resources

Further information on the OECD and the revised Guidelines for Multinational Enterprises can be found at <http://www.oecd.org/> and <http://www.oecd.org/dataoecd/43/29/48004323.pdf>



# Global Reporting Initiative Sustainability Reporting Framework

## General Description

The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic, environmental and social sustainability through public disclosure. GRI's Sustainability Reporting Framework provides guidance for companies to report on their sustainability practices and performance, and is widely used around the world. The Framework consists of the G3 Sustainability Reporting Guidelines, Sector Supplements, National Annexes, and the Boundary and Technical Protocols.

## Scope of standard/guidelines

The GRI Framework has a broader scope than the Guiding Principles, addressing economic environmental, and social dimensions. The social dimension contains labor, human rights, society and product responsibility indicators.

## Character of the standard/guidelines

The GRI Framework provides voluntary and non-binding principles for reporting of environmental, economic and social data. It does not set specific performance targets and is not a performance certification. It can be used in conjunction with other codes, standards or guidelines. GRI has strategic partnerships with organizations as the OECD, the UN Global Compact, ISO26000 and the International Finance Corporation.

## Explicit reference to Respect for Human Rights\*

The GRI 3.1 Framework from March 2011 contains expanded guidance on how to report on human rights. It explicitly refers to the duty of business to respect human rights and also refers to the International Bill of Human Rights and the core ILO Principles.

\*as defined in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

## Explicit reference to the operational principles for business\*

The GRI 3.1 framework advises companies to report their Policy Commitment, Human Rights Due Diligence and Remediation activities.

\*Policy Commitment, Human Rights Due Diligence and Remediation.

## Links to resources

Further information on the GRI and the revised new 3.1 Reporting Framework, please check: <https://www.globalreporting.org/Pages/default.aspx> and <https://www.globalreporting.org/reporting/latest-guidelines/g3-1-guidelines/Pages/default.aspx>

## ISO 26000

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**General Description**

The International Organization for Standardization (ISO) is a non-governmental organization that consists of a network of national standards institutes of 163 countries. ISO is the world's largest developer and publisher of international standards. ISO 26000 is ISO's voluntary guidance for organizations on social responsibility.

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**Scope of standard/guidelines**

The ISO 26000 standard (non-certification) has a broader scope than the Guiding Principles, addressing 7 core subjects: organizational governance, human rights, labor practices, environment, fair operating practices, consumer issues and community involvement and development.

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**Character of the standard/guidelines**

ISO 26000 provides voluntary and non-binding principles and guidance. In contrast to other ISO standards, it contains no performance requirements and is not meant for certification. Although it is not for certification, some national certification standards based on ISO 26000 are in development.

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**Explicit reference to Respect for Human Rights\***

The ISO 26000 refers to the respect for human rights and labor rights as part of its 7 core subjects.

\*as defined in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

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**Explicit reference to the operational principles for business\***

ISO 26000 gives some guidance on implementation. This can be aligned to the operational principles in the Guidelines, most explicitly to human rights due diligence.

\*Policy Commitment, Human Rights Due Diligence and Remediation.

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**Links to resources**

For further information on ISO 26000 and its relation to the Guiding Principles, please check: [http://www.iso.org/iso/social\\_responsibility](http://www.iso.org/iso/social_responsibility)

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# The Performance Standards of the International Finance Corporation

## General Description

The International Finance Corporation (IFC), a member of the World Bank Group, is the largest multilateral source of loan and equity financing for private sector projects in the developing world. IFC loans and investments are expected to make a financial return but must also lead to a reduction in poverty. IFC's Sustainability Framework articulates IFC's strategic commitment to sustainable development. The Framework consists of the Policy on Environmental and Social Sustainability, the 8 Performance Standards, and the Access to Information Policy. The Performance Standards define clients' responsibilities for managing their environmental and social risks.

## Scope of standard/guidelines

The 8 IFC Performance Standards cover a broader scope than the UN Guiding Principles, addressing: Assessment and management of social and environmental risks and impacts, Labor and working conditions, Resource efficiency and pollution prevention, Community health, Safety and security, Land acquisition and involuntary resettlement, Biodiversity conservation and sustainable management of living natural resources, Indigenous peoples and Cultural heritage.

## Character of the standard/guidelines

The May 2012 edition of the IFC Performance Standards applies to all investment and advisory clients whose projects go through IFC's initial credit review process after January 1, 2012. The Performance Standards define clients' roles and responsibilities for managing their projects and the requirements to qualify for receiving and retaining IFC support. The standards also include requirements to disclose information

## Explicit reference to Respect for Human Rights\*

The IFC Performance Standards explicitly refer to the duty of business to respect human rights and also to the International Bill of Human Rights and the core ILO Principles.

\*as defined in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

## Explicit reference to the operational principles for business\*

The content and required steps in the IFC Performance Standards are very similar to the respective operational principles in the Guiding Principles, though the terminology is different.

\*Policy Commitment, Human Rights Due Diligence and Remediation.

## Links to resources

For further information on IFC, the Performance Standards and their relation to the Guiding Principles, please refer to: <http://www1.ifc.org> and <http://www.ifc.org/ifcext/sustainability.nsf>

# The SA8000 Standard of Social Accountability International

### General Description

Social Accountability International (SAI) is a non-profit multi-stakeholder organization whose mission is to advance the human rights of workers around the world. SAI convenes stakeholders – workers, companies, non-governmental organizations (NGOs), trade unions and governments – for proactive dialogue on labor conditions and strategies to jointly address challenges. It is a leader in training and capacity building programs for the implementation of labor rights. SAI facilitated the multi-stakeholder development of the SA8000 Standard, a voluntary certification standard for workplaces.

### Scope of standard/ guidelines

The scope of the SA8000 Standard is comparable to the UN Guiding Principles but focuses on those rights most endangered in workplaces. It has set requirements in nine areas: child labor; forced and compulsory labor; health and safety; freedom of association and right to collective bargaining; discrimination; disciplinary practices; working hours; remuneration; and management systems.

### Character of the standard/ guidelines

The SA8000 Standard is voluntary and not legally binding. It is an auditable certification standard requiring regular oversight and measured improvement. Organizations certified to SA8000 have adopted policies and procedures which ensure protection of the basic human rights of workers and therefore meet the set requirements of the standard.

### Explicit reference to Respect for Human Rights\*

The normative elements of the SA8000 standard make explicit reference to the International Bill of Human Rights, the core ILO Principles, and a general reference to the respect for human rights in the workplace.

\*defined in the International Bill of Human Rights and in the principles concerning fundamental rights established by the ILO's Declaration on Fundamental Principles and Rights at Work.

### Explicit reference to the operational principles for business\*

SA8000 covers all operational principles described in the Guiding Principles, mostly in the management systems section. The terminology is different but implementation of SA8000 and the Guiding Principles would be very similar.

\*Policy Commitment, Human Rights Due Diligence and Remediation.

### Links to resources

For further information on SAI and the SA8000 Standard, please visit: <http://www.sa-intl.org>.

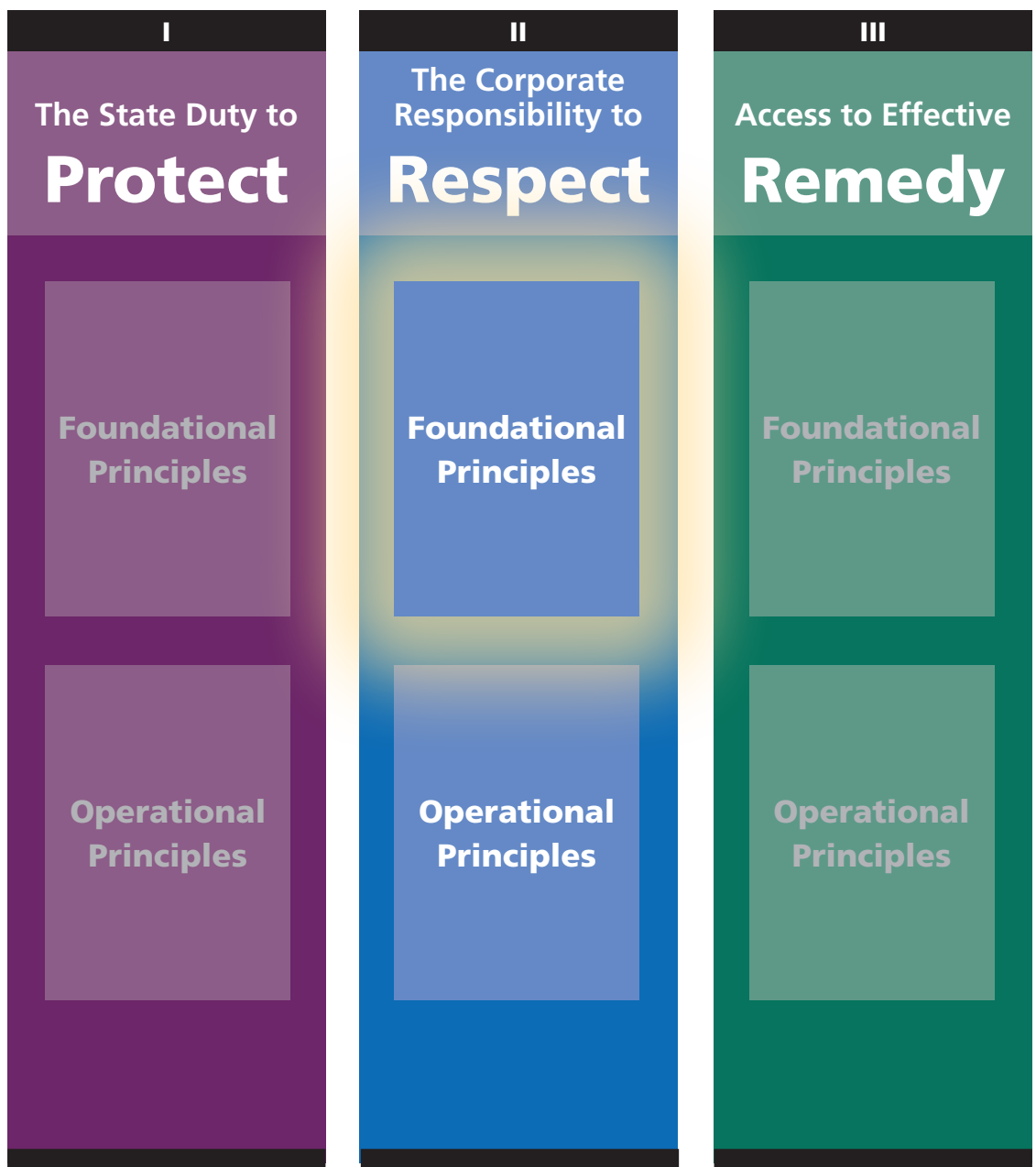




# Responsible Supply Chain Management: 6 Steps toward Respecting Human Rights



The goal of this handbook is to help you to develop and implement systems so that you can operationalize Pillar II of the Guiding Principles (The Corporate Responsibility to Respect Human Rights) in your supply chain. Here's the text of the Foundational Principles from Pillar II. You should also refer to the Commentary for each of these in the Guiding Principles.



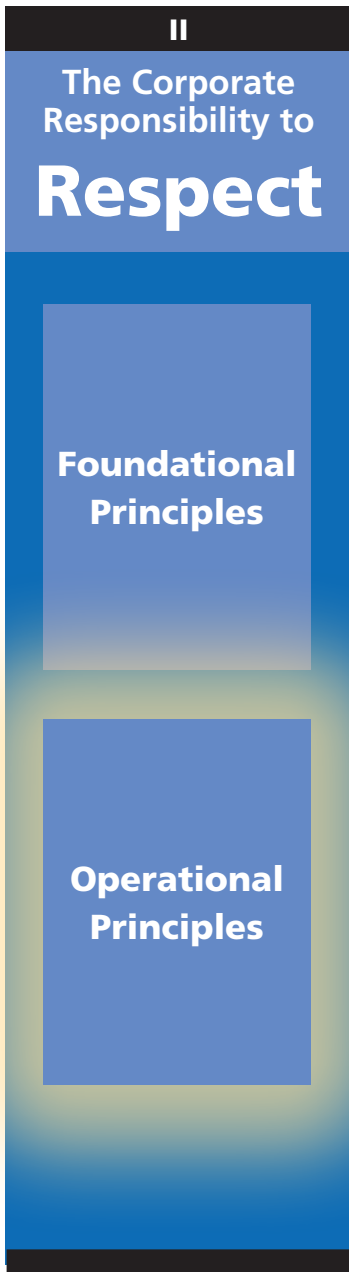


## Pillar II

# The Corporate Responsibility to Respect Human Rights

## A. Foundational Principles

11. Business enterprises should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.
12. The responsibility of business enterprises to respect human rights refers to internationally recognized human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.
13. The responsibility to respect human rights requires that business enterprises:
  - a. Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur;
  - b. Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.
14. The responsibility of business enterprises to respect human rights applies to all enterprises regardless of their size, sector, operational context, ownership and structure. Nevertheless, the scale and complexity of the means through which enterprises meet that responsibility may vary according to these factors and with the severity of the enterprise’s adverse human rights impacts.
15. In order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances, including:
  - a. A policy commitment to meet their responsibility to respect human rights;
  - b. A human rights due-diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights;
  - c. Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.



To make implementation as easy as possible, we have grouped the Operational Principles into six practical steps towards a supply chain management program that respects human rights. In this chapter we provide you with the text of each Operational Principle, highlights from the Commentary in the Guiding Principles and our additional thoughts. Then we introduce you to the six steps we developed. In the following chapters, we will take you through each step in detail and provide you with tools and sample forms to get started.

This handbook provides practical guidance based on the Guiding Principles, including the Commentary, and “The Corporate Responsibility to Respect Human Rights: An Interpretive Guide” by the Office of the United Nations High Commissioner for Human Rights. It draws upon SAI’s 15 years of experience working on supply chain management and human rights around the world, as well as SAI’s network of experts in human and labor rights.



## Six Steps to Implementing the Guiding Principles

- 1** Committing to a human rights policy
- 2** Assessing risks of adverse human rights impact
- 3** Integrating human rights in policies, procedures and responsibilities
- 4** Tracking human rights implementation
- 5** Communicating human rights impact
- 6** Remediating adverse human rights impact

These six steps form a cycle. In the following chapters we provide details on how to develop and implement systems throughout the cycle.



# A Focus on Supply Chain Management

The Guiding Principles have answered the often-asked question as to whether businesses are responsible for respecting human rights in their supply chain -- with a resounding "yes."

Guiding Principle 13 under the Corporate Responsibility to Respect Pillar states:

The responsibility to respect human rights requires that business enterprises:

- (a) Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur;
- (b) Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

The commentary elaborates:

"Business enterprises may be involved with adverse human rights impacts either through their own activities or as a result of their business relationships with other parties... For the purpose of these Guiding Principles a business enterprise's "activities" are understood to include both actions and omissions; and its "business relationships" are understood to include relationships with business partners, entities in its value chain, and any other non-State or State entity directly linked to its business operations, products or services."

It is clear that the Guiding Principles require companies to undertake human rights due diligence for their suppliers, but this is rarely a simple task. The Guiding Principles do not provide a ready-to-use manual or a "one size fits all" approach, rather acknowledging that a supply chain management system will differ according to company size and sector.

The complexity of this challenge, and the need to translate the Guiding Principles into practical and sustainable supply chain management guidance, is the reason that this Handbook has been created.

This Handbook will suggest how to operationalize the Guiding Principles and build internal systems to better manage your supply chain. In this Handbook "supply chain" refers to a broad spectrum of entities including all tiers of suppliers from



vendors or Tier 1 suppliers, through subcontractors and intermediaries, all the way to raw material suppliers. We also use 'supply chain' to include internal suppliers or subsidiaries, distributors and licensees who distribute and produce products with permission of a brand company.

The audience of this Handbook therefore includes companies at all levels of the supply chain. In particular, this Handbook is written for companies whose supply chains reach into countries, areas or industries that have a higher risk of human rights problems. But it is also applicable for the suppliers and other companies that are part of those supply chains.

In addition, the Handbook is a useful tool for financial institutions in conducting their human rights due diligence before entering into lending, investment or other financial agreements with their client companies.

## Step 1: Committing

### Committing to a Human Rights Policy

#### Operational Principles 16 and 23 from the Guiding Principles

16. As the basis for committing their responsibility to respect human rights, business enterprises should express their commitment to meet this responsibility through a statement of policy that:

- a. Is approved at the most senior level of the business enterprise;
- b. Is informed by relevant internal and/or external expertise;
- c. Stipulates the enterprise's human rights expectations of personnel, business partners and other parties directly linked to its operations, products or services;
- d. Is publicly available and communicated internally and externally to all personnel, business partners and other relevant parties;
- e. Is reflected in operational policies and procedures necessary to embed it throughout the business enterprise.

23. In all contexts, business enterprises should:

- a. Comply with all applicable laws and respect internationally recognized human rights, wherever they operate;
- b. Seek ways to honour the principles of internationally recognized human rights when faced with conflicting requirements;
- c. Treat the risk of causing or contributing to gross human rights abuses as a legal compliance issue wherever they operate;





## Notes on the Principles and the Commentary

- A statement of policy is a crucial first step to make respect for human rights a part of your company's values. It defines the principles and expected conduct for all aspects of your business. It articulates the human rights risks that are likely to be most salient due to the context, country, region or industry in which your company operates. It also articulates your company's commitment to prevent, avoid, mitigate or remediate those risks.
- As part of your policy you should seek to state your intent to comply with all applicable laws wherever you operate.
- Your policy should uphold the spirit of the principles so that when faced with decisions between conflicting requirements (such as between law and internationally recognized standard), you choose whatever is more favorable to the rights holders.
- Involvement of your senior management is important in several ways. It creates support and adds weight and credibility to the statement both internally and externally. It also allows for the consideration of human rights when key management decisions are taken. Senior management also drives the cultural change needed to respect human rights.
- The statement of policy should be embedded throughout your company. It needs to be more than a paper commitment. It should be treated with the same importance in your company as legal compliance issues. All personnel need to be aware of your commitment and perceive it as a core value of the company. They understand its implications and how they are expected to conduct their work.
- The statement of policy should be publicly available and actively communicated internally and externally, to all stakeholders including investors, suppliers and civil society. Through this process, you let people know what they can expect of your company. You also let your suppliers, business partners and other stakeholders know what you expect of them.
- Your policy statement provides the basis for dialogue and creates leverage to drive respect for human rights in your business relationships. It facilitates the inclusion of human rights provisions in contracts with suppliers and partners. This can provide the basis for auditing or monitoring performance and for factoring the results into decisions on future business relationships. Without a policy statement, human rights might easily become negotiable and side-lined in business relationships, thus hindering your company's ability to effectively address human rights throughout your supply chain.

## Step 2: Assessing

### Assessing Risks of Human Rights Impact

#### Operational Principles 17, 18 and 24 from the Guiding Principles

17. In order to identify, prevent, mitigate and account for how they address their adverse human rights impacts, business enterprises should carry out human rights due diligence. The process should include assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed. Human rights due diligence:

- a. Should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships;
- b. Will vary in complexity with the size of the business enterprise, the risk of severe human rights impacts, and the nature and context of its operations;
- c. Should be ongoing, recognizing that the human rights risks may change over time as the business enterprise's operations and operating context evolve.

18. In order to gauge human rights risks, business enterprises should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships. This process should:

- a. Draw on internal and/or independent external human rights expertise;
- b. Involve meaningful consultation with potentially affected groups and other relevant stakeholders, as appropriate to the size of the business enterprise and the nature and context of the operation.

24. Where it is necessary to prioritize actions to address actual and potential adverse human rights impacts, business enterprises should first seek to prevent and mitigate those that are most severe or where delayed response would make them irremediable.



## Notes on the Principles and the Commentary

- Human rights due diligence should go beyond identifying and managing material risks to the company itself, to include risks to rights-holders.
- The traditional due diligence approach of doing a cost-benefit analysis should not be applied in this context. It is not acceptable to simply calculate the costs of preventing or mitigating an adverse impact on human rights versus the costs of being involved or remedying the negative impact should it occur because it is not purely a financial decision.
- Your due diligence should be thorough, but it might not be feasible or practical to assess every single supply chain risk. Where it is necessary to prioritize, try to prevent and mitigate the potentially severe or most severe or irremediable.
- Your company should pay particular attention to the rights of individuals and groups that may be at heightened risk of becoming vulnerable or marginalized, and with due regard to the different risks that may be faced by women and men.
- Your human rights due diligence should consider all of the following: What impacts does your company cause directly through its own activities? What impacts does your company contribute to causing through its own activities? What impacts are linked to your operations, products or services by your business relationships?
- You may wonder why you should care about impacts caused by others. If you are linked to human rights abuses committed by another actor, you might be 'complicit,' which can have both legal and non-legal consequences. For example, if you are seen as benefitting from forced-labor practices in your supply chain to produce a lower-cost product than your competitors, your company's reputation can be seriously damaged, and you may face legal charges.
- Human rights due diligence can help companies to avoid or limit such risks. In case human rights infringements do take place that were difficult to foresee, your company's stakeholders will judge your company on the credibility and quality of its general due diligence efforts and the speed and effectiveness of its measures to solve the issue and to prevent repetition. Engaged stakeholders can defend you if they are convinced of your good-faith intent.
- Think of human rights due diligence as a dynamic process. Situations change over time, and assessments should be repeated at regular intervals with existing activities and relationships. It should also be done when entering into new ones, such as launching a new product, working with a new supplier, or making a new merger or acquisition. Continual assessment allows you to proactively address potential problems and to continually improve your human rights performance.
- Human rights due diligence can seem like a daunting task, but don't be overwhelmed. Scale your program as appropriate for the size and complexity of your value chain and your human rights risk profile. For example, a company operating in a context with limited human rights risks might allocate a part-time staff member, while a more complex company operating in a high risk context will need to allocate substantially more time and resources. But remember, small companies can have just as severe human rights impacts as large ones.
- Think of human rights due diligence as a value-added activity, an opportunity to gather information that will help to effectively shape your activities. Consultation is a required and critical part of this process. You need to consult stakeholders or rights holders in order to make sure they understand their concerns, track progress and organise effective remediation when necessary.

## Step 3: Integrating

### Integrating Human Rights in Policies, Procedures and Responsibilities

#### Operational Principle 19 from the Guiding Principles

19. In order to prevent and mitigate adverse human rights impacts, business enterprises should integrate the findings from their impact assessments across relevant internal functions and processes, and take appropriate action.

Effective integration requires that:

- a. Responsibility for addressing such impacts is assigned to the appropriate level and function within the business enterprise;
- b. Internal decision-making, budget allocations and oversight processes enable effective responses to such impacts.

Appropriate action will vary according to:

- a. Whether the business enterprise causes or contributes to an adverse impact, or whether it is involved solely because the impact is directly linked to its operations, products or services by a business relationship;
- b. The extent of its leverage in addressing the adverse impact.

#### Notes on the Principles and the Commentary

- As discussed in Step 2, your human rights due diligence should look at impacts that you cause, contribute to or are linked to. In Step 3, you need to define your actions in response to these risks.
- If your company causes or clearly may cause a human rights infringement, you should stop or change the activity to prevent the infringement from happening. If it has already happened, you need to change your activities to prevent it from happening again, or to reduce the impact if it does happen again.
- If your company contributes or may contribute to human rights infringements in suppliers, you should stop or change the contributing activity. An example of a contributing activity is a company demanding



significant last-minute changes in product specifications without adjusting the price or delivery dates, which leads to excessive working hours without proper compensation for workers and increased rates of fatigue-related accidents. Where possible, you should use your company's leverage to reduce any remaining negative impact by your suppliers to the greatest extent possible.

- In the situations described above, where your company has caused or contributed to human rights infringements, additional remediation action will be required on your part. This is addressed in Step 6 - Remediating.
- More complex is the situation when your company is not causing or contributing to a human rights violation but it is linked to a human rights violation through its business relationships. Before taking appropriate action you need to consider several factors: your leverage in the business relationship, the importance of the relationship, the human rights consequences of terminating the relationship and the severity of the adverse impacts. With respect to your supply chain, the most relevant examples might be human rights violations at your suppliers' facilities. Examples could include a supplier discriminating against women by paying them less than men for the same work or a supplier's managers or security guards verbally or physically abusing personnel.
- If you are linked to human rights problems that occur at your suppliers, first you must make sure that this is truly a case where you have not contributed in any way to the supplier's actions. If this is truly the case, then your company does not bear responsibility for the violation, since your supplier caused the negative impact. Therefore, your company does not have to provide for remediation (although you can choose to do so). However, be aware that your company does bear the responsibility to use its leverage to encourage the prevention of the infringement from recurring and regardless, your brand may be tarnished simply because it is your supply chain.
- In cases where you do not have sufficient leverage to influence your supplier, you should seek to increase your leverage. Remember, your leverage is not just determined by the size of your order, but can also be influenced by the reputation of your company and the benefits the relationship offers to your supplier, including capacity building or other incentives.
- Where your company lacks the leverage to prevent or mitigate adverse impacts, you may consider ending the supplier relationship, but you should conduct a credible assessment of any potential adverse human rights impacts of doing so. You may consider aligning with other customers to apply leverage on the supplier.
- Ending the relationship might be difficult when the relation is 'crucial' to your company because the supplier provides a product or service that is essential for you and for which no reasonable alternative source exists. You may then prolong the relationship, taking into account the legal and non-legal consequences to your company and the severity of the human rights impact. The more severe the impact, the quicker you should try to find an alternative.

## Step 4: Tracking

### Tracking Human Rights Implementation

#### Operational Principle 20 from the Guiding Principles

20. In order to verify whether adverse human rights impacts are being addressed, business enterprises should track the effectiveness of their response. Tracking should:

- a. Be based on appropriate qualitative and quantitative indicators;
- b. Draw on feedback from both internal and external sources, including affected stakeholders.





## 4 | TRACKING

### Notes on the Principles and the Commentary

- Tracking is important in order to make sure that your company's human rights policies and procedures are effectively implemented. It lets you know the bottom line – whether you have actually reduced the negative impacts in your company's supply chain.
- Tracking or measuring is also important since it provides a baseline needed to start improving practices. Remember, you can't improve what you don't measure. It is important to establish a baseline from the start before problems occur or before you start capacity building programs.
- Measuring should be based on credible indicators which can be derived from internal experience, external advice or existing standards or norms. Indicators can be both quantitative and qualitative.
- Your tracking should take a special look at the effectiveness of your program with regards to impacts on potentially vulnerable or marginalized groups.
- You can use various tools to track performance and progress. These include audits, self-assessments, surveys, grievance mechanisms and stakeholder consultation.
- In order to mitigate or cease the actions leading to negative human rights impacts, it is important to gain insight into the causes of the problem. Root-cause analysis can help your company or its business partners in adjusting practices, policies and procedures needed to obtain the change needed.
- Most audits and assessments focus on non-compliances. However, effective change needs to take a more holistic and developmental approach. You need to help to build capacity throughout your supply chain to effectively address the root cause of problems. The Implementation section of this handbook will show you how to use a management systems approach to measure and improve both in your company and your supply chain.
- As you gather credible information as a result of tracking, it will lay the foundation for your internal and external reporting - communicating.



## Step 5: Communicating

### Communicating Human Rights Impact

#### **Operational Principle 21 from the Guiding Principles**

21. In order to account for how they address their human rights impacts, business enterprises should be prepared to communicate this externally, particularly when concerns are raised by or on behalf of affected stakeholders. Business enterprises whose operations or operating contexts pose risks of severe human rights impacts should report formally on how they address them. In all instances, communications should:

- a. Be of a form and frequency that reflect an enterprise's human rights impacts and that are accessible to its intended audiences;
- b. Provide information that is sufficient to evaluate the adequacy of an enterprise's response to the particular human rights impact involved;
- c. In turn not pose risks to affected stakeholders, personnel or to legitimate requirements of commercial confidentiality.



## Notes on the Principles and the Commentary

- The Guiding Principles emphasizes the importance of “knowing and showing” your company’s respect for human rights. Through your human rights policy and due diligence, your company can demonstrate performance and progress with respect to human rights. Communicating your processes and results enables you to be accountable to stakeholders, and to receive input for continual improvement. In addition to helping you to improve your human rights policies, procedures, and impacts, your communications can protect and build reputation, set you apart from competitors, and establish goodwill and relationships with stakeholders that will be useful when negative human rights impacts occur.
- Communication can have many forms and should be tailored to the audience. It should contain enough information for stakeholders to understand the relevant risks, the ways that your company has addressed them and whether it has been effective.
- Actual or potential impacts on human rights that can affect stakeholders’ safety or welfare should be communicated directly to those at risk as quickly as possible. Your company should explain how it plans to address the impact. Public reporting may also be expected.
- Communication should be honest and transparent. Dishonest or exaggerated claims can turn against your company, while open discussion of progress, problems and dilemmas is often rewarded by stakeholders perceiving you as more credible and trustworthy.
- Verification by an independent and credible third-party should strengthen the quality of your communications and may add to your credibility with external stakeholders.
- Some kinds of information about human rights issues could pose risks to affected stakeholders or personnel, so confidentiality and sensitivity should be considered. However, assumptions about such risks should not become justification to avoid sharing information that can legitimately be made public.



## Step 6: Remediating

### Remediating Human Rights Impact

#### **Operational Principle 22 from the Guiding Principles**

22. Where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes.



## Notes on the Principles and the Commentary

- Even when your company has made every effort to implement the Guiding Principles, your company may still cause or contribute to negative human rights impacts. If your company encounters such a situation, you should actively engage in remediation.
- Remediation can take many forms: an apology, provisions to ensure the harm cannot recur, compensation (financial or other) for the harm, cessation of a particular activity or relationship, or some other form of remedy agreed by the parties. It is important to understand what those affected would view as effective remedy.
- It may be appropriate for remediation to be provided by an entity other than the company, such as a government agency or court.
- Keep in mind that effective and efficient grievance mechanisms are not passive but active systems. They should aim to identify grievances and address them as early as possible, to prevent escalation into serious abuses. Your company should ensure that individuals and communities affected by your operations have access to a grievance mechanism that is legitimate, accessible, predictable, equitable, transparent, rights-compatible, a source of continual learning, and based on engagement and dialogue.
- Your company should make sure that its grievance mechanism is operational, with designated responsibility, procedures with time-frames, and transparent reporting. It should be accessible to and trusted by all stakeholders.





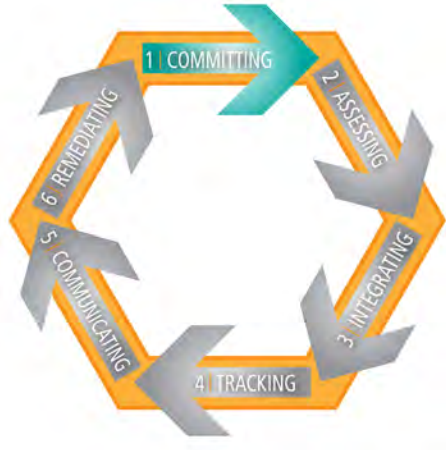
# Responsible Supply Chain Management: 6 Steps





## Step 1: **Committing** to a Human Rights Policy

- Modifying or creating a Statement of Policy
- Gaining senior management commitment
- Publicly communicating your Statement of Policy
- Identifying the “salient risks” (those most likely to affect your stakeholders)
- Developing a Buyer-Supplier Mutual Code of Conduct that is aligned with your statement or policy and salient risks



## Objective of this Step

The first step in the 6-step approach towards respecting human rights in the supply chain is committing to respect by creating, adopting and communicating a statement of policy. In this step you will learn about:

- Modifying your existing statement of policy or creating a new one that is aligned with the UN Guiding Principles
- Gaining senior management commitment
- Publicly communicating your statement of policy
- Identifying the “salient risks” (those most likely to affect your stakeholders)
- Developing a Buyer-Supplier Mutual Code of Conduct that is aligned with your statement of policy and salient risks



## As the basis

for committing to the responsibility to respect human rights, business enterprises should express their commitment to meet this responsibility through a statement of policy.”

Guiding Principles on Business and Human Rights

We’ve provided some sample forms that you can use to make it easier for you to finish Step 1: Committing and then move to Step 2: Assessing. Since the focus of this Handbook is on implementing the UN Guiding Principles in your supply chain, we’re going to focus on the part of your policy statement that talks about your relationship with your suppliers.





## → A policy commitment

### TIP

1. Demonstrates both inside and outside the enterprise that management understands respecting human rights is a minimum standard for conducting business;
2. Clearly communicates the expectation of top management as to how all personnel should act, as well as business partners and others that the enterprise works with;
3. Triggers the development of internal procedures and systems necessary to meet the commitment in practice;
4. Is the first essential step for committing to respect for human rights throughout the enterprise.

The primary objective of this step is to establish your company's commitment to respecting human rights, to both internal and external stakeholders. First, your company needs to adopt a statement of policy that is aligned with the UN Guiding Principles. Then you need to publicly announce and roll out your policy statement. Sounds pretty simple, and in some cases it can be. But in some companies it can take a lot of time and effort to bring about the internal alignment needed to make a public policy commitment. So don't get discouraged if you're at Step 1 for a while. But once you set some things in motion related to committing the Guiding Principles, you can move on to the next step of Assessing.

## What to Do



### Modifying or Creating a Statement of Policy

First, your company needs to adopt a statement of policy that is aligned with the UN Guiding Principles. Many companies already have a corporate code of conduct that serves as a policy statement. You can integrate the UN Guiding Principles into your corporate code of conduct if you have one. The policy statement is how you communicate your company's policy commitments to your management, staff, board, suppliers, contractors, customers and all other stakeholders. It defines the principles and expected conduct for all aspects of your business. It is important that you think through the creation of the policy statement and tailor it to your company. In developing your policy statement, be aware of the salient risks in your company and its business relationships. External experts can be helpful in developing a policy statement that is useful and credible. Use the toolkit item Company Policy Statement to get started. You can also refer to The Business & Human Rights Resource Centre's current list of company policy statements on human rights: <http://www.business-humanrights.org/Documents/Policies>



### Gaining Senior Management Commitment

Modifying or adopting your policy statement will require senior management support. In some companies it may require approval from the Board of Directors. A high level of senior management support is critical for all 6 steps.

Committing to human rights in your company and in your supply chain will probably require some change in the behaviour of your company, your workers, your contractors and your suppliers. Change management and organizational behaviour experts can tell you how challenging this can be. There are different strategies and different techniques for changing behaviour, but it seems that the experts agree that to create lasting change, senior management must lead the effort – or at least be publicly supportive of the effort.

The task is more complicated than simply getting senior management to publicly state their commitment to respecting human rights.



## DEFINITIONS

### SALIENT RISKS

The potential negative impacts most likely to be caused by your company. Your salient risks will depend on the your industry sector and operating context. Your primary efforts should focus on addressing the salient risks.

### RIGHTS HOLDERS

Rights Holders are those stakeholders whose human rights may be impacted by your company's operations.

Senior management support is necessary not just for adopting the policy, but also for developing and implementing a plan to roll it out. Resources will be necessary in order to communicate the policy internally and externally and train all relevant staff and suppliers. This will be the case for all six steps.

The next job is to effectively shape and communicate the message internally and externally. Some CEOs are clearly better than others at motivating their workers, investors, contractors, suppliers and stakeholders. You will probably meet resistance in your company. "Why do we need to do this?" "It is too much work. I've already got enough to do." "How does this help our bottom-line?"

You will hear all of these comments. If managers and workers sense that top management is not committed, the project will stall.

It is the responsibility of top management to lead the effort. Top management doesn't have to lead the effort on a day-to-day operational level, but they do need to send a clear message to all workers, at all levels, that this is a long-term commitment by your company. This might be something to include in your employee handbook. Use the toolkit item CEO Letter- Internal to get started.



## Publicly Making A Policy Commitment By Communicating Your Statement Of Policy

Once you've got the approved policy statement, it's time to inform external stakeholders. How you make the public statement is really up to you, but it does need to reach or be available to all of your stakeholders: employees, suppliers, NGOs, investors, trade unions, customers, community groups and anybody else.

# Committing to a Human Rights Policy

You can make the public statement through whatever means you usually use to publicly communicate your responsibilities, commitments, and expectations. Exactly how you communicate your policy statement does not matter, but it should match how your company communicates other important information. What is important is the content and the direction it provides to you and external stakeholders. Use the toolkit item CEO Letter- External to get started.



## Identifying The “Salient Risks” (Those Most Likely To Affect Your Stakeholders)

A company needs to respect all internationally recognised human rights, but addressing all human rights at the same time is probably not practical or feasible. A company is therefore allowed and advised to prioritize by identifying the most “salient human rights risks.” Nevertheless, it is important to identify your salient risks carefully and without pre-conceived ideas, and to revisit the full spectrum of human rights on a regular basis.

In order to identify your most salient risks you first need to identify the relevant rights-holders. Rights-holders can include customers, employees, suppliers, and other stakeholders. We go into this in more detail in Step 2: Assessing.

To identify salient risks in a responsible and structured way, companies should utilize external experts, conduct sector-specific research, and consult with right-holders (a process often referred to as stakeholder consultation). Identifying salient risks is an on-going process. Situations change due to operational, political, economic or social changes. The salient risks change with the changing situation. So while your company’s policy commitment may remain static for a longer period of time, your company’s human rights risks might change with some frequency. Use the toolkit item Salient Risk Criteria Examples to get started.



## Developing A Buyer-Supplier Mutual Code Of Conduct That Is Aligned With Your Statement of Policy And Salient Risks

In your supplier code of conduct you need to address the salient risks you have identified for suppliers and their rights-holders in your sector and in the countries or regions your products are produced, sold, used and disposed of. Today, many supplier codes are based on the International Labour Organization (ILO) conventions and leading international labour standards like SA8000 or the ETI Base Code. But as discussed in Chapter 1, many of these codes as well as specific company codes are being revised to incorporate the UN Guiding Principles.



### PAST VERSUS FUTURE

#### SUPPLIER CODE OF CONDUCT

Traditional top-down approach used in the last decade. Buyer dictates their expectations to the supplier.

#### BUYER-SUPPLIER MUTUAL CODE OF CONDUCT

New collaborative approach. Incorporates the buyer's purchasing practices and other responsibilities into a statement of shared responsibility.

Under the UN Guiding Principles, your company is responsible for how your actions impact the ability of your suppliers to meet their corporate responsibility to respect human rights under the UN Guiding Principles. You need to carefully evaluate how your actions or omissions may contribute to human rights abuses by your suppliers, and understand the nature of your leverage to influence suppliers to implement the UN Guiding Principles.

Look at your existing Supplier Code of Conduct to make sure it states your expectations for your suppliers to meet the UN Guiding Principles. Then go one step further and define the actions you will take to avoid

Think about expanding your Supplier Code into a Buyer-Supplier Mutual Code that states the actions you will take to avoid causing or contributing to negative impacts of the supplier. This is a major difference from today's typical Supplier Codes of Conduct, which focuses on what is expected from the supplier. Going forward, the Buyer-Supplier Mutual Code of Conduct needs to define shared responsibilities.



## Committing to a Human Rights Policy

causing or contributing to negative impacts of the supplier. These actions could include your purchasing practices, such as delivery lead-time, pricing and ordering based on known capacity.

The Buyer-Supplier Mutual Code of Conduct should state your expectations for your suppliers and the actions you will take to avoid causing or contributing to negative impacts of the supplier. This is a major difference from today's typical Supplier Codes of Conduct, which focus on what is expected from the supplier. Going forward, the Buyer-Supplier Mutual Code of Conduct needs to define shared responsibilities.





## Statement of Policy Clause

The following are the guiding principles that should be added to your Company’s written Statement of Policy with respect to human rights and your supply chain. You should adapt this according to your Company’s organizational structure and operating context. If you do not currently have a Statement of Policy for your Company, you can refer to “How to Do Business with Respect for Human Rights.” In addition to having a supply chain clause in your Statement of Policy, many companies also have a Supplier Code of Conduct that goes into much greater detail. Make sure that the Policy principles below are aligned with your Supplier Code of Conduct.

- Our Company will extend the principles of our Human Rights Policy as relevant to our suppliers, as a statement of our belief in having a shared responsibility.
- In evaluating our Company’s human rights impacts, we will consider any negative impacts we may cause or contribute to through our sourcing, compliance and other supply chain practices.
- We will notify our suppliers of our Human Rights Policy and communicate our expectations for their accountability and management.
- We will monitor our suppliers’ performance related to our Human Rights Policy and take actions to remediate and promote improvement through engagement and capacity building.
- We will be transparent with internal and external parties, particularly when concerns are raised by or on behalf of affected stakeholders.



## CEO Letter - External

The following is an example letter that your CEO can modify and send to your suppliers to communicate your Human Rights Policy.

Dear Supplier:

Our vision for Company is to become one of the most respected and admired companies in our industry. We aspire to conduct ourselves in an ethical, legal and socially responsible manner befitting a world-class company.

Corporate social responsibility, which spans environmental, human rights, labor and social issues, is a growing concern to investors, consumers and to all of us as people. Our Company Code of Conduct is the document that conveys our most deeply held principles. A key component of our Code of Conduct is the Supplier Code of Conduct that we expect you to follow. We are initiating the integration of our social policies into all of our day-to-day business activities. We believe that corporate social responsibility must be a foundation of our long-term growth and profitability together.

While Company recognizes that there are different legal and cultural environments in which our suppliers operate, our Code of Conduct sets forth the basic requirements that all suppliers must meet in order to do business with Company. We hope that you will recognize the value of the Code of Conduct to bettering human rights and working conditions at your factory and bettering your business overall. We will provide technical assistance, training and other development initiatives to help you implement the management systems to make continual improvements at your facility. We welcome your input and feedback every step of the way.

We are making a long-term commitment to continually improving social compliance in our supply chain. Internally, we are striving to make human rights a routine part of our purchasing process and supplier evaluation. We are initiating programs to make sure you get a consistent message from our buyers and our CSR staff. One area of particular importance is the use of sub-contractors and we will provide you more details on this separately.

I thank you for your efforts in partnering with us to strive for continual improvement and for your continued dedication to our mutual success.



## CEO Letter - Internal

The following is an example letter that your CEO can modify and send to your employees to communicate your Human Rights Policy.

To All Employees of Company:

Our vision for Company is to become one of the most respected and admired companies in our industry. We aspire to conduct ourselves in an ethical, legal and socially responsible manner befitting a world-class company.

Corporate social responsibility, which spans environmental, human rights, labor and social issues, is a growing concern to investors, consumers and to all of us as people. Our Company Code of Conduct is the document that conveys our most deeply held principles. We are initiating the integration of our social policies into all of our day-to-day business activities. I ask for your full cooperation in this important initiative. We believe that corporate social responsibility must be a foundation of our long-term growth and profitability.

Not only is it an integral part of our overall business strategy, but it is also the right thing to do. It is the right thing for our customers, our suppliers, our shareholders, our host governments, our communities and for you, as an integral part of this company.

As our employees, you are part of our core strategy and operations. Your commitment to the Company Code of Conduct must go beyond all others'. As we strive to make it a success, we will make it as widely available as possible, in multiple languages and with continual updates. We will also conduct workshops to help you to understand how to incorporate our policies into your daily work, so that this becomes our Company's standard way of conducting business.

**[Person's name and title]** is in charge of this effort. Each of you has a direct line of communication with **[person]** for any suggestions or concerns.

I thank you for your efforts in making this Code of Conduct a reality and for your continued dedication to our success.



# Buyer-Supplier Mutual Code of Conduct

Use the following to create or expand your Supplier Code of Conduct to become a Buyer-Supplier Mutual Code of Conduct.

In addition to having a supply chain clause in their Statement of Policy, many companies also have a Supplier Code of Conduct that goes into much greater detail. If you have a Supplier Code of Conduct make sure that it addresses all of the relevant human rights issues for your supply chain and has a management system requirement. Take a look at the chapter titled, “Understanding Human Rights Risks,” for more detail.

We suggest that you benchmark your Supplier Code of Conduct against those published by companies considered to be leaders in corporate social responsibility, as well as codes and standards published by international human rights and labor organizations, and industry groups. These are available on companies’ and organizations’ websites. Sources for a current list of leading companies, include <http://business-ethics.com> and <http://www.thecro.com>. We suggest looking at leading companies in your country and global companies from your industry. As you look at these, focus on the human rights, labor and/or working conditions sections that apply to their workers, contractors and suppliers.

You cannot simply copy a template for such a wide-ranging strategic document. However a good start is to use the elements from a rigorous existing Supplier Code of Conduct. As you look through existing supplier codes, you will see that the vast majority focus exclusively on the requirements to be imposed on suppliers. This is the traditional ‘top-down’ approach used in the last decade. The buyer dictates their expectations to the supplier.

We believe that the time has come for a new collaborative approach - one that incorporates the buyer’s purchasing practices and other responsibilities into a statement of shared responsibility.

Your job is to turn your Supplier Code of Conduct into a Buyer-Supplier Mutual Code of Conduct. This is great opportunity for you to engage your Human Rights Performance Team, others in your company and key suppliers.

Your Buyer-Supplier Mutual Code of Conduct will have three major sections. Below are examples of good practices to include. Of course, you will probably need to adapt them to the size and complexity of your supply chain. You may not be able to incorporate all of these at once, but you can add them as your program evolves. This is not an exhaustive list, so feel free to discuss the list with your suppliers and add to it. The goal is to get started with the idea of collaboration and shared responsibility.

1. Supplier Human Rights Performance Requirements – Developed based on research above on supplier codes of conduct
2. Buyer Responsibility
  - a. Buyer will communicate its supplier policies and procedures regularly to Supplier.
  - b. Buyer will develop and implement a management system for managing human rights in its supply chain. It will assign responsibility to a specific team within the organization.
  - c. Buyer will routinely assess any negative human rights impacts it may cause or contribute to through its sourcing, compliance and other supply chain practices.



## Buyer-Supplier Mutual Code of Conduct

- d. Buyer will build internal awareness, provide training and encourage its business units to use input from the Supplier so that the following Buyer practices do not negatively impact the Supplier's ability to meet the human rights requirements:
    - i. Lead time
    - ii. Order volume versus production capacity
    - iii. Product development process and change authorization
    - iv. Pricing
    - v. Order size fluctuation
    - vi. Material sourcing
    - vii. Product design for improved manufacturing
    - viii. Consistency of orders, season to season
  - e. Buyer will collaborate with the Supplier in developing effective human rights management systems, improvement plans and remediation guidelines.
  - f. Buyer will support Supplier's development and implementation of management systems through providing training, technical assistance or connecting Suppliers to external resources.
  - g. Buyer will consider Supplier's human rights performance as part of its evaluation of the supplier.
  - h. Buyer will create incentives for Suppliers to improve their human rights performance.
  - i. Buyer will develop and implement a complaint management and resolution system that supplements that of the Supplier to address worker and external stakeholder concerns that cannot be effectively addressed by the Supplier's system.
  - j. Buyer will encourage Supplier to engage workers and external stakeholders in continually improving its human rights impact in the workplace and surrounding community.
  - k. Buyer will not to circumvent Supplier for the purpose of placing direct orders with sub-contractors disclosed by Supplier for the purpose of meeting human rights requirements.
  - l. Buyer will provide Supplier with written notice of pending suspension for negative human rights impact, with detailed reasons, and provide for a concrete deadline for solving the problem prior to suspension.
  - m. Buyer will ensure that the reports and records used to assess Supplier's human rights performance will be treated as confidential and will not be disclosed to any third party without Supplier's written consent.
3. Supplier Responsibility
- a. Supplier will confirm that it has read and agrees with the human rights performance requirements stated in the Buyer-Supplier Mutual Code of Conduct.
  - b. Supplier will communicate the Buyer-Supplier Mutual Code of Conduct to all managerial and non-managerial staff and will provide training to ensure that it is understood.
  - c. Supplier will have ongoing dialog with Buyer about production capacity and order volume so that Buyer's orders do not negatively impact working conditions and labor standards performance.



## Buyer-Supplier Mutual Code of Conduct

- d. Supplier agrees to undergo periodic audits, announced and unannounced, by the Buyer's auditors or a third party assessment team as approved by the Buyer, to assess human rights performance.
- e. Supplier will provide Buyer, on reasonable notice, with access to Supplier's adequate and accurate records related to labor standards and working conditions.
- f. Supplier will develop and implement systems for managing human rights performance at its work place and engaging its workforce. It will assign responsibility to a specific team within the organization.
- g. Supplier will implement a complaints management procedure for reviewing and resolving complaints directed at the Supplier.
- h. Supplier will implement and monitor corrective action plans and improvement programs, on its own as well as with Buyer representatives.
- i. Supplier will work with the Buyer to develop and implement an annual training and capacity building plan.
- j. Supplier will engage with workers and external stakeholders in continually improving human rights impact in the workplace and surrounding community.
- k. Supplier will develop and implement systems for managing human rights performance at its suppliers and sub-contractors. Supplier agrees to report on each supplier and sub-contractor to Buyer at time of hire, and to report to Buyer on results of any monitoring and corrective action plans.





# Step 2: **Assessing** Risks of Human Rights Impact

- Mapping Your Supply Chain
- Conducting a Human Rights Risk Assessment in Your Supply Chain



## Objective of this Step

In Step 1, you started to shape and embed your commitment to human rights. Key processes should be underway: Senior management is involved in approving a statement of policy and roll-out plan. Based on the salient human rights risks that you have identified for your company, you have drafted or reviewed your supplier code of conduct. Hopefully, you started the evolution to make it a mutual buyer-supplier code of conduct. You are actively communicating your commitment to respect human rights - internally and externally.

The second step in the 6 step approach towards respecting human rights in the supply chain is the process of assessing human rights impact. Under the Guiding Principles, your company should identify the risks of actual and potential negative impacts directly caused by your company’s own activities and operations, and also those impacts that your company causes, contributes to, or is linked to through its business relationships. Here we will focus on identifying the risks related to your supply chain relationships. In this step you will learn about:

- How to map your supply chain
- How to conduct a human rights risk assessment in your supply chain

The primary objective of this step is to identify the risks of negative impacts in your supply chain, so that you can develop the appropriate strategy to address them. You need to know what is relevant and important so that you can prioritize accordingly. Your suppliers are accountable for their own

practices, but you also need to assess how your company may cause or contribute to your suppliers' human rights impacts, such as through your purchasing practices.



# In order to gauge human rights

risks, business enterprises should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships.”

Guiding Principles on Business and Human Rights

## What to Do



### Mapping Your Supply Chain

To assess the risks, first you need to have an overview of your supply chain. You need a clear picture of your company's supply chain relationships. This can be a diagram that shows the flow of goods and services to your company. You can start with raw materials and go step by step to finished goods, or you can start by looking at your direct suppliers and then working back upstream. Make sure to include service providers such as labor contractors. In some cases you might not have visibility into all aspects, especially as you get to levels beyond Tier-1 suppliers, to sub-suppliers and sub-contractors. This gap needs to be identified and reflected in your supply chain map, since the lack of visibility itself is a risk that needs to be addressed. Use the toolkit item Supply Chain Map to see an example and get started.

 **Prioritizing Your Risks**

**TIP**

In Step 1, you started to prioritize your risks by focusing on the potential negative impacts most likely to be caused by your company – salient risks. In Step 2, you conduct a more thorough risk assessment that includes an analysis of the probability and severity of negative impacts.



## Conducting a Human Rights Risk Assessment in Your Supply Chain

Once you have a supply chain map, the next step is to identify where the risks of negative impacts might be. In multi-tiered and complex value chains, it may be hard to assess or even identify every individual supplier -- but this does not reduce your responsibility to respect human rights and identify risks. Saying you don't know about human rights abuses linked to your operations, products or services is unlikely to satisfy key stakeholders.

You need a process that is both credible and practical to identify the risks that are most relevant and significant, so that you can take focused and meaningful action. This is where a well-structured and thorough risk assessment and due diligence process is critical. Start by identifying the general areas where risks of negative impacts are most likely to occur. These are the risks with high probability. Remember to look for the salient risks, as we discussed in Step 1. Think of the rights holders who will most likely be impacted.



In addition to the impacts that are most likely to happen, you also need to look at the impacts that are most severe. Even if a potential impact has a very low probability, if it has a potentially severe impact, you must address it.

Often the nature of your supply chain operations will provide pointers to where the most likely or severe impacts will occur. Look at region, types of production or service processes, employee demographics, etc. Look also at your purchasing practices and how they might impact your suppliers – for example, seasonality of orders, lead times, pricing, etc. The toolkit item Risk Assessment Criteria will help you get started.



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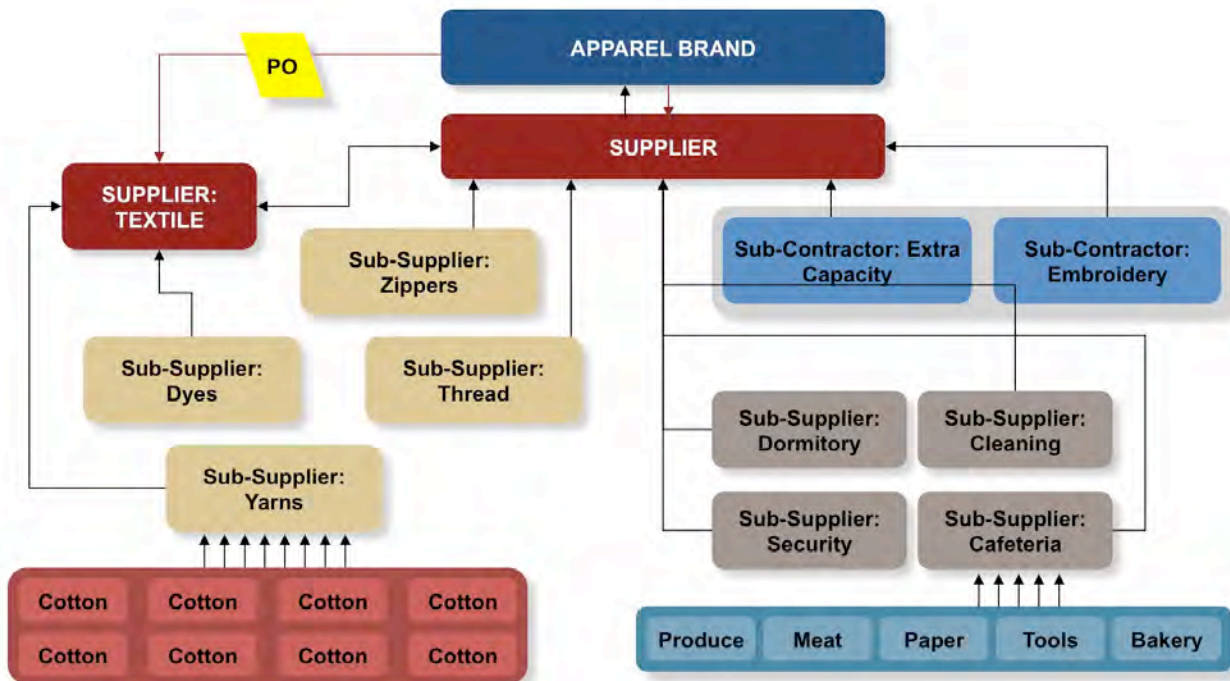
**Due diligence** starts with assessing human rights risks but it goes much further – it includes integrating your risk assessment into business operations and tracking and communicating your impacts.

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# Supply Chain Overview – Apparel

The following is an overview of a typical apparel supply chain. Use this as a guide to start developing a detailed map of your supply chain. You may have to modify for your own industry. Think about each level of your supply chain, from raw materials to packaging, even if you do not issue the purchase order directly. List each of your suppliers, sub-suppliers and sub-contractors. This is the first step in identifying the areas where they might be risks of negative human rights impacts.

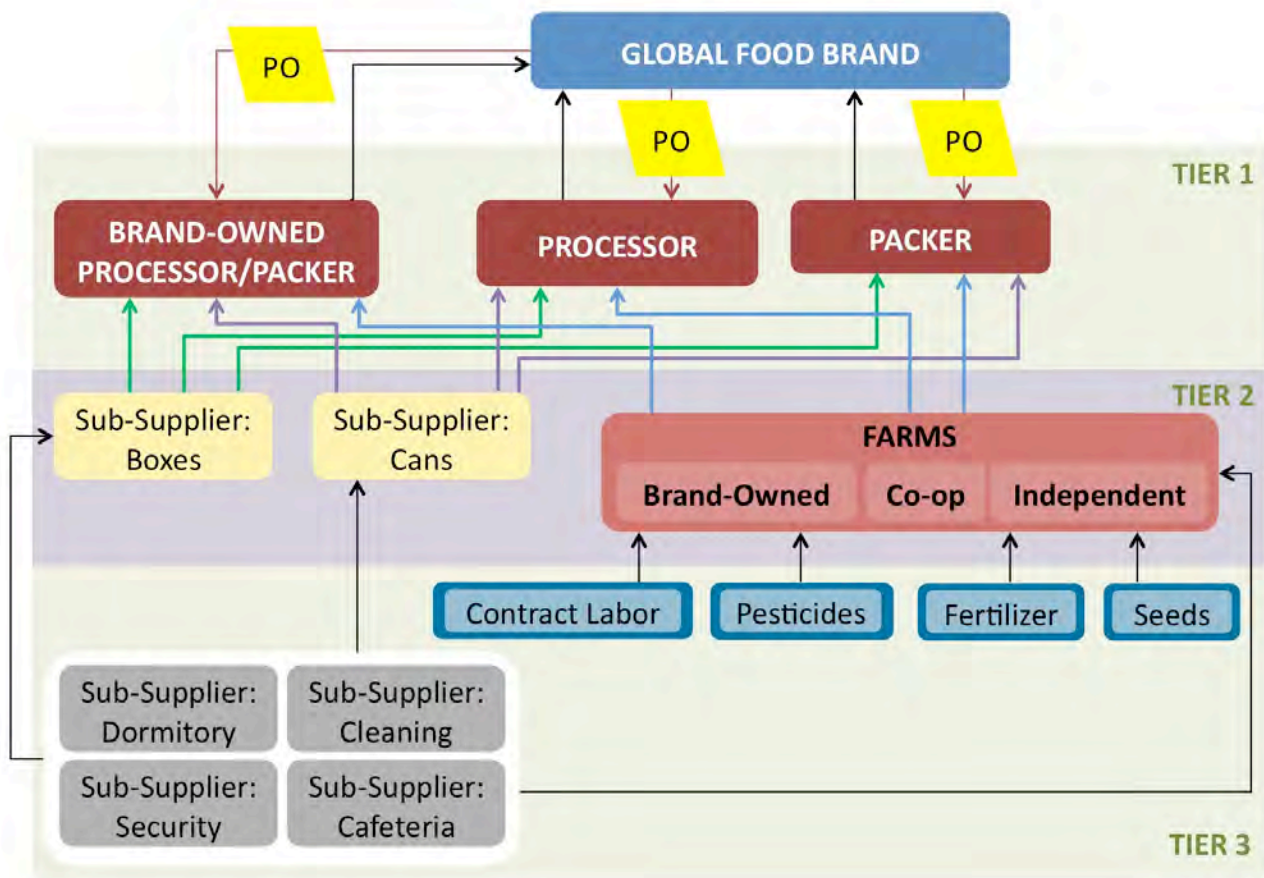






# Supply Chain Overview – Agriculture and Food

The following is an overview of a typical agriculture and food supply chain. Use this as a guide to start developing a detailed map of your supply chain. You may have to modify for your own industry. Think about each level of your supply chain, from raw materials to packaging, even if you do not issue the purchase order directly. List each of your suppliers, sub-suppliers and sub-contractors. This is the first step in identifying the areas where they might be risks of negative human rights impacts.







## Supplier Risk Assessment Criteria

The following table is a framework for analyzing the human rights performance risk of individual suppliers.

Developing a map and overall risk assessment for your supply chain requires that you collect information supplier by supplier. You should try to complete this form for all of the suppliers in the tiers and areas of your supply chain where you have identified risks of negative human rights impacts.

The information contained in this form can be useful in planning resource allocation based on the level of risk.

Depending on your industry and the nature of your supply chain, you may need to add or delete criteria, but this will get you started. Apply each of the criteria to the risk issues covered in Chapter 11 – Understanding Human Rights Risks. For example, think about how the location country might have cultural norms that pose high risk for gender equity or weak governance issues that pose high risk for right to land, or how the presence of migrant workers might pose high risk for human trafficking and forced labor.

Criteria	Data	Notes
<b>Supplier name</b>		
<b>Location country</b> (group by country, alphabetical order)		
<b>Location city/region</b>		
<b>Location in free trade zone or Special Economic Zone (yes/no)</b>		
<b>Location in conflict area (yes/no)</b>		
<b>Location or sourcing in indigenous areas (yes/no)</b>		
<b>Local history of social dislocation and/or land disputes (yes/no)</b>		
<b>Type of company</b> (manufacturer, farm, trading company, buying agent, importer)		
<b>Industry</b>		
<b>Product</b>		
<b>Manufacturing or agricultural process or business activity</b>		
<b>Hazardous materials processes</b>		
<b>High-risk components or raw materials</b>		
<b>Number of employees</b>		
<b>Main nationality of workers</b>		
<b>Nationality of factory manager(s)</b>		



# Supplier Risk Assessment Criteria

<b>Presence of contract labor</b> (foreign or domestic)		
<b>Use of home-workers</b>		
<b>Use of recruiting agencies, brokers or other intermediaries</b>		
<b>Presence of dormitory</b>		
<b>Presence of management systems for human rights performance</b>		
<b>Presence of management systems for sub-contractors and suppliers</b>		
<b>Certified to an accredited social standard(Yes/No)</b>		
<b>Certified by other organization or industry standard</b>		
<b>Fully compliant with rigorous corporate code (yes/no: if yes, which company)</b>		
<b>Current human rights performance level in your system (SAI Social Fingerprint Rating System or other)</b>		
<b>Human rights performance level status in previous cycle</b>		
<b>Presence of union or collective bargaining agreement</b>		
<b>Percent of their production capacity that you purchase</b>		
<b>Percent of your product that they supply</b>		
<b>Date of last audit</b>		
<b>Auditing organization</b> (internal/external)		





## Step 3: **Integrating** Human Rights in Policies, Procedures & Responsibilities

- Developing a supply chain management system that integrates human rights
- Building your internal human rights or social performance team



## Objective of this Step

In Step 1 you focused on committing to the Guiding Principles in your statement of policy and supplier code of conduct. Step 2 focused on assessing the human rights risks in your supply chain. Now, in Step 3, you will integrate the statement of policy into your business operations and supply chain management. In this step you will learn about:

- Developing a supply chain management system that integrates human rights and helps you to take appropriate actions based on the risk assessment you did in Step 2
- Building your internal human rights or social performance team.

The primary objective of this step is to develop a management system that integrates the respect for human rights into your business operations and supply chain management. In Step 2, you completed a risk assessment of your supply chain. Now you'll develop a system that enables you to address risks appropriately – whether to avoid, prevent, mitigate or remediate. You will translate your commitment and related statement of policy into relevant internal policies and procedures - then assign responsibilities and start to involve the right internal people and departments.



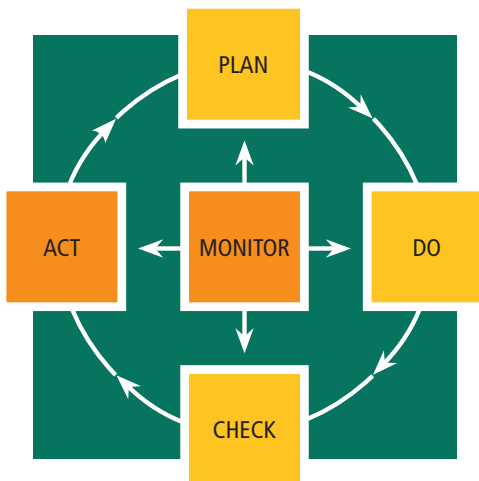
## What to Do



### Developing a Supply Chain Management System for Human Rights

Every company needs to develop and implement a human rights management system that describes the appropriate policies, procedures and responsibilities. The management system should allow you to measure and improve the effectiveness of how you deal with human rights issues in your supply chain. Depending on the size, geographic dispersion and risk profile of your company and its supply chain, the scale and complexity of the management system will differ. An effective management system is much more than documentation. It is trained, committed people following procedures that support your policies.

*A management method for control and continual improvement, popularized by Dr. W. Edwards Demming, leader of modern quality management systems.*



A comprehensive management systems needs to cover all aspects of the Plan-Do-Check-Act cycle of continual improvement. As you integrate respect for human rights into your company’s operations, think in terms of the types of processes that you should have in place. We recommend the six process-based categories from SAI’s Social Fingerprint Supply Chain Management program, as a way for you to understand the components of an effective human rights supply chain management system. In the next chapter, we will provide information on the nine process-based categories from SAI’s Social Fingerprint® Company program that would be used in your suppliers.



**In order to** prevent and mitigate adverse human rights impacts, business enterprises should integrate the findings from their impact assessments across relevant internal functions and processes, and take appropriate action.”

Guiding Principles on Business and Human Rights



SAI developed its Social Fingerprint Supply Chain Management Program to help companies to measure and improve their supply chain management for human rights. Use this framework to analyze the key process categories that will drive improvement in your supply chain.

<b>SOCIAL FINGERPRINT SUPPLY CHAIN MANAGEMENT PROGRAM</b>
<p><b>SCOPE AND RISK</b></p> <p>Breadth of your human rights supply chain management program and the quality of your risk assessment. This establishes the scope of your program and how you assess the risks.</p>
<p><b>AGGREGATE PERFORMANCE OF SUPPLY CHAIN</b></p> <p>Overall performance of your suppliers in terms of human rights performance and the quality of their management systems. Establish a quantifiable baseline for measuring the current overall social compliance of your suppliers.</p>
<p><b>ANNUAL IMPROVEMENT OF SUPPLY CHAIN</b></p> <p>Your activities to drive improvement in your supply chain, including training and capacity building. Measures the improvement in the aggregate performance of your supply chain.</p>
<p><b>INTEGRATION OF COMPLIANCE AND SOURCING</b></p> <p>Degree of integration in the decision-making and performance evaluations between the compliance and sourcing functions in your company. Establishes the level of internal integration in making your statement of policy operational.</p>
<p><b>SUPPLIER COMMUNICATIONS AND PURCHASING PRACTICES</b></p> <p>Degree to which your suppliers receive a consistent message about the importance of human rights from all of your departments. Establishes whether your actions and purchasing practices contribute to their human rights challenges and how you reward or punish their behavior.</p>
<p><b>COMPLAINT MANAGEMENT AND RESOLUTION</b></p> <p>Level of development and implementation of your complaint management system, including the level of transparency, worker communications and dialog with external stakeholders. It establishes whether a person or external stakeholder could contact you to file a complaint and how your company would resolve and communicate the resolution.</p>





## Building Your Internal Human Rights or Social Performance Team

As part of the management system, you need a team to manage and lead the human rights commitment of your company. Remember, to implement the Guiding Principles, companies will need to think and act differently.

Improving the respect for human rights inside the company and in the supply chain is hard work. There are no quick fixes, no big shortcuts. It requires changing the behavior of the company, its employees and its suppliers. It will not happen overnight.

Change management and organizational behavior experts can tell you how challenging this can be. Ultimately, it is people working with people at each step of the supply chain. People with job descriptions and reporting lines. People with job performance measurements and incentive plans. People with friends and enemies in their company and among their suppliers. People with hopes and dreams. How do you get people to change their behavior inside the organization?

There are different strategies and different techniques for changing behavior. But it seems that the experts agree that to create lasting change in a company, senior management must lead the effort.

A well-trained cross-functional team will lead the change management effort in your company. It is important to have representation or linkages with the departments that control the activities that have potential negative human rights impact. You should also encourage your suppliers to form their own Human Rights Performance Teams to manage human rights issues in their facilities. Take a look at the tools. These tools are written for use by your suppliers but you can adapt them easily for your own company.

- **Instructions for Building Internal Human Rights Performance Team**
- **Instructions for Worker Selection for Internal Human Rights Performance Team**
- **Briefing on Purpose & Formation of Internal Human Rights Performance Team**
- **Team Leader Job Description**





## Instructions for Building Internal Human Rights Performance Team

The following steps will take your suppliers through the process of building their internal Teams. You can follow a similar process if you build a Team for your own company.

There is no one correct composition for an Internal Human Rights Performance Team – it depends on the size, organizational structure and other specifics of your company. The Team will evolve as your program evolves and as your workers gain more experience with the program. You can rotate the members of the Team and stagger their terms of service. The key at this stage is to inform all workers about the program and the Team's roles and responsibilities, and to ensure that both management and non-management workers are represented.

### Step 1

Send out the Briefing on Purpose & Formation of the Internal Human Rights Performance Team to all workers.

### Step 2

Each department will have an open vote to nominate persons within their department. The nominated persons from each department will meet and choose the final representatives for the Team from among themselves.

### Step 3

Arrange for a neutral body to facilitate the worker representative selection process. This could be someone from a local NGO, community group, academic institution, etc. – someone who would be trusted by both management and non-management and would not be biased towards influencing the outcome of the election. Refer to the Instructions for Worker Selection for Internal Human Rights Performance Team.

### Step 4

Select the Team leader.

### Step 5

Define to whom the Team will report.

### Step 6

Work together to develop a work-plan. The work-plan should include the frequency of meetings, internal audits and management review. It should also set a timeline for completing tasks and identify the responsible persons.





## Instructions for Worker Selection for Internal Human rights Performance Team

5. Ensure that all parties understand the role of the worker representatives on the Internal Human Rights Performance Team:
  - a. The worker representatives are NOT there to conduct negotiations with management or collective representation of workers, as this is not the official mandate of the Team. Such a mandate is only given to worker organizations under specific conditions defined by national labor laws.
  - b. The worker representatives on the Team are only there to facilitate communications, monitor and provide feedback to management on the program's progress and challenges. If they begin to discuss or negotiate (even informally) contract terms (e.g. wages, hours, and benefits), then management will be seen as setting up a substitute for and potential block to trade union organizing.
6. Establish a mechanism to effectively communicate to all workers and structure regular elections:
  - a. Workers need to be informed about who are the worker representatives, the length of their terms and corresponding responsibilities.
  - b. It is important that too much time does not elapse after the first election before subsequent elections take place (1-2 years maximum). As workers better understand the function of the worker representative and the role of the Internal Human Rights Performance Team, they may also form different ideas about who they want to nominate and elect as worker representatives in the future.





## Briefing on Purpose & Formation of Internal Human Rights Performance Team

### Roles and Responsibilities of the Team

- The Team will meet regularly to discuss issues related to labor and working conditions and human rights issues.
- The Team will write and implement plans for improvement.
- The Team will coordinate communications between departments and between management and workers.
- The Team will evaluate progress and make improvements based on suggestions from all workers.
- The Team will never be involved in any contract negotiations or collective representation of workers, as this is not the mandate or function of the Team.
- These roles and responsibilities are additional to the normal job responsibilities of the member. This is not a separate full-time job.

### Team Activities

- Develop and implement policies and procedures based on the selected labor code or standard
- Conduct internal audits as per ISO management system guidelines
- Participate in management review
- Conduct management and worker training
- Establish worker communication channels
- Manage suppliers and contractors
- Engage local NGO's trade unions and government agencies
- Coordinate with customs, investors and stakeholders
- Connect internal departments such as purchasing, production, marketing and hr



### Process for Selection of Team Members

#### Management Representatives

Each department will have an open vote to nominate persons within their department. The nominated persons from each department will meet and choose among themselves the final representatives for the Team.







## Team Leader Job Description

The following is an example job description for an Internal Human Rights Performance Team Leader. Your suppliers can use this as they select the Team Leaders in their facilities. Remind them that the Team Leader does not have to be a full-time job, depending on the organizational size and structure.

The description below is tailored for supplier facilities, but you can adapt it for your own company if you have an Internal Human Rights Performance Team as well.

### Team Leader

The Team Leader is responsible for designing and implementing the human rights performance program. They must possess the attitudes, skills and knowledge needed to lead the effort. They must be able to effectively communicate with workers at all levels of the company. They must demonstrate a willingness to learn and to adopt a pragmatic approach to solving problems. The Team Leader is responsible for managing the Internal Human Rights Performance Team and working with executive management to achieve measurable improvements in the human rights performance of the company.

### Roles and Responsibilities

<p><b>Internally:</b></p>	<ul style="list-style-type: none"> <li>- Lead the development and implementation of policies and procedures based on Company Code of Conduct and related human rights and practices</li> <li>- Lead Internal Human Rights Performance Team meetings</li> <li>- Lead internal human rights performance audits</li> <li>- Develop an annual human rights performance plan and budget</li> <li>- Develop and implement effective worker communication channels, including a grievance mechanism</li> <li>- Coordinate and oversee all human rights performance training</li> <li>- Seek to integrate human rights performance into other operational and compliance initiatives</li> <li>- Report to Senior Management on program progress</li> </ul>
<p><b>Externally:</b></p>	<ul style="list-style-type: none"> <li>- Develop external reports on human rights performance appropriate to various stakeholder groups, including investors, customers, suppliers and community groups</li> <li>- Act as primary contact for external audits by customers and independent auditors</li> <li>- Represent the company on external committees, and at relevant meetings as appropriate</li> <li>- Develop and implement annual plan for engaging relevant local NGOs, unions and government agencies</li> </ul>





## Change Management

Integrating respect for human rights into your operations means changing some corporate and individual behaviors. This is not always easy. There will be hurdles. Understanding change management techniques is valuable in overcoming the hurdles and driving sustainable improvement. Building Internal Human Rights Performance Teams and implementing SMART initiatives are two key techniques.

### Change brings challenges. Be ready for them.

Don't expect that change will proceed smoothly.



### There are many reasons for this...



### The Hurdles



### Define a clear path. Create small steps.

There's been a lot of research done on organizational change and change management. To greatly simplify the results of all that research, you need to define a clear path and create small steps. You also want the team to achieve measurable success quickly. That's what Rapid Results projects do. SAI has partnered with the Rapid Results Institute and we'll teach you more about that a little later.



### Keys to Driving Change

- Show some progress-even small steps
- Build up confidence that change is possible
- Create momentum before attacking the barriers directly
- "Shrink the change"-easier to rally support for 100-days of experimentation than to make life-time commitments







## Step 4: **Tracking**

# Human Rights Implementation

- Monitoring the performance of your suppliers
- Developing a supply chain audit plan
- Using non-conformances and corrective actions to drive improvement
- The developmental approach to monitoring
- Beyond monitoring - helping suppliers to measure and improve through management systems



## Objective of this Step

In Step 3, you took actions to address the potential negative human rights impacts in your supply chain. You integrated this process into your supply chain management system and built a team to lead the effort. The next step is to track the effectiveness of your actions and management system. Tracking is about measuring your supply chain’s performance with respect to human rights. This includes measuring the performance of your suppliers. If you look back at the supply chain management systems in Step 3, it is also about improving the performance of your suppliers, by identifying and addressing the systematic problems. Ultimately, improving performance means improving systems both in your company and in your suppliers. In this step you will learn about:

- Monitoring the performance of your suppliers
- Developing a supply chain audit plan
- Using non-conformances and corrective actions to drive improvement
- The developmental approach to monitoring
- Beyond monitoring - helping suppliers to measure and improve through management systems

The primary objective of this step is to measure and improve the effectiveness of your system to address human rights in your supply chain. This means looking at the actual human rights impacts in your suppliers. Tracking will enable you to identify trends and patterns in your supply chain. The Guiding Principles encourage you to have both qualitative and quantitative indicators. You can use these insights for internal reporting and to improve your system. One of the most common ways to track performance or progress in your supply chain is through auditing combined with the recognition of





# Tracking is

necessary in order for a business enterprise to know if its human rights policies are being implemented optimally, whether it has responded effectively to the identified human rights impacts, and to drive continuous improvement.”

## Guiding Principles on Business and Human Rights

credible certification. We'll explain how to do this effectively. The Guiding Principles encourage you to use both internal and external sources for auditing and other ways of tracking human rights performance.

Problems are often caused by poorly controlled or non-existent management systems. We will therefore talk about management systems again. We already explained how to build a management system at your company's level in Step 3. In this step, we will focus on management systems for suppliers as way to measure and improve their human rights impacts.



### MONITORING METHODS

Monitoring the performance of your suppliers with respect to human rights can be done in various ways. Auditing is one important way to gather information on your supplier performance, but not the only method. We will cover auditing in detail in the sections below. However, here we want to emphasize that your monitoring plan should include other sources of information. One important method of gathering information and

finding ways to improve is to engage in dialog with external stakeholders. Another method is to implement communication channels through which you can get direct worker feedback. An effective complaint management system can also provide critical information about the problems in your supply chain. Depending on your risk assessment, you can determine which methods will be most effective for specific aspects of your supply chain.

## ➔ Monitoring & Auditing

**TIP**

Monitoring and auditing are words that are often used interchangeably, which can be confusing. Monitoring is an umbrella term that includes various methods for evaluating the performance of your suppliers with respect to human rights. Auditing is a formal, on-site evaluation against a specific set of criteria.

## What to Do

### Developing a Supply Chain Audit Plan

A key part of your management system is having written procedures for auditing your supply chain and following up to make sure the issues identified in audits are successfully addressed. The audit plan can be a long and detailed document that can cascade into more and more detail on each topic. However, the point of this section is to provide you with a framework for creating a plan. It can start out short and simple and you can add details as it evolves.

Here are the starting blocks for your audit plan. We've already covered some of these points in detail earlier in the Handbook.

**Mapping Your Supply Chain:** you've already done this.

**Risk Assessment:** you've already done this.

**Selection Criteria:** Here you need to make some strategic decisions. You need to balance covering the highest risks and the highest volume areas while covering your entire supply base over a reasonable period of time. You need to establish a policy for new suppliers and one for existing suppliers. Key questions include: What percent of your suppliers or volume will you audit each year? How will you select which ones to audit? Is your priority to pull up the bottom or push more into the top? How many re-audits will you need to verify problems are addressed? Do new suppliers need to be audited before an order is placed? Who pays for the audits, you or your suppliers - or do you split the cost?



**Supplier Selection & Scheduling:** Based on the selection criteria and the risk assessment, pick those suppliers that will be audited this year and next.

**Forming the Audit Team:** Decide whether you are going to develop an internal audit team, use outside auditors or a combination of both. If you use internal auditors, you need a plan for hiring, training and qualifying them. If you plan to use outside auditors, you need to develop a system for evaluating them, getting competitive bids and monitoring the quality of their work. If you use a combination, you need to develop an organization chart that maps the responsibilities of each group, as well as how they will interact.



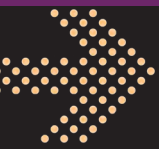
**Audit Procedures:** Develop protocols for the audit preparation and on-site visit. The Toolkit includes an **Auditing Guidance for Internal Auditors** for you to use.

**Corrective Action & Remediation Guidelines:** Your plan needs to include policies for identifying systemic versus isolated problems. You also need a policy on how you and your suppliers will take corrective action to fix problems, and which problems require immediate action. For example, if the audit finds a specific type of health and safety violation, what are the appropriate corrective actions? Also, you should have remediation plans in place so you can immediately deal with problems. More on this in Step 6.



**Re-Audit & Follow-up Timeline:** You need a policy for tracking the progress of your suppliers and the follow-up on the corrective actions. This will involve creating a re-audit schedule. The Toolkit includes the **Corrective Action Plan Form** and **Corrective Action Tracking Form**.

**Rating & Reporting:** If you plan to use a tiered social compliance system, your plan needs to address how you rate a supplier. The section below, *The Developmental Approach to Monitoring*, contains examples of a supplier tiered rating system.



# STEP

# 4

# Tracking Human Rights Implementation

TRACKING

COMMUNICATING

REMEDIATING

## Major & Minor CARs

TIP

The judicious use of Major CARs and Minor CARs enables you to steer the supplier towards improvement. Suppliers that can be convinced that corrective actions are in their interest will always perform at a higher level than those who are complying as a result of real or perceived duress.



### Non-Conformances and Corrective Actions

Let's step back for a minute and look at the big picture. Continual improvement using management systems is the big picture goal.

As we stated before, you are going to encounter problems and you will need a way to address them. Simply put, non-conformances describe the problems - the things that do not conform to the standard or the code. The corrective actions are the things you do to address the problems. Remember though, this is a process - a journey. Notice we don't say fix problems. We say address problems. Situations are not static. We are dealing with people.

Think of non-conformance reports and corrective action plans as constructive criticism. You need to provide your suppliers with constructive feedback so that they can make progress towards meeting the Guiding Principles. Non-conformance reports and corrective action plans are important tools to steer your suppliers. Some systems, such as the SA8000 labor standard, have two classifications of non-conformances: Minor and Major. It is useful for you to understand the differences regardless of what code or standard you use.

The essential differences between a Minor and a Major are the severity of the problem for the workers and whether or not it is a systemic problem. In the SA8000 system, a certified facility will lose its certification if major non-conformances are not corrected in a timely manner.

In many systems, the auditor issues a Corrective Action Request (CAR) to notify the management of non-conformances and request they take action. The corrective action request should seek to identify the problem at the system level as well as the event or symptom. The emphasis must be placed on the root causes of the problem. If you find a fire escape blocked by boxes, just moving the boxes does not really address the problem. It may fix it for a few days, or maybe only until you leave.



### DEFINITIONS

#### MAJOR CAR

A Major Corrective Action Request (CAR) is issued, when, in the opinion of the auditor, the company has a significant deficiency in its management system or there are situations that are immediately harmful or dangerous to the workers or stakeholders.

#### MINOR CAR

A Minor Corrective Action Request (CAR) is normally used to address short-comings which do not threaten the overall implementation of the system and do not pose immediate or severe threats to workers or stakeholders.



## The Developmental Approach to Monitoring

Realistically, you cannot wake up tomorrow and announce that starting today you will only source from suppliers that already meet the UN Guiding Principles or that are completely compliant with a stringent labor code. So what do you do? How do you start the journey from where you are today (regardless of where it is) to having a supply chain that meets your human rights policy?

Consider adopting a 'developmental approach.' Basically, this is a system that rates a supplier's human rights performance, creates incentives for improvement and helps them improve. A tiered system is a very useful tool for driving continual improvement in your supply chain. It will also promote the integration of compliance and sourcing inside your company. If you use a developmental approach, it is important to set goals and a timeline for improvement.

Most that have done this create from 3 to 5 levels of performance tied to the results of their monitoring. Some common systems are:

### EXAMPLE: 3 TIER SYSTEM

Red light – problems that must be addressed before order placed

Yellow light – acceptable but needs improvement

Green light - meets all requirements

### EXAMPLE: 4 TIER SYSTEM

Critical  
(lowest level of performance)

Needs improvement

Good

Excellent



## The corrective

action request should seek to identify the problem at the system level rather than concentrating on the event or symptom. The emphasis must be placed on the root causes of the problem.

action request should seek to identify the problem at the

## → Making the Development Approach Work

### TIP

1. Set a clear definition of what is acceptable at each level
2. Set specific timeframes with incentives for suppliers to measure and improve their level
3. Set clear consequences for suppliers that linger at low compliance levels
4. Work with suppliers to remediate problems
5. Assist suppliers to develop and implement management systems and build internal teams
6. Rate all suppliers to establish a baseline aggregate level
7. Set specific targets for improving the aggregate level by purchasing and/or merchandising department
8. Tie aggregate levels to internal performance reviews and compensation plans for each department

### Beyond Monitoring and Auditing - Helping Suppliers to Measure and Improve through Management Systems

Monitoring helps you to measure. But this is valuable only to the extent that you use it to improve. Monitoring, auditing and the development approach are part of a capacity building and improvement process. There is talk of moving beyond auditing to “capacity building.” This means helping suppliers to become responsible for improving and monitoring their own performance. Companies with effective human rights programs must focus on having their suppliers use management systems for continual improvement, rather than on merely passing the next audit.



### Elements of Capacity Building in Suppliers

- Developing and implementing management systems
- Training workers and managers
- Providing technical assistance
- Creating and training an internal team
- Engaging in stakeholder dialog
- Participating in collaborative improvement projects with other companies and/or multi-stakeholder initiatives

In Step 3, we introduced a human rights supply management system that you could use to drive continual improvement. In the same way, your suppliers need a management system for human rights in their company and in their supply chain. For suppliers, we recommend that you think in terms of these nine process-based categories which come from SAI's Social Fingerprint Company program.



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**Auditing is** useful as a tool for sustained change only if there are effective management systems in place. Without that, auditing is really only a one-shot risk mitigation tool.

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SAI developed its Social Fingerprint Company Program to help companies to measure and improve human rights performance within their operations. Use this framework to analyze the key process categories that your suppliers will need to improve.

## SOCIAL FINGERPRINT COMPANY PROGRAM

### MANAGEMENT SYSTEMS

Policies & Procedures to meet the UN Guiding Principles. The management systems should also consist of record-keeping that can be reviewed to verify implementation. The company should ensure that the policies and procedures are effectively communicated to all personnel in all native languages whether the personnel is directly employed by the company, contracted through a third party, or working on its premises for a customer, supplier or sub-contractor.

### INTERNAL SOCIAL PERFORMANCE TEAM

The people leading the implementation effort, which is a key to driving improvement and creating positive change. There needs to be a multi-departmental team, including worker representation, that is responsible for managing improvement projects and building internal cohesion between the departments and the management and workers. Without the team, it is difficult for there to be any sustainable change.

### WORKER INVOLVEMENT & COMMUNICATION

Presence of routine communications concerning human rights with all personnel concerning and that all personnel have channels for communicating to management. The company needs to make sure that the UN Guiding Principles and their implications in the workplace are understood and implemented at all levels of the organization including full time, temporary and contracted personnel. The company should also undertake internal monitoring to demonstrate the awareness and effective implementation of the human rights policies.

### COMPLAINT MANAGEMENT & RESOLUTION

The implementation of an effective system to receive, resolve and communicate the outcome of complaints. The company should establish a confidential, unbiased, non-retaliatory grievance procedure allowing personnel to make comments, recommendations, reports or complaints concerning their treatment in the workplace regarding labor code issues. The company should implement a procedure for investigating, following up on any complaints, and communicating the outcome to all personnel.

**LEVEL & TYPE OF NON-CONFORMANCE**

Severity and frequency of problems and the degree to which problems are systemic or isolated. Internal auditing by trained people is one effective way to gain information on this, as are audit reports prepared by qualified external auditors and information from external stakeholders.

**PROGRESS ON CORRECTIVE ACTION**

The system that the company has to implement corrective and preventive actions in response to non-conformances. An effective system includes root-cause analysis to identify the cause of problems, as well as central tracking of the corrective action taken, the responsible personnel and the timeline for implementation. The company should promptly allocate resources appropriate to the nature and severity of nonconformances.

**EXTERNAL VERIFICATION & STAKEHOLDER ENGAGEMENT**

The company's proactive system to cooperate with external verification programs and to participate in external dialogues with interested stakeholders and rights holders. The company should establish and maintain procedures to communicate regularly with all interested stakeholders and rights holders.

**TRAINING AND CAPACITY BUILDING**

The development of knowledge, skill and attitude among all personnel related to human rights in the workplace. The company should conduct routine training for all new and existing personnel on the policies and procedures related to the Guiding Principles. The company should establish methods to determine the effectiveness of the training.

**MANAGEMENT OF SUPPLIERS AND CONTRACTORS**

The systems that the company has in place to manage its suppliers and contractors. The company should ensure that the Guiding Principles are understood and implemented by suppliers, contractors and all other parties involved in the purchasing process. The company should maintain appropriate records of suppliers' and contractors' commitment to human rights in contractual agreements and/or the written commitment of those organizations.



Training is a critical element of the entire system. It is the combination of training, technical assistance and management systems that enables change to occur. This is the combination that builds capacity in your company and in your supply chain. Remember, the goal is to internalize human rights performance and make it a routine part of doing business.

Organizational change is hard. The best procedures and policies don't matter if they are not used. The challenge is to get people to change how they behave on a daily basis. The challenge is compounded by the fact that you're trying to change the behavior of people both inside and outside of your company. There's no way it will work without training.

The best way to break it down is to look at training that takes place inside your company, including contractors (internal training) and training that takes place for companies in your supply chain that helps them better meet your needs (external training). See the Toolkit item **Training People in Your Supplier** for the types of topics you would encourage for your suppliers.

The overall goal of internal training is to create a common understanding and a common language about human rights issues and performance. The specifics of the training and the level of detail vary from department to department. But the message must be clear and consistent. Everyone needs to know what you are doing, why you are doing it, the benefits to the company, that it has top-management support and that it is a journey. Remember, your Team needs the most training. See the toolkit item, **Training People in Your Company**, for an example of the types of topics you would cover in internal training.

## Training

TIP

Training on human rights needs to address **attitude, skills** and **knowledge**

Specific **skills** and **knowledge** needed will vary depending on the person's role

**Attitude** is the hardest to change or improve

Think about the progression from making people aware to making them believe and commit to giving them the skills and knowledge to implement



## Remember,

there are different ways to deliver training— classrooms with live instructors,

training manuals, pre-recorded computer-based training, live webinars, etc. You can break the training into smaller segments. Make it part of other training or communications. Make it interesting.



## Auditing Guidance for Internal Human Rights Performance Auditors

This document can be used to guide your internal or external auditors as they audit your supplier facilities. It can also be used by your supplier's Internal Human Rights Performance Team as it conducts internal audits. The supplier may choose to use this as a basis for a formal internal audit procedure.

✓	<b>A. Audit Preparation</b>
<input type="checkbox"/>	Collect previous human rights performance reports for the factory - your audits for the previous two years.
<input type="checkbox"/>	Review any government inspection reports, third party audit reports, etc.
<input type="checkbox"/>	Pay special attention in observation/document review/interviews to issues identified in previous human rights performance reports.
<input type="checkbox"/>	Research and refer to current local labor and human rights laws and regulations.
<input type="checkbox"/>	Review the requirements of your human rights policy and international standards. Refer to the section on risks on Chapter 11.
<input type="checkbox"/>	Meet with local NGOs, trade unions, government ministries. If possible, target NGOs that are industry-specific.
<input type="checkbox"/>	Research and understand the national and local context of labor union rights and activity.
<input type="checkbox"/>	Schedule sufficient time to conduct the scope of the audit and design the audit plan accordingly.
✓	<b>B. Introductory Meeting with Management</b>
<input type="checkbox"/>	Meet with the senior management and department managers before conducting audit activities to review your human rights policy and the purpose of the audit.
<input type="checkbox"/>	Share an agenda for the meeting and itinerary with senior management and department managers.
<input type="checkbox"/>	With department managers, review the prior audit report and performance to date in meeting Corrective Action Requests.
<input type="checkbox"/>	Discuss non-retaliation against cooperating workers; inform management that future audits will include reviews of the continued employment of workers interviewed.
✓	<b>C. Operational Walk-Through</b>
<input type="checkbox"/>	Conduct operation walk-through following the flow of production from receipt of raw materials to shipment of finished goods.
<input type="checkbox"/>	Minimize the number of managers that accompany you on the walk-through. One or two escorts based on knowledge/responsibilities is usually sufficient.
<input type="checkbox"/>	During the walk-through, be aware of your body language and the message this sends to workers.
<input type="checkbox"/>	Take notes of all things observed which require attention.
<input type="checkbox"/>	Following the facility walk-through, conduct a walk through of the dormitory facilities, canteens, washrooms, etc. (if applicable)
<input type="checkbox"/>	Identify non-conformance issues for supervisors and department managers during the walk-through.





## Auditing Guidance for Internal Human Rights Performance Auditors

	<ul style="list-style-type: none"> <li><input type="checkbox"/> Do workers understand how their wages are calculated, for base time, performance and overtime?</li> <li><input type="checkbox"/> Are workers aware of any dismissal, transfer, demotion or other punitive action against workers due to their exercising their rights?</li> <li><input type="checkbox"/> Ask workers about the status of trade unions, worker committees, or other worker groups in the factory and whether there is management interference.</li> <li><input type="checkbox"/> Ask questions to determine conformance to discrimination and sexual harassment policies.</li> <li><input type="checkbox"/> Do workers understand the company’s grievance mechanism, and do they feel it is operational and free from retaliation?</li> </ul>
<input type="checkbox"/>	If you employ contract workers, make sure to ask questions that address possible violations and areas of abuse.
<input type="checkbox"/>	Conduct some worker interviews off-site if possible.

✓	<b>E. On-site Document Review</b>
<input type="checkbox"/>	Select personnel files, time cards and payroll records without management interference.
<input type="checkbox"/>	Select files and/or records at random to generate a representative sample of the workforce population and functional distribution in the factory. Seek some files to corroborate interviews conducted earlier.
<input type="checkbox"/>	Balance your time and effort investigating all areas related to human rights risks. Document review is particularly critical for wages, working hours, health and safety, use of sub-contractors, hiring and termination.
<input type="checkbox"/>	Review training material or written communications to workers that address all relevant human rights issues and training records as well as instructor qualifications.
<input type="checkbox"/>	If the operation employs contract workers, address potential areas of abuse in the document review. Specifically review the contract with the workers.
<input type="checkbox"/>	Identify all significant incidences of non-conformances in preparation for your management meeting.

✓	<b>F. Closing Meeting with Management</b>
<input type="checkbox"/>	Conduct a closing meeting with senior management and department managers.
<input type="checkbox"/>	Present your preliminary findings with particular emphasis on the positives as well as areas for improvement. All non-conformances must be addressed. Seek clarification on any findings or issues raised during the audit.
<input type="checkbox"/>	Work with the department managers and supervisors on a corrective action plan that details specific actions to be taken and timelines for their completion.
<input type="checkbox"/>	Go over any outstanding corrective action requests from previous audit reports.
<input type="checkbox"/>	Make sure senior management signs off on the corrective action plan.





## Corrective Action Plan

Here is an example of a correction action form that your suppliers can use to record and plan any needed actions. You may want to ask to review these and also give advice for improving them with techniques such as root cause analysis. The form is suggestive only. You and your suppliers may have your own preferred formats. On this page is a sample completed form that correlates to the first line in the Corrective Action Tracking Chart.

The form is suggestive only. You may have your own format to plan corrective action.

Corrective Action Plan		Corrective Action # 200:	Starting date:
Factory Name:	Current Situation /problem	Proposed Corrective Action	Starting date:
Health and Safety	Risk of injury from drills and saws	<ul style="list-style-type: none"> <li>- Purchase protecting gloves</li> <li>- Train workers on using gloves</li> <li>- Maintain appropriate guards</li> </ul>	9/1/2012
<b>Issue</b>	<b>Potential Challenges</b>	<b>Likely costs</b>	<b>Due date</b>
Machine Safety	<ul style="list-style-type: none"> <li>- Finding right gloves</li> <li>- Convincing workers to use gloves</li> <li>- Will gloves slow down work?</li> <li>- Will workers steal gloves?</li> </ul>	20 Gloves x \$25	11/1/2012
		Training sessions	
		Signs for each machine where gloves must be used 12 x \$5	
		<b>Total Cost:</b>	\$810.00

COMMENTS:		DATED PROGRESS REPORTS:
Some of the workers stated that gloves slowed them down. We believe this is partially due to poor fitting, ill-designed gloves. This problem can be solved in part by letting the worker representative select the glove type and sizing the glove.		10/15/2012 Assessment visit to factory: Protective gloves purchased; worker training conducted. Reviewed documentation of purchases and trainings; observed proper use of gloves in two factory walk-throughs. Machine guards still not in place.
PERSOM DIRECTLY RESPONSIBLE FOR CORRECTIVE ACTION PLAN:		11/15/2012 Assessment visit to factory: Machine guards installed and workers trained in proper use. Verified via purchase receipts and training records and worker interviews.
SIGNATURE	DATE	





## Corrective Action Tracking

SUPPLIER NAME:

Use this form as a cover sheet to compile the individual Correction Action Plan forms at your supplier. This is a handy reference to give you a quick overview of the outstanding issues, the progress being made and where to focus your attention. During internal audits and management reviews of your human rights management system, you should review this so you are aware of outstanding issues in your suppliers.

Your suppliers can also use this form for their own internal tracking purposes. You and your supplier should fill out your own form, but you can periodically review them together to make sure that you are in alignment about the key issues and actions taken. Sample data has been entered in the first two rows.

Corrective Action File #	Initial Plan Date	Code of Conduct Element	Problem Summary	Corrective Action Summary	Supplier Mgr. Responsible	Due Date	Progress Update (include date)	Date Closed
2012-01	9/1/2012	Health & Safety	Risk of injury from drills and saws	<ol style="list-style-type: none"> <li>1. purchase protective gloves</li> <li>2. train workers</li> <li>3. install machine guards</li> </ol>	C. Smith	11/1/2012	<p>10/15/2012- gloves purchased, training scheduled</p> <p>11/15/2012- training delivered, guards installed</p>	12/15/2012
2012-02	9/1/2012	Gender Equity	Pattern of exclusion of women from promotion opportunities	<ol style="list-style-type: none"> <li>1. define and communicate discrimination policy</li> <li>2. provide gender training</li> <li>3. promote participation by all groups in progressive skills training</li> </ol>	H. Chau	12/1/2012	<p>10/15-2012 - policy defined and circulated to workforce, progressive skills training plan developed, gender training scheduled</p> <p>11/15/2012 - gender training scheduled</p>	



# Training People in Your Supplier

Below is a training plan that your supplier might use, for training workers by department. Depending on the size and complexity of your supplier, they can adjust the topics for the functional area/departments. There is a lot of overlap with the training plan for your own company. The key addition here is training for non-management workers. These are the topics that should be covered and continually refreshed over the course of the year. Your supplier can shift the sequence and expand upon the topics as needed. This is the suggested minimum training for all workers by department. Your supplier's Internal Human Rights Performance Team should receive additional training.

BY DEPARTMENT	MODULE 1	MODULE 2	MODULE 3	MODULE 4
Human Resources and Labor/Human Rights/Environmental Performance	Introduction to Human Rights Performance and Management Systems DURATION TRAINER STATUS	Basic Auditing Techniques and Tools DURATION TRAINER STATUS	Linking Human Resource Managements Systems to Human Rights Performance DURATION TRAINER STATUS	Complaint Management & Resolution; Worker Communications DURATION TRAINER STATUS
	Introduction to Human Rights Performance and Management Systems DURATION TRAINER STATUS	Worker Involvement and its Benefit DURATION TRAINER STATUS	Negotiating Business Terms with Buyers to Promote Human Rights Performance DURATION TRAINER STATUS	Integrating Key Performance Indicators for Human Rights and Business DURATION TRAINER STATUS
Senior Management	Introduction to Human Rights Performance and Management Systems DURATION TRAINER STATUS	Product Cycle and its Impact on Human Rights Performance DURATION TRAINER STATUS	Integrating Risk Analysis and Impact Assessments into Design and Merchandizing DURATION TRAINER STATUS	Marketing and Communication Benefits DURATION TRAINER STATUS
Research & Development/ Merchandising	Introduction to Human Rights Performance and Management Systems DURATION TRAINER STATUS	Integrating Purchasing Practices and Human Rights Performance DURATION TRAINER STATUS	Integrating Supplier Rating Systems into Sourcing DURATION TRAINER STATUS	Supplier Development and Outreach Programs DURATION TRAINER STATUS
Sourcing	Introduction to Human Rights Performance and Management Systems DURATION TRAINER STATUS	Production Planning and its Impact on Human Rights Performance DURATION TRAINER STATUS	Production Benefits from Improving Human Rights Performance DURATION TRAINER STATUS	Complaint Management & Resolution; Worker Communications DURATION TRAINER STATUS
Production & Maintenance	Introduction to Human Rights Performance and Management Systems DURATION TRAINER STATUS	Grievance Mechanisms DURATION TRAINER STATUS	Worker-Manager Communications DURATION TRAINER STATUS	Production Benefits from Improving Human Rights Performance DURATION TRAINER STATUS
Workers (Non-management)	Introduction to Human Rights Performance and Management Systems DURATION TRAINER STATUS			



# Training People in Your Company

Below is a training plan for your company by department. These are the topics that should be covered and continually refreshed over the course of the year. You can shift the sequence and expand upon the topics as needed. This is the suggested minimum training for all staff by department. The Internal Human Rights Performance Team in your company should receive additional progressive training.

BY DEPARTMENT	MODULE 1	MODULE 2	MODULE 3	MODULE 4
Human Resources and Labor/Human Rights/Environmental Performance	Introduction to Human Rights Performance and Management Systems; Linking Human Resource Management Systems to Human Rights Performance	Supplier Communications and Engagement	Monitoring and Capacity Building Tools and Techniques	Complaint Management & Resolution; Worker Communications
	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS
Senior Management	Introduction to Human Rights Performance and Management Systems	Reputational Risk and Strategic Communications	Stakeholder Engagement and its Benefits	Integrating Key Performance Indicators for Human Rights and Business
	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS
Research & Development/ Merchandising	Introduction to Human Rights Performance and Management Systems	Product Cycle and its Impact on Human Rights Performance	Integrating Risk Analysis and Impact Assessments into Design and Merchandising	Marketing and Communication Benefits
	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS
Procurement & Sourcing	Introduction to Human Rights Performance and Management Systems	Integrating Purchasing Practices and Human Rights Performance	Integrating Supplier Rating Systems into Sourcing	Supplier Development and Outreach Programs
	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS
Production	Introduction to Human Rights Performance and Management Systems	Production Planning and its Impact on Human Rights Performance	Linking Human Resource Management Systems to Human Rights Performance	Measuring Business Benefits from Improving Human Rights Performance
	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS
Marketing & Sales	Introduction to Human Rights Performance and Management Systems	Marketing & Advertising Impact on Human Rights Performance	Integrating Purchasing Practices and Human Rights Performance	Marketing and Communications Benefits
	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS	DURATION TRAINER STATUS





# Step 5: **Communicating**

## Human Rights Impact

- What to communicate
- When to communicate
- Ways to communicate



## Objective of this Step

You've come a long way. In Step 4, you covered a lot of ground. You developed and implemented the systems to measure and improve human rights performance in your supply chain. Or maybe you just checked and updated what you already had in place. Either way, by now you realize that it is a journey. Remember - each step has its own cycle of continual improvement. The next step is to communicate what you have done so far.

The Guiding Principles introduce the concept of 'Knowing and Showing'. The previous steps in this Handbook are about the policies and procedure and systems that enable you to know how you are doing at respecting human rights in your supply chain. 'Knowing' is a pre-condition to showing. 'Showing' is about communication. The goal of the communication is to provide a measure of transparency and accountability to the individuals or groups you may have impacted. But it is also to communicate to all interested and relevant stakeholders - investors, customers, suppliers, civil society, NGOs and trade unions. In this step you will learn about:

- What to communicate
- When to communicate
- Ways to communicate

The primary objective of this step is to develop and implement an effective communication program. You've started to address communication issues in Step 1, especially internal communications. Now that your supply chain program is underway, it's time to talk about it. You need to effectively shape and communicate the message internally and externally.



# In order to

account for how they address their human rights impacts, business enterprises should

be prepared to communicate this externally, particularly when concerns are raised by or on behalf of affected stakeholders. Business enterprises whose operations or operating contexts pose risks of severe human rights impacts should report formally on how they address them.”

Guiding Principles on Business and Human Rights

## What to Do

### What to Communicate

You should be far enough along to be able to show how you are meeting your responsibility to respect human rights in your supply chain. At a minimum, the statement of policy, the procedures and the information gathered from your monitoring or auditing will allow you to communicate externally, or credibly respond if faced with allegations of human rights abuses in your supply chain.

For effective communication on human rights, the two most important elements are honesty and transparency. Dishonest or ‘inflated’ claims will often be turned against you, while being open about progress, problems and dilemmas is often rewarded by stakeholders as being more credible and trustworthy.

However, in some specific cases you are advised to keep information confidential. For example, sharing information about how you have identified certain human rights issues may pose the risk of retaliation to affected stakeholders or individuals who revealed the information to you. Confidentiality can also apply to sensitive business information - for instance, contracts, competitive intelligence and trade secrets. However, assumptions about such risks should not become justification to avoid sharing information that can legitimately be made public.





## RULES FOR COMMUNICATIONS ON SOCIAL RESPONSIBILITY

**BE HONEST**

**BE CREDIBLE**

**BE TRANSPARENT**

**BE PROACTIVE**

## So what information should you pro-actively communicate to your stakeholders?

The easiest way is to start by describing your ‘general approach’ to addressing human rights in your supply chain. This does not mean you need to communicate about all issues and steps. A well-structured general description on how you manage human rights in your supply chain will

provide stakeholders with a good indication on the robustness of your system. To get more detailed and more concrete you can describe the processes and procedures you implemented in Steps 1 – 4.

## Specific Topics to Communicate

- Your Buyer-Supplier Mutual Code of Conduct,
- How you engage with stakeholders
- Where appropriate, specific responses to a particular human rights impact
- Your membership in multi-stakeholder initiatives
- Your risk assessment procedures
- How you integrated human rights in your management systems
- How you monitor suppliers
- What you do to help your suppliers improve
- How you deal with new suppliers
- How you strive to improve each year
- How you receive, review and respond to complaints
- How you remediate when necessary



Another important element of your communication strategy should center on any complaints you have received. In these cases, you need to describe the specific complaint or incident, the context of the issue, how you addressed or remediated it and what processes you have put in place to mitigate or avoid the reoccurrence of similar incidents.

Reporting on your supply chain management processes and how you have dealt with incidents and complaints is a good start, but it is not enough to really show that you are meeting your responsibility to respect human rights in your supply chain. You will need to also include communication on so called 'key performance indicators.'



Communication or reporting based on human rights performance indicators may sound challenging and complicated. However, by going through Steps 1-4, you are much closer than you think. In Step 3 – Integrating, we introduced a management systems approach on the level of your company. We described 6 categories or key performance indicators that help you measure and improve your internal systems. Now you can use them in your reporting. In Step 4-Tracking, we talked about tracking and discussed how to effectively audit your supply chain and introduce a developmental approach. In step 4 we also introduced a management system on the supplier level. We introduced 9 categories or performance indicators here too. You can use these to report how these categories have developed. See the toolkit item, **Supply Chain Human Rights Report**, for an example of a report you may consider developing for your company.

## → Effective Corporate Communication

### TIP

1. The message needs to be memorable.
2. To be memorable, it needs to be simple.
3. It needs to be consistent month after month.
4. It needs to be concrete, not abstract.
5. It can highlight different things to different audiences, but it cannot ever include conflicting information.

## When to Communicate

Most companies communicate in regular intervals. Many companies now release an annual corporate social responsibility or sustainability report, or include a section on corporate social responsibility in their annual report. Monthly or quarterly updates are an effective way to proactively inform stakeholders about your programs in an open way. However, in some cases, you will be required to communicate immediately. Actual or potential impacts on human rights that can affect stakeholders' safety or welfare should be communicated directly and

as quickly as possible. The company should explain how it plans to address the impact. Another case that will require your immediate response is if your company is challenged by stakeholders on how you are addressing specific human rights impacts and incidents. In such circumstances you need to carefully consider what you can reasonably and credibly communicate to address the concerns. If the stakeholders

involved claim to be directly impacted or if they represent individuals or groups that have been harmed, direct communication with them is the best advice. Remember, to listen carefully with an open mind to the stakeholders. They can provide valuable insight.

If you feel a claim made is not legitimate, you can choose not to respond as a matter of principle. But in reality, it is best to respond in some manner to all claims to avoid the possible side effect that stakeholders assume the allegation made is correct due to your lack of response.

### Typical Timing & Types of Communications

**TIP**

1. Annual CSR report – tells the most complete story
2. Monthly or quarterly updates in newsletters or on the web-site – proactive updates on challenges, incidents and positive developments
3. Immediate 'crisis' communications – reactive communication based on an incident, media story or complaint from stakeholders

## Ways to Communicate

Now that you know what and when to communicate, you need to decide how to communicate. What are the most effective ways to communicate? Some basic rules apply. One of them is that the form should fit the audience. The chosen form can therefore vary per group of stakeholders, the occasion and can also differ due to differences in language, culture and literacy.

Another basic rule is that the Guiding Principles expect formal, public reporting of companies where risks of severe human rights impacts are high. The rationale behind it is that due to the significant risks involved, the heightened public interest dictates a need for more formal and regular public reporting to account for the systems you have in place to mitigate such risks and to address the harms that might occur.

### → Typical Ways to Communicate

**TIP**

1. In-person meetings and direct dialog
2. Multi-stakeholder roundtables
3. Formal public reports
4. Web-site updates
5. Newsletters
6. Blogs
7. Media releases

Formal and public reporting is however also advised to companies with limited risks. It protects and builds their reputation, can set them apart from their competitors, forces them to structure their human rights policies and procedures, and will create goodwill and understanding of stakeholders when an unforeseen negative human rights impact occurs.

If your company produces a formal annual report, you have to decide whether or not you will integrate your human rights performance in your overall company report or to report on human rights separately. Both can be acceptable. However integrating financial and non-financial information in one report is often perceived as

a clear indication of the importance and integration of human rights in the total policy of a company.

It is important to emphasize is that formal public reporting is not just for large companies. It is important, expected and feasible for small and medium-sized companies too. A formal report does not need to be a 60-page glossy booklet. It can be brief, and can be distributed electronically.

## Communicating Human Rights Impact

REMEDIATING

COMMITTING

You can do it alone or you can be part of a joint effort. More and more smaller (and larger) companies operating in sectors where their supply chain operations face considerable human rights risks, have joined industry initiatives. These industry initiatives seek to address issues that companies find difficult to tackle on their own. Such initiatives often report on behalf of what the member companies are doing collectively. An innovative way of reporting worth mentioning and used by small and large companies active in the garment sector is offered by MADE-BY. It annually reports a one page 'scorecard' per brand summarizing the environmental and human right performance and progress of each of their member brands (check: <http://www.made-by.org/scorecards>). Other initiatives that report on behalf of individual brands, sometimes blinded, or an aggregated level include the Business Social Compliance Initiative (BSCI), the Ethical Trading Initiative (ETI), the Fair Wear Foundation (FWF) and Social Accountability International (SAI). We mention this way of reporting since it is not just cost effective and time saving, it is also perceived as a credible form of reporting since most of such initiatives are multi-stakeholder initiatives.

Bigger firms reporting formally and publically on CSR or human rights can consider using the reporting structure offered by the Global Reporting Initiative (GRI). GRI provides companies and organizations with a sustainability reporting framework. The GRI Framework consists of environmental, economic and social performance indicators. The social category contains labour, human rights and society and product responsibility indicators.

Check: <https://www.globalreporting.org/Pages/default.aspx>

If the purpose of a specific communication is to address potentially affected stakeholders, then the communication can be limited to that group. The message and way it is communicated needs to be sensitive to literacy, language, and cultural communication norms and barriers. For instance, in some cultures verbal communications are considered more respectful than written communications. In-person meetings with the groups involved or their legitimate representatives may be most appropriate and successful. Conversely, if the purpose of the communication is to tell a broad group of stakeholders and civil society organizations, how your company is addressing a specific risk, then documents and presentations at an annual general meeting, web updates or similar means of communication might be more appropriate.



# Supply Chain Human Rights Report

This is an example of a report that would be provided to the CEO, the Executive Committee and/or the Board. It consolidates information on the human rights performance of all your suppliers as well as their related business performance. We suggest that it be sent jointly from the Human Rights Performance Team and Sourcing department.

This report can help you to start compiling data for your external reporting. As your program evolves, you may want to develop a more comprehensive external report following guidelines such as the Global Reporting Initiative’s Sustainability Reporting Guidelines. In addition to performance indicators such as those listed here, the external report should discuss your overall strategy and management system, including supplier engagement and capacity building programs.

## Your Company Letterhead

Memorandum

Date:

To: CEO, Executive Committee & Board of Directors

From: Human Rights Performance Team and Sourcing Department

Re: Annual Report on Human Rights Performance in our Supply Chain

Attached is the summary report of human rights performance in our supply chain. The information is consolidated from our internal and external monitoring over the last year.

There are 6 sections in this report, mirroring our company's 6-step approach to managing human rights in our supply chain.

### Step 1 - Committing to a Human Rights Policy

*[Note on report-writing: Include brief analysis of notable developments in international and local standards and/or laws; recommendations for updates to policy statement, if necessary; brief description of salient risks]*

### Step 2 - Assessing Risks of Human Rights Impact

*[Note on report-writing: Include brief description of the results of your supply chain mapping and risk assessment: key risks throughout the supply chain; risk criteria used and any recommendations for updates, if necessary]*

This Year [date]	Previous Year [date]
List of key risks identified in each tier of supply chain	List of key risks identified in each tier of supply chain
# of high-risk suppliers (all tiers)	# of high-risk suppliers (all tiers)
# of medium-risk suppliers (all tiers)	# of medium-risk suppliers (all tiers)
# of low-risk suppliers (all tiers)	# of low-risk suppliers (all tiers)



# Supply Chain Human Rights Report

### Step 3 - Integrating Human Rights

*[Note on report-writing: Include brief analysis of effectiveness of current policies, procedures and responsibilities and any recommendations for updates, if necessary]*

### Step 4 - Tracking Human Rights Implementation

This Year [date]	Previous Year [date]
# of high-risk suppliers (all tiers) that were formally monitored and rated	# of high-risk suppliers (all tiers) that were formally monitored and rated
# of medium-risk suppliers (all tiers) that were formally monitored and rated	# of medium-risk suppliers (all tiers) that were formally monitored and rated
# of low-risk suppliers (all tiers) that were formally monitored and rated	# of low-risk suppliers (all tiers) that were formally monitored and rated

**Table 1 – PERCENT OF SUPPLIERS (ALL TIERS) IN EACH HUMAN RIGHTS PERFORMANCE RATING**

*[Note on report-writing: Include brief analysis of numbers, possible explanations for trends, notable cases, possible explanations for differing performance by product group. Note that this table shows percentages for the suppliers that were included in the formal monitoring and rating system.]*

Rating (1-5) 5 is highest	% of Suppliers in Product Group 1		% of Suppliers in Product Group 2		% of Suppliers in Product Group 3		% of Total Suppliers	
	This year	Last year	This year	Last year	This year	Last year	This year	Last year
5								
4								
3								
2								
1								





# Supply Chain Human Rights Report

**Table 2 – PRIMARY HUMAN RIGHT PERFORMANCE PROBLEMS (ALL TIERS)**

*[Note on report writing: We suggest that you explain that a straight comparison of the percentages by performance problem might be misleading. Some issues like Health & Safety are much easier to audit for than others like Discrimination and Freedom of Association. Note that this table refers to the suppliers (all tiers) included in your formal monitoring and rating program. Also note that this list is not exhaustive and may be modified to reflect the salient risks in your supply chain and the scope of your program.]*

Violations Found and Major Corrective Actions Issued for:	% of Suppliers in Sector 1		% of Suppliers in Sector 2		% of Suppliers in Sector 3		% of Total Suppliers	
	This year	Last year	This year	Last year	This year	Last year	This year	Last year
Child Labor								
Forced Labor								
Occupational Health and Safety								
Freedom of Association and Collective Bargaining								
Discrimination								
Gender Equity								
Disciplinary Practices								
Working Hours								
Remuneration								
Retrenchment								
Indigenous People								
Right to Land								
Conflict Areas								

Table 3



# Supply Chain Human Rights Report

**Table 3 combines the human rights performance ratings of suppliers with their business key performance indicators (KPIs).**

*[Note on report writing: Table 3 is really important as it allows you to look at the business performance of all suppliers at each human rights performance level. Tracking this will create the foundation for building a business case that suppliers with better human rights performance typically have better key performance indicators. We suggest that you create a separate table for each product group and a consolidated table for your entire supply chain. You can also modify this table to set annual improvement targets for the aggregate human rights performance. You may consider tracking three-year rolling performance: current year, previous year, next year.]*

**Table 3 - INTEGRATED KEY PERFORMANCE INDICATOR REPORT**

Human Rights Performance Rating	% of Suppliers	% of Volume	Business Key Performance Indicators (1-5)					
			Average score for all suppliers at the human rights performance rating					
	%	%	Price	Quality	On-time	Lead-time	R&D	Total Score
5								
4								
3								
2								
1								

## Step 5 - Communicating Human Rights Impact

*[Note on report-writing: Include brief recommendations for external reporting of current performance.]*

## Step 6 - Remediating Human Rights Impact

*[Note on report-writing: Include brief analysis of grievances and remediation actions, any outstanding issues, and patterns and trends. Explain that the numbers need to be carefully analyzed, as higher numbers may not necessarily mean poor performance but rather improvement in systems for receiving grievances or identifying remediation needs.]*

This Year [date]
# of grievances received, by location and type
# of grievances resolved, by location and type
# of remediation actions needed, by location and type
# of remediation actions completed, by location and type

Previous Year [date]
# of grievances received, by location and type
# of grievances resolved, by location and type
# of remediation actions needed, by location and type
# of remediation actions completed, by location and type



## Step 6: **Remediating** Human Rights Impact

- Forms of remediation
- Grievance mechanisms
- Remediation planning



## Objective of this Step

You've made it to the last step in the six-step approach. But this is not the end. Respecting human rights in your supply chain is a cycle of continual improvement. Step 6: Remediating is a very important step because you can only fully meet your responsibility to respect human rights if you are able and willing to remediate any adverse human rights impacts you have caused or contributed to occurring. Having a remediation system in place is in no way a sign of weakness. It is smart. It shows that you realize that despite all your efforts things might go wrong. And if and when they do, you will be able to address the situation, minimize the negative impact and restore the situation quickly and effectively. In this step you will learn about:

- Forms of remediation
- Grievance mechanisms
- Remediation planning

### → Contributing Factors

#### TIP

One of the areas open to interpretation is the fine line between negative impacts that you contributed to, and those you are linked to through business relationships. The Buyer-Supplier Mutual Code of Conduct helps to bring clarity to this by spelling out contributing factors.

In the previous steps we already explained that remediation only applies if your company has caused or contributed to an adverse human rights impact. The recognition of your involvement may have come from your own assessment or it may have been brought to your attention by others.



# Where business

enterprises identify that they have caused or

contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes. Where adverse impacts have occurred that the business enterprise has not caused or contributed to, but which are directly linked to its operations, products or services by a business relationship, the responsibility to respect human rights does not require that the enterprise itself provide for remediation, though it may take a role in doing so.”

## Guiding Principles on Business and Human Rights

The primary objective of this step is to help you develop and implement effective remediation systems. We start out by looking at different forms of remediation. Then we look at grievance mechanisms and their importance to managing human rights in your supply chain. An effective grievance mechanism is like a pressure-relief valve in a boiler. It allows the pressure to escape before the boiler explodes -- in this case, before a minor grievance escalates into a serious incident.

We'll also show you the process for developing effective and credible remediation plans. The best approach is to have remediation plans in place. Don't wait until a problem occurs to start thinking about it. If your remediation plans have been developed with or reviewed by external stakeholders or multi-stakeholder initiatives they will already have a level of credibility.



**DEFINITION**

**REMIEDIATION**

The action of correcting or remedying an action or error.

## What to Do

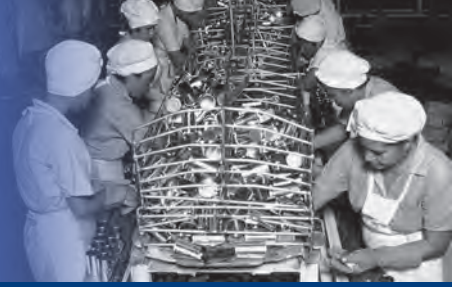
### Forms of Remediation

So if you recognize that you caused or contributed to the problems and remediation applies, what do you do? What forms of remediation exist? Remedies can have various shapes and forms. They include an apology, provisions to ensure the harm will not recur, cessation of a particular action or relation and compensation (financial or other). The chosen form of remediation will depend on the situation. Basically, it is something that is agreed to between your company and the harmed group or individual. Having a credible remediation plan in place can really help to speed the process. If your company and the individual or group whose human rights have been negatively impacted do not reach agreement on the appropriate remedy, you may also decide to involve a neutral third party as a mediator.

The remediation does not always need to be directly provided by your company. You can use third parties to help to deliver or perform the remediation. This is another good reason to maintain good relations with external stakeholders in the countries where you operate or where your suppliers are located.

### Grievance Mechanisms

A grievance mechanism is a system that allows people to communicate with you concerning negative impacts on their human rights. It may be individuals, workers, communities or external stakeholders. All of them need a secure way to reach you. In Step 3 we looked at a complaint management and resolution system for your company. In Step 4, we looked at a complaint management and resolution system for your suppliers. In both cases, the idea is for you to provide a trusted and secure channel to receive complaints or grievances or reports of incidents. But beyond that there needs to be a system in place for you to look into the grievance to determine its validity and whether you caused or contributed to it. You also need a way to communicate to the specific group about what you found and what you will do. You need to commu-



nicate to all stakeholders about your actions. We covered that in Step 5. See how all of this is linked together?

A grievance mechanism provides an early warning system about your potential or actual adverse impact on human rights. This allows you to identify trends by country, region, business unit, supplier or product and adjust your policies and procedures accordingly. You can then take prompt action, preventing harm or escalation.

Both you and your suppliers have the responsibility to respect human rights, both you and your suppliers should have appropriate systems in place when things go wrong despite best intentions. You both want to quickly remedy the situation, to compensate for harms which occurred, to prevent recurrence of such harm and to protect your and your supplier's reputation. Ideally both you and your suppliers have a fully functioning grievance mechanism – sometimes also referred to as a complaint management and resolution system.

A first step might be to set up your own systems or open up your existing internal grievance mechanism for external stakeholders such as workers of your suppliers, NGOs, unions and others.



## An effective grievance mechanism

functions like a pressure relief valve in a boiler. It can allow the pressure to escape before the boiler explodes.”



Some of the key procedures to have in place include:

→ **Grievance procedures**

These should be written procedures clearly communicated to the workers, included in the personnel manual and posted in the facility. The procedures should detail mechanisms for workers to report labor concerns and grievances directly to managers, give a timeframe for investigation and resolution of the complaint, and require the proper reporting of the findings back to the worker and the workplace. You should have a system for recording, investigating and following up on the complaints. This can be time-consuming, but you need to make sure you allot enough staff time and resources.

→ **Model anti-retaliation policy**

You should have a whistle-blower protection policy which protects workers who report concerns or grievances. This policy should be clearly communicated to all management, supervisors and workers.

→ **Formal worker-manager communication channels**

Even something as simple as the suggestion box can be a useful way for facility workers to direct their inquiries and suggestions to your company – there should be a designated company staff person who addresses these inputs. A Worker Survey can be an even more informative way to engage workers. See the Toolkit item **Workers Survey**.



## → Effective Remediation Planning

### TIP

1. Your cross-functional Team should lead the planning
2. Use your risk assessments to guide the planning process – think about probability and severity
3. Engage with external stakeholders and multi-stakeholder initiatives in developing the specific remediation guidelines
4. Localize your remediation plans to account for local cultures and customs
5. Plans needs to be credible and practical

The grievance mechanisms you installed in your company and suppliers have installed in their company can also be used by external stakeholders, like members from the community, human rights groups, womens organizations and unions. You can enter into dialogue with the stakeholders mentioned based on a compliant they filed. Even better is to proactively engage with the stakeholders in an organized way at an earlier stage. It will help detect and prevent adverse human rights im-

pacts in an earlier stage and will also result in better relations with such stakeholders should problems occur. Examples of such dialogues include Round Tables or Multi-stakeholder Advisory Committes, both of which are organized on industry and country levels.



You should encourage your suppliers to establish their own communications with their workers and external stakeholders. Encourage them to establish their own grievance mechanisms. See the toolkit item, **Grievance Mechanism Procedure**, for an example procedure.



Also, create a direct line of communication between your company and your suppliers' workers and external stakeholders. You don't want to micro-manage or undermine your suppliers' own efforts, so encourage their workers to go to their own management first. But you want to make sure that there is a way for you to learn about issues from suppliers' workers and external stakeholders if they are not effectively handled by the suppliers. Use the following toolkit items to get started: **Worker Hand-out and Wallet Card**.





# Worker Survey

This is a sample of a worker survey that you can conduct at your supplier facilities. You may want to share it with your suppliers so that they may adapt it for their own worker surveys. The survey may be conducted via paper, email, or mobile phone, depending on what is most effective for a particular demographic. The survey has mostly simple yes/no questions so that it is easy for workers to understand and complete, and easy for you and/or your supplier to compile and analyze the responses. We recommend working with worker representatives to adapt and conduct the survey so that the survey asks the relevant questions and workers are encouraged to respond.

We recommend that you aim for 10-15 questions. In this sample survey we include questions that will help to analyze the demographics and the effectiveness of three categories of SAI’s Social Fingerprint Company rating system: Worker Involvement and Communication, Complaint Management and Resolution, and Training and Capacity Building. You can repeat the survey to track progress, and modify questions as your program evolves.

1	Are you a man or a woman?	Man Woman	Demographic
2	How long have you worked at your current factory?	# of years: ____	
3	Are you a permanent employee or contracted worker?	Permanent employee Contracted worker Not sure	
4	Do you have a clear understanding of your contract with this company?	Yes No Not sure	Worker Involvement and Communications
5	Do you have a clear understanding of your company's labor policies and how they relate to you?	Yes No	
6	If you have an idea for improving your company's operations, is there someone you can talk to that you think would take you seriously?	Yes No	
7	Is there a way for workers as a group to discuss issues and concerns with management?	Yes No Not sure	





## Grievance Mechanism Procedure

The following is an example procedure that you can share with your suppliers to help them develop their own grievance mechanism. It is important that they have their own system in place to hear and effectively address the concerns of workers and other stakeholders. You should emphasize the importance by periodically reviewing your suppliers' records of grievances received and actions taken, and also interviewing workers and other stakeholders to gauge the level of trust and confidence in the suppliers' systems. Each supplier is responsible for having its own system in place. You should also have your own grievance procedure for resolving grievances that are not effectively resolved through the suppliers' systems or that stakeholders choose to file directly with you, whether about your own performance or that of your suppliers. It is important for stakeholders to understand that they can reach you directly in such cases.

This sample procedure is targeted for worker grievances, but your supplier can easily expand this to include other stakeholder grievances, which are also important.

### Guiding Principles based on our Human Rights Policy and Code of Conduct:

- Our Company will establish a transparent process for workers to express concerns and file grievances, including anonymous complaints.
- We will ensure that there will be no retaliation or discrimination against those that express grievances.
- Management will treat the grievances seriously and take prompt, appropriate action.
- Any grievance mechanism will not replace other channels as defined by law or collective bargaining agreements.
- Communications, communications, communications:
  - Good worker-manager communications can enable workers to raise concerns before they become a serious complaint.
  - Explanations of responses to complaints, even if only to alert workers to a delay in the process, are key to ensuring workers understand their complaints are respected and taken seriously.

### General Information

Any grievance or dispute that may arise from a worker or worker organization shall be subject to the following Procedure.

All individual complaints and grievances shall be initiated at Step 1 and shall, if necessary, proceed step-by-step to Step 6 where the resolution proposed shall be final and binding.

However, every effort will be made by both management and workers to resolve complaints, grievances and disputes at the earliest possible opportunity and with the minimum opportunity for tension or conflict.



## Grievance Mechanism Procedure

Both management and workers should seek to maintain a positive working environment involving regular, two-way communication, consultation, dialog and bargaining. The Procedure should be used responsibly and that the full set of procedural steps should be needed very rarely.

Issues will inevitably arise from time to time, but since disputes are potentially harmful to the company, its workers, supervisors and managers at every level, all parties will be expected to resolve all but the most complex difficulties without recourse to Steps 5 and 6 of this Procedure.

The worker organization filing the grievance or representing the worker filing the grievance shall have the right to be notified and be present at all steps of the Procedure.

Collective grievances and disputes will be handled in the same step-by-step approach as that for individual complaints and grievances but shall begin at Step 2.

Every effort should be made to settle the issue at each Stage and until this procedure has been completed there shall be no threats of 'go-slows', partial or general stoppages of work or other illegal action or lock-out.

### Procedure

#### Step 1:

The worker should present the complaint or grievance verbally to the most immediate supervisor who has the authority to make adjustments in the matter, within 14 days of the alleged grievance or knowledge. The company will provide each supervisor with a log for recording all complaints presented and the action taken. The company will also provide clear procedures and channels for workers to file grievances anonymously and file grievances against their direct supervisor if he/she is the problem. See below for further clarification.

Workers also need a confidential avenue for filing complaints and for requesting that a case be handled confidentially. Although it is important for workers to understand there are transparent procedures for management to review and respond to complaints, the process should not be overly bureaucratic.

#### Step 2:

If a satisfactory settlement is not reached in Step 1 within three days, or if the worker fears making the complaint or grievance directly to the most immediate supervisor, then the worker representative, the trade union or other worker organization, or any individual member(s) of such organization, may present the complaint or grievance verbally to the supervisor concerned. The worker may choose to remain anonymous.

#### Step 3:

If a satisfactory settlement is not reached in Step 2 within three days following its completion, the worker or his or her chosen representative for the case may present the complaint or grievance to the Department Head.





## Grievance Mechanism Procedure

Upon the request of said Department Head, the complaint or grievance shall be in writing and shall state the complainant(s) or grievant(s) names(s).

### Step 4:

If a satisfactory settlement is not reached in Step 3 within five days of the date of submission of the written complaint or grievance to the Department Head, the worker or his or her chosen representative for the case may present the complaint or grievance to the Head of the Human Resources Department.

The Head of the Human Resources Department or his/her designee shall schedule a meeting to be held within fourteen days of the receipt of the complaint or grievance with the worker or his or her chosen representative, for the purpose of attempting to resolve the complaint or grievance. The worker can bring one or two peers for support during this meeting; those workers will also be covered under the non-reprisal clause.

The Head of the Human Resources Department or his/her designee shall respond in writing within seven days of the date of the meeting.

### Step 5:

If the complaint or grievance is not resolved at Step 4, the employee or his or her chosen representative may, within 14 days after the written response from the Head of the Human Resources Department, serve written notice to the Company that he or she desires to have the complaint or grievance on the agenda of the next meeting of the Internal Labor Standards Performance Team.

At the meeting, the worker or his or her chosen representative shall present the details of the complaint or grievance and the company shall respond.

Every effort shall be made to secure a resolution in the best interests of the worker(s) and the company.

### Step 6:

If the complaint or grievance is not resolved at Step 5 and it is clear that resolution within the company is impossible, the worker or his or her chosen representative may refer the complaint or grievance to the Labor Ministry for resolution.

### Step 7:

The Internal Human Rights Performance Team shall conduct a quarterly review of all complaints and actions taken. The Team shall review the complaint logs of each supervisor and Department Head to evaluate the effectiveness of the grievance procedure and resolutions.

As part of the quarterly review, the Team shall follow up directly with the worker or his or her chosen representative to make sure there has been no retribution.

The Team shall maintain a central record of all complaints and resolutions. The logs from each quarterly review shall be added to this central record.





# Understanding **Human Rights Risks**

## Guide to Using This Section

➤ CHILD LABOR   ➤ FORCED LABOR   ➤ HEALTH & SAFETY   ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING   ➤ DISCRIMINATION   ➤ GENDER EQUITY

### Common Standards

In this column, we present the requirements that are typically found in most international codes and standards.

On these two pages, we present a guide to help you to easily navigate this section and get the most out of it. On the following pages of this section, we look at common human rights risks that you may encounter in your supply chain. These may be problems that occur in your own operations or in your suppliers. Use this section as a way to gain insights as you conduct your own risk assessment.

For each risk topic, we provide a broad perspective on it and what it means to you. We also try to help you see some of the issues from the suppliers' and workers' points of view. Then we present the Common Standards, Common Problems and Recommended Actions.

Here are the risk topics that we will present. This is not intended to be an exhaustive list.

- ➔ Child Labor
- ➔ Forced Labor
- ➔ Occupational Health and Safety
- ➔ Freedom of Association and Collective Bargaining
- ➔ Discrimination
- ➔ Gender Equity
- ➔ Disciplinary Practices
- ➔ Working Hours
- ➔ Remuneration
- ➔ Retrenchment
- ➔ Right to Land
- ➔ Indigenous People
- ➔ Conflict Areas



## ➤ Common Problems

Here we highlight potential negative impacts most commonly encountered around the world. The focus here is on problems that you would typically find at suppliers. Use these as a starting point, but make sure to do your own risk assessment. Remember that consultation with stakeholders is a key resource for identifying and understanding the real problems in your supply chain.

As you look through the following, keep the idea of salient risks in mind, as well as issues related to the probability and severity of the negative impacts.

Take a proactive approach to identifying problems before they occur.

## ➤ Recommended Actions

The recommended actions that we present are some of the things that you can do or ask your suppliers to do. They are based on leading practices from companies around the world. You'll see that having clear policies and procedures, implemented by trained people, is an effective action that spans every type of risk. Also, stakeholder consultation is an important way to inform and steer your actions and those of your suppliers.

The recommended actions are not an exhaustive list. They are provided to get you started. They will need to be tailored. Some of them are preventative actions and some are actions that would mitigate or remediate negative impacts.

If you look at some of the potential solutions, you'll see it would be far more effective for you to develop them and then distribute them to all of your suppliers, instead of asking each supplier to develop their own solution.

## Child Labor

➤ CHILD LABOR ➤ FORCED LABOR ➤ HEALTH & SAFETY ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING ➤ DISCRIMINATION ➤ GENDER EQUITY

### Common Standards

Child labor is never allowed. Young workers may be employed, but must be granted special protection:

- No night work
- Maximum of 10 hours per day for work, school and transportation
- Maximum of 8 hours per day working
- Can only work outside of school hours if subject to compulsory education laws

“Child” is defined as anyone less than 15 or the local legal school leaving or working age if higher. “Young workers” are between the minimum working age as defined above and 18.

Child labor is the human rights issue that has the highest awareness among US and European consumers. Child labor gets the media attention. Many experts on human rights in the supply chain have said we are past the use of child labor. But it seems that while some of those experts moved on to other issues, the reality on the ground is different. Child labor is still an issue. It is still a huge, complex issue that is a long way from being solved.

Historically, child labor has been more common in certain countries and industries. And now, we see it is more common in certain production processes within an industry. For example, several cases have exposed the use of child labor by unauthorized sub-contractors doing embroidery work or harvesting certain crops.

Preventing child labor takes extra due diligence to look down your supply chain past your direct suppliers to their suppliers and sub-contractors.

There are also nuances to child labor that need to be addressed from country to country. Local laws may allow apprentice programs involving young workers under the legal working age. Properly managed, apprenticeships can be a valuable part of an education. But, there are many abuses. How do you know if the employer is taking advantage of the apprentice program to violate child labor standards?

Finally, there should be a remediation plan in place should children be found working. The negative impact of lack of education needs to be addressed. If you wait until the incident happens to think about a remediation plan, it is too late.



## ➤ Common Problems with Child Labor

- Lack of age verification procedures
- Apprentices programs permitting children to work or that are improperly used for young workers
- Child labor policy not effectively communicated to workers and interested parties
- No remediation plan in place should child labor be found
- No procedures to assure proper use of young workers
- No clear policy communicated to sub-contractors and suppliers

## ➤ Recommended Actions

- Clearly define policies prohibiting child labor and defining special considerations for young workers
- Implement age verification procedure that includes review of national ID card, birth certificate, school records, "Family book" and interviews with local groups
- Develop a remediation plan defining what to do in case children were accidentally employed (example: child presents false ID that the company unknowingly accepts)
- If child labor is found, provide education with compensatory remuneration for children until of legal age to provide for schooling and/or offer to employ an adult member of the family
- Engage with local stakeholders to develop proactive plans to address child labor issues
- Communicate child labor policies and procedures to suppliers and contractors



## Forced Labor

➤ CHILD LABOR ➤ FORCED LABOR ➤ HEALTH & SAFETY ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING ➤ DISCRIMINATION ➤ GENDER EQUITY

### Common Standards

- The right to choose your workplace
- The right to retain your own personal documents and money
- Freedom to leave the workplace after work
- The right to resign
- No human trafficking

Like child labor, forced labor has a nightmare image in the minds of many consumers: workers chained to their worktables inside locked workshops, prisoners working at manufacturing facilities. But the reality of forced labor is often far more insidious. It is not always so easy to spot.

More and more attention is being focused on the issue of forced labor. The dramatic increase in the use of employment agencies and labor contractors has created new forms of forced labor. The problem has been magnified by the rapid increase in the use of migrant workers. The US State Department estimates there are 27 million victims of human trafficking worldwide.

Imagine an employment agency that recruits factory workers or construction workers or farm workers. They send the workers to another country and transfer the passports to the employer... for 'safekeeping.' And the employer withholds wages from the workers' paycheck to pay the employment agency. And the employer withholds wages from the workers paycheck to pay for using the dormitory. The worker has no money and no passport. Sure seems like forced labor. And what if only 20% of the workforce is migrant labor hired through a labor contractor. How do you pick out the "prisoner" on the production line or in the field?



## ➤ Common Problems with Forced Labor

- Company holds passport or working papers
- Company does not give worker a copy of their contract
- Company uses employment agencies to avoid paying workers legal wages and benefits
- Worker at the facility does not officially exist in the employment records
- Company holds first month salary as a deposit
- Company requires worker to pay for job training, protective equipment, tools, housing and other items that make the worker indebted to the company
- Company requires worker to sign termination letter as condition of employment
- Company withholds wages to pay recruiting or transportation fee to employment agency
- Company claims not to know the details of the workers contracts because they are hired by the employment agency

## ➤ Recommended Actions

- Provide clear employment contracts in all worker languages - worker gets copy
- Verify that employment contracts exist for all workers, whether direct or contracted
- Clearly define worker's freedom in employment contract, including right to personal documents at all times
- Conduct training for workers to explain hiring, pay deductions and rights
- Pay all reasonable job related training and equipment expenses
- Define and enforce policies and procedures regarding use of employment agencies
- If employment agencies are used, monitor the relationship between the agency and the workers
- Set clear expectations for labor standards and working conditions for those hired by the employment agencies

# Occupational Health & Safety

➤ CHILD LABOR ➤ FORCED LABOR ➤ HEALTH & SAFETY ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING ➤ DISCRIMINATION ➤ GENDER EQUITY

## Common Standards

- People must not be unreasonably endangered at work
- Company takes all necessary precautions to prevent and mitigate work-related risks
- Workers are provided personal protective equipment and trained in its use at company's expense
- Company will document and report accidents, diseases and incidents
- Workers will be trained on an emergency prevention, preparedness and response system

Occupational health and safety is widely considered to be the easiest issue to identify and correct, therefore one where progress has been significant. To an extent, this is true. It certainly is easier to audit for some health and safety issues rather than issues like freedom of association or discrimination. Within health and safety, some elements are very straightforward with visible evidence. Other elements are not so easy to spot. Another challenge is to determine what the conditions are like when the auditors leave.

While some safety issues are relatively easy to see, long term health risks are not - adverse effects from workplace chemicals, diseases that develop decades later, abnormalities to children born to workers. A company needs to be aware of the industry-specific long term health risks and communicate these to the workers.

Unfortunately, health and safety is also one area where the differences between corporate codes can generate wasteful, unintended consequences. There is the story of the supplier with four sets of brackets on the wall for each fire extinguisher. Each set of brackets is at a different height. Before the auditors come the fire extinguishers are moved to the bracket meeting the height requirement of the specific corporate code.

Effective management systems can help to address the core issues without creating unnecessary duplication. The systems and the related training are the keys to preventing and reducing risk. Effectively implemented management systems can help to determine if the workers use their protective equipment when the auditor is gone. Workers need to know why they need to wear the protective equipment even on hot days. Workers need to understand the long term health risks.



## ➤ Common Problems with Occupational Health & Safety

- Inadequate Personal Protective Equipment (PPE)
- Lack of enforcement or worker understanding of PPE use and health benefits
- Safety training, not reinforced, not updated, not effective
- Accidents and incidents not tracked and reported
- Inadequate ventilation or temperature regulation
- Policies and procedures not written and clearly communicated
- Medical records incomplete
- Fatigue related injuries due to excessive working hours
- Poor chemicals labeling and storage
- Poor equipment maintenance
- Dormitories lack adequate space, potable water and sanitary facilities
- Lack of emergency exit plan and related training

## ➤ Recommended Actions

- Implement clear procedures and verify effectiveness of related training
- Prepare and maintain a risk analysis
- Assign management representatives and encourage worker committees
- Conduct and verify effectiveness of ongoing, periodic training programs
- Encourage worker involvement in risk assessment and identification of opportunities for improvement
- Use Material Safety Data Sheets (MSDS) in chemical handling and storage
- Conduct routine ambient and other testing
- Prepare and maintain an emergency prevention and response plan
- Maintain and review accident and incident logs

# Freedom of Association & Collective Bargaining

## Common Standards

- People have the right to be heard at work, bargain collectively and organize
- Management cannot interfere with or discriminate against workers who choose to organize
- Worker representatives must have access to management
- Workers must be allowed to meet for work related and personal issues

Freedom of association (FOA) and the right to collective bargaining are key and fundamental rights in the workplace. This is the core element that empowers workers and gives them a collective voice. It involves them in the production process and fosters dialogue between workers and managers. Without freedom of association the other components of a social policy are hollow. Management that does not allow freedom of association and collective bargaining is not embracing the core of human rights. Embracing freedom of association and collective bargaining does not mean promoting unionization. There is a fine, but clear line between the two.

Freedom of association is one of the most difficult social principles to audit. How can you tell if the workers are really free to bargain collectively? How can you tell if they really do not want a union or are just too intimidated to form one? The situation is complicated.

Some countries prohibit trade unions or the right to form a union and bargain collectively. Some countries create free trade zones with special regulations restricting freedom of association. In other countries the unions may have a history of corruption or links to a certain political party that complicate the reality on the ground.

There is fear. Workers and union reps may fear retaliation. Suppliers may fear that collective bargaining will result in higher wages and more benefits that will reduce their competitiveness. Brands and retailers may fear that allowing freedom of association will lead to unionization, which can lead to higher costs and the potential for supply disruptions. Your role is to ensure that workers are educated on their rights and that you maintain an environment where this is possible.

Developing trust and credibility with local NGOs and unions is a critical part of understanding the real situation around freedom of association. It is a critical part of any serious effort to improve human rights in the supply chain.

## ➤ Common Problems with Freedom of Association & Collective Bargaining

- No clear policy allowing collective bargaining
- Management appoints worker representative
- Workers do not have access to information on their rights or representatives
- Company advises workers that unions will discourage investment and reduce orders
- Union registration or collective bargaining is delayed or not negotiated in 'good faith'
- Worker representatives or organizers are harassed, discriminated against, fired or 'Blacklisted'
- Management favors one worker organization over another

## ➤ Recommended Actions

- Define clear policy allowing freedom of association and collective bargaining
- Clearly communicate worker rights and responsibilities and employer rights and responsibilities
- Allow workers to meet to address workplace issues
- Regular training on worker-manager communications
- Form a Social Performance Team with worker representatives chosen by workers
- Regular meetings between management and worker representatives
- Periodic documented communication with local unions and NGOs
- If national law restricts workers' organizations, establish alternate ways for workers to express their concerns
- Develop a map of stakeholders to understand possible sources of information

## Discrimination

### Common Standards

- People should be hired, promoted and compensated solely based on their ability to do the job
- All workers should have equal access to training, tools and opportunities for advancement
- All workers should be free from harassment by management or other workers
- Positive discrimination may be allowable in cases where it protects disadvantaged or excluded groups and provides them special opportunities

This is another extremely complex issue that is very challenging to discern in the field. It is also one of the most common human rights violations in the supply chain. There is negative discrimination meant to prevent equal opportunity to people. There is, less commonly, positive discrimination meant to correct the wrongs of past discrimination and give advantages to those people that are or have been discriminated against or socially excluded.

Realistically, in almost every culture there is some form of deeply ingrained discrimination. Even where discrimination can be easy to spot, it can be very difficult to change.

The discrimination may be centuries old. It may be woven into the fabric of society. In some cultures it is religious discrimination. In some cultures it is racial or tribal discrimination. In some cultures it is gender discrimination. Because discrimination can be so ingrained in people, you need to maintain constant vigilance against it appearing in your company. In the workplace people should be hired, evaluated and compensated based only on their ability to do a job.

Policies and procedures must be clear and understandable to all managers, supervisors and workers. They must be effectively communicated to your employees and any contracted workers. It is the company's responsibility to make sure that discrimination is not part of the day-to-day business operations.





## ➤ Common Problems with Discrimination

- Minorities or women denied equal benefits and job opportunities
- Manager distribution not reflective of workplace demographics
- Workers hired or advanced based on religion, gender, race or other non-performance criteria
- Retribution for union activities
- Job applications cite unrelated physical characteristics
- Workers over a certain age not hired for specific jobs
- Selective offering of training that enables advancement
- Pregnancy testing to deny women employment or advancement
- HIV status used to deny employment
- Employment agencies have discriminatory practices
- Communications channels exclude minorities or migrant workers that do not know the main language

## ➤ Recommended Actions

- Clearly define anti-discrimination policy in hiring, training, promotion and compensation
- Regularly review worker and manager demographics
- Develop long term remediation plan to address past discrimination
- Provide and verify effectiveness of regular training for workers and managers
- Establish “risk free” communication channels for workers to reach managers
- Promote harassment-free workplace through well-defined policies and training
- Require employment agencies to follow anti-discrimination policies and verify their compliance through worker interviews
- Provide progressive skills training and promote participation by all groups
- Work with local community and other groups to facilitate better understanding and communications

## Gender Equity

### Common Standards

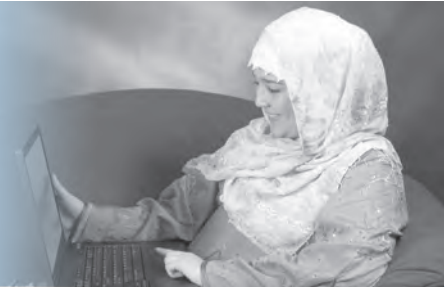
- Men and women should be hired, promoted and compensated solely based on their ability to do the job
- Men and women should have equal access to training, tools and opportunities for advancement
- Men and women should be free from harassment by management or other workers
- Positive discrimination of men and women may be allowable in cases where it protects disadvantaged or excluded groups and provides them special opportunities
- The employment relationship of men and women should allow for a balance between work and family responsibilities
- The protection of maternity and the health of women are important in order to promote effective equality

The issue of gender equity is closely linked to the issue of discrimination. Gender equity is critical since many industries in developing economies are heavily dependent on cheap unskilled female labor. Women can comprise between 70 - 90% of the total labor force in many industries throughout Asia, Latin American and Sub Saharan Africa. While increased access to employment has provided new economic and social opportunities for women, the jobs they occupy are often unregulated and unstable.

In some industries and countries female workers are systematically denied the same workplace rights provided to men.

All too often women are denied the right to a labor contract that provides regular pay, regular working hours and legally-due benefits. They are denied equal pay for equal work, permanent contracts and safe work environments.

Sexual harassment and violence in the workplace are often tolerated. Companies use pregnancy tests as a form of discrimination against women. Organizing against abuse is often more difficult for women because they often work on temporary contracts or in the informal labor sector (as home workers or in subcontracted factories).



## ➤ Common Problems with Gender Equity

- Women are denied equal benefits and job opportunities (salaries, social security, access to overtime, promotion, training, formal and long term contracts)
- Manager and supervisor distribution is not reflective of male/female distribution in the company
- Pregnancy testing to deny women employment or advancement
- Job advertisements specifying gender
- No policies in place and implemented for pregnant women and the health of women
- No sexual harassment policies in place and implemented or training provided

## ➤ Recommended Actions

- Clearly define and communicate anti-gender discrimination policy in hiring, training, promotions and compensation
- Develop and implement policies to protect the health of women, especially pregnant women, and to provide maternity leave
- Develop and implement sexual harassment policies and actively promote a harassment-free workplace
- Develop long term remediation plans to address past gender discrimination
- Provide regular gender training to workers, supervisors and managers
- Provide progressive skills training and promote participation by all groups
- Establish confidential and secure communication channels or grievance mechanisms equally accessible for men and women
- Regularly consult local women's experts and groups
- Regularly review worker and manager demographics

# Disciplinary Practices

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## Common Standards

- All personnel must be treated with respect and dignity
- People must not be abused at work physically, verbally or mentally
- People must be free of all corporal punishment

If a company routinely has gross violations of discipline, it may be easy to spot. There may be a palpable fear among the workers. But there are also subtle ways that workers can be disciplined or punished that create a culture of fear and intimidation. These are harder to spot, but just as insidious.

In the workplace, abusive disciplinary practices are often the result of a lack of clear guidelines and people reacting to stressful situations. The production supervisor is under pressure to meet an unrealistic order delivery date. The pressure gets transferred to the line supervisors. The supervisors feel trapped and lash out at the workers. Or maybe a supervisor does not like one of the workers for real or imagined reasons. They feel the need to show everybody who is the 'boss.'

Without clear guidelines for discipline, it can be applied randomly - or used as a means of discrimination.

Think of the impact on the workers if their supervisor denies them the tools and materials they need to do their job. Think about workers that have just had wages unfairly deducted as a means of discipline. What happens to their motivation?

Of course there need to be disciplinary procedures in the workplace, but workers need to be free from threats and fear. Clearly defined policies and procedures are critical to bring clarity to what is acceptable. All of the policies and procedures must be extended to contracted workers too.

## ➤ Common Problems with Disciplinary Practices

- No clear policies and procedures for acceptable discipline
- Workers and supervisors unclear about what is and is not allowed
- Supervisors create their own disciplinary procedures outside of company policy
- Bathroom restrictions used as discipline
- Group peer pressure and isolations used to punish a worker
- Withholding materials on the production line
- Wage deductions as disciplinary action
- Change of job assignments to lower pay rate
- Separate discrimination rules for contracted workers

## ➤ Recommended Actions

- Clearly documented policies and step-by-step procedures on allowable discipline
- Communicate written procedures showing recording and escalation of disciplinary actions
- Conduct and verify effectiveness of training for managers, supervisors and workers
- Establish communication channels between workers, supervisors and managers
- Promote employee feedback, including surveys seeking employee input to problems and improvements
- Create safe communication channels for complaints
- Involve social performance team or worker representatives in defining and monitoring disciplinary procedures
- Monitor employment agencies and contractors to verify acceptable disciplinary procedures
- Regularly review disciplinary logs and complaints

## Working Hours

➤ CHILD LABOR ➤ FORCED LABOR ➤ HEALTH & SAFETY ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING ➤ DISCRIMINATION ➤ GENDER EQUITY

### Common Standards

- Overtime is limited, voluntary and paid at a premium
- Workers should make sufficient wages in a normal work week so overtime is not necessary to meet basic living needs
- Companies can require workers to do overtime to meet short term demand if there is a collective bargaining agreement
- Communicate guidelines on assignment and payment of overtime

This is a bottom-line business issue that is tied to purchasing practices. Think about how your purchasing decisions contribute to working hours issues in the production facility. Think about the constant pressure of shorter lead-times. Think about those last-minute design or specification changes and what they do to the workers.

Working hours is one issue that is a constant challenge around the world. It is also a key area where the purchasing practices of the buyer can directly contribute to the problem.

How do you balance the need for timely delivery with not creating excessive overtime? How do you balance lean inventory with meeting spikes in product demand?

In most places, working hours are limited by law. Usually the basic work week plus overtime is not supposed to exceed 60 hours. But enforcement can be sporadic. Companies will often say that the workers want the extra overtime. They want to work 90+ hours a week - week after week. But we know that this is not sustainable. We know that quality declines and accidents go up after 60 hours a week. Workers should make enough in the basic work week that they do not need to work 90+ hours a week to live.

Working hours is one area where buyers can have a direct impact. Companies should turn their supplier code of conduct into a Mutual Buyer-Supplier Code of Conduct that clearly defines its purchasing practices and their contribution to working hours.

Successful implementation will take coordination between the activities of the sourcing department and the corporate social responsibility department. It requires sending a consistent message to suppliers from all departments - sourcing, merchandising and social compliance.

## ➤ Common Problems with Working Hours

- Overtime not paid at a premium as per contracts or local law requirements
- Regular, excessive overtime caused by peak season deliveries, last-minute orders, planting or harvest season, etc.
- Constant “peak season” – company consistently exceeds hour maximum due to poor planning
- Workers demand constant overtime in order to make sufficient wages
- Accepting orders that exceed the production capacity
- Averaging work hours from several weeks to avoid paying daily overtime premium
- “Banking” hours – overtime hours from peak season credited until slow season then given to workers at regular wage resulting in workers not paid premium for peak season overtime

## ➤ Recommended Actions

- Develop Mutual Buyer-Supplier Code of Conduct that defines the responsibility of both parties
- Improve production planning
- Attempt to reduce production seasonality by expanding into related product lines
- Outsource to approved sub-contractors
- Improve workflow process design
- Assure basic wage meets worker needs to reduce worker pressure for overtime
- Train workers to increase productivity
- Add shifts and maintain flexible work schedules
- Negotiate realistic lead-times and production volumes
- Train workers to understand overtime guidelines and payment requirements
- Verify that employment agencies are properly paying and managing overtime



## Remuneration

➤ CHILD LABOR ➤ FORCED LABOR ➤ HEALTH & SAFETY ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING ➤ DISCRIMINATION ➤ GENDER EQUITY

### ➤ Common Standards

- People must earn enough during the regular work week to live on
- Services provided to employees for a fee, such as dormitories, food plans and medicine, shall be provided at cost
- Companies can choose to pay by the hour or for performance
- Wages must be understood by workers, paid in a convenient and timely manner, accurately calculated and paid in accordance with contracts

Remuneration is closely linked to the overtime issue. Some workers are paid an hourly wage, while others are paid by the weight of what they pick or number of units they produce. In many cases, even the legal minimum wage is not paid. Companies make unfair deductions. They mix hourly and piece-work pay to avoid paying a premium for overtime. They use labor contracting arrangements or consecutive short-term contracts and false apprenticeship schemes to avoid paying the full wages and benefits.

Sometimes the payment is so complicated that workers do not understand how their pay is calculated. This makes them vulnerable to being cheated out of what they are rightfully due.

Whether a company chooses to pay by the hour or by the piece is fine as long as the workers are paid enough in the basic work week to meet the basic needs. People often resist the idea of a basic needs wage saying it is so hard to calculate.

The exact level of the Basic Needs Wage varies from place to place, depending on the cost of living. There are varying methodologies for determining it. But the fundamental issue is that workers have the right to receive a wage that they can live on from their basic work-week – no overtime included.

The company must make a good-faith effort to consult with workers and stakeholders to learn what is the basic needs wage in their local area.



## ➤ Common Problems with Remuneration

- Overtime not paid at premium as per contracts or local law requirements
- Workers do not understand how their wages are calculated
- Employers unfairly mix hourly and performance wage calculations to confuse and cheat workers
- Workers do not receive full social security and other benefits as required by local law
- Excessive deductions for dormitory and food
- Daily quota for piece-work does not provide basic needs wage
- Quotas set too high to be routinely unattainable
- Quotas routinely unattainable due to inadequate training, poor production design, machinery problems, excessive hours causing fatigue
- Unexplained pay deductions and fines
- Basic needs wage not calculated to include specifics taxes, health insurance, union dues and other costs
- Wages not paid on time
- Use of labor contracting arrangements or consecutive short-term contracts and false apprenticeship schemes to avoid paying the full wages and benefits

## ➤ Recommended Actions

- Provide all workers with contracts in their native language
- Develop and implement procedures related to worker contracts, wages, benefits and deductions
- Provide documented training in all worker languages on contracts, wages, benefits and deductions for all workers
- Routinely provide workers with a clear record of pay calculations
- Utilize credible engineering studies to set production quotas and performance targets
- Calculate and verify basic needs wage using credible data sources and NGO/trade union verification
- Monitor purchase orders, shipments and payroll records to verify proper recording of hours and wages
- Verify that employment agencies are paying required wages and benefits
- If basic needs wage is not currently being paid, work with the social performance team and local stakeholders to develop a practical plan to increase wages from legal minimum to basic needs level

# Retrenchment

➤ CHILD LABOR ➤ FORCED LABOR ➤ HEALTH & SAFETY ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING ➤ DISCRIMINATION ➤ GENDER EQUITY

## ➤ Common Standards

- Company must develop and implement a plan to mitigate the adverse impact of retrenchment if it anticipates a large number of layoffs
- The plan must incorporate non-discrimination principles and include the input of workers, their organizations, where appropriate, the government

Naturally, within any business environment, change is a constant factor. It is impossible for you to control all of the variables that impact your business. What if you're a producer and a big customer of yours goes out of business? What if you're a buyer and as part of your business and human rights strategy you need to reduce and consolidate your supply base? What if a merger requires a reduction in your supply base or workforce?

All of these things can necessitate dramatic adjustments within your company and its supply chain. Understandably, business survival becomes your number one concern. But you still have a responsibility to those that work for you - people and companies.

Imagine you are a worker. You live from one paycheck to the next. You hear that there will be layoffs because the factory lost a major customer. You wonder who will remain employed, and whether or not you will be one of them.

As a manager, you have a responsibility to communicate with your suppliers so that their workers are involved in the difficult decisions that lay ahead. A decision to reduce your supply base, and in turn for them to reduce their workforce, will be a difficult one. You must make the process fair and transparent. You also need to consider the impact on the community and do what you can to minimize any negative impacts. At a bare minimum, you need to make sure that severance provided to the workers meets national labor laws and company policy.



## ➤ Common Problems with Retrenchment

- Company has no mitigation plan for retrenchment
- No alternatives to supplier or workforce reduction have been analyzed
- Workers are suddenly laid off without advance notice or any required severance
- Company does not consult workers or outside parties
- Company uses lay-offs to discriminate or retaliate
- No legal benefits are paid

## ➤ Recommended Actions

- Define policy and procedure for supplier or workforce reduction, including selection methodology
- Analyze alternatives to supplier or workforce reduction
- Encourage suppliers to engage workers in discussions related to workforce reduction as early as possible
- Communicate to suppliers and all workers about why and how the reduction will take place
- Discuss with local NGOs and unions about how the community impact of workforce reduction could be minimized

## Right to Land

➤ CHILD LABOR ➤ FORCED LABOR ➤ HEALTH & SAFETY ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING ➤ DISCRIMINATION ➤ GENDER EQUITY

### Common Standards

- Company must respect the rights of local populations to land and natural resources.
- Companies must respect that local communities have a right to Free, Prior and Informed Consent (FPIC). FPIC allows indigenous peoples to freely have the choice, based on sufficient information concerning the benefits and disadvantages of an economic project.
- Companies must pay attention to vulnerable groups like women and indigenous people.
- Companies must understand the importance of transparent contracts with local communities, with clear and binding agreements on activities, employment opportunities and benefit-sharing.
- Companies should strive toward optimization of environmental and social impact and impact on food security, while trying to minimize negative impacts.

In recent years, commercial pressures on land resources have intensified as a consequence of the growing demand for food, feed, fuels, and other business uses. Foreign or national companies acquire vast areas of land in Africa, Latin America, Asia and Eastern Europe for commercial production.

So what defines the distinction between a land transaction bringing benefits to all involved and a practice often referred to as 'land grabbing?' Land grabbing refers to the situation where there is a change in ownership of a given piece of land, without having taken sufficiently into account the rights of the local population, environmental and social impact and food security issues. Companies and governments that acquire large areas of land tend to justify their acquisition with the fact that these lands are 'idle,' 'wasteland,' or 'unused.' But this is seldom the case. They are generally used and important to the livelihoods and food security of rural communities or serve important environmental purposes. Possible negative impacts include environmental degradation of areas, confinement of the local community in specific areas, loss of access to irrigation water, access to sea or strategic pastures.

On the other hand, land transactions that are carried out in a way that is respectful to a local community can have a positive impact on both the community and companies involved. For the community they can bring improved infrastructure and services, enhanced employment and business opportunities and increased income flows through royalty streams and compensation payments. Companies that pursue good practice will have better relations with governments, international organizations, and a more constructive engagement with civil society groups and will be spared from situations like hampered negotiations, local conflicts and reputational damage.



## ➤ Common Problems with Right to Land

- No prior knowledge of existing land-claims (both formal and customary) or denial of them
- No comprehensive social and or environmental baseline carried out to provide a benchmark for the potential impacts
- Local community not given adequate information or consulted in a meaningful way
- Local community not given enough time to respond
- Special needs of vulnerable groups not adequately considered
- Negotiations and agreements made between the company and local stakeholders in land deals are not accessible to the public
- Inadequate or inequitable compensation for land and/or distribution of benefits
- Environmental degradation
- Social dislocation and/or land disputes
- No mechanism to resolve disputes or grievances

## ➤ Recommended Actions

- Review existing land claims, including collective customary ownership not formally recognized in the national law, over the lands that the company is planning to acquire
- Implement a social and environmental impact assessment and strategy, in consultation with the local community on how to minimize impacts
- Apply the principle of Free, Prior and Informed Consent (FPIC) to conduct meaningful consultation with the local community, with special attention to the participation of women
- Consult with reputable advisors, NGOs, round tables and other parties with good local knowledge
- Develop a strategy on how to generate sustainable opportunity employment for the affected population
- Promote decision making process that is inclusive, transparent and accountable. The result is a negotiated agreement between the company and the local community.
- Implement and communicate a mechanism to resolve disputes and grievances.
- Develop policies and procedures aligned with international guidelines on land acquisition such as the Tirana Declaration, the 11 principles of De Schutter, the Special Rapporteur on the Right to Food of the United Nations and the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security

### Links to Resources

Praktijkonderzoek: Nederlandse bankgroepen en buitenlandse landverwerving. Een onderzoeksrapport van de Eerlijke Bankwijzer' (February 2012).

Land Rights and the Rush for Land: Findings of the Global Commercial Pressures on Land Research Project. International Land Coalition (2012).

Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security. Committee on World Food Security (March 2012)



## Indigenous People

➤ CHILD LABOR ➤ FORCED LABOR ➤ HEALTH & SAFETY ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING ➤ DISCRIMINATION ➤ GENDER EQUITY

### Common Standards

- Companies operating – or planning to operate - in territories that belong to indigenous peoples will respect their rights and their wish to maintain a traditional lifestyle. They will do so even in countries where there is no formal recognition of these rights or where there is a divergence between a country's national commitments and international principles.
- Companies will respect the right to lands, territories and natural resources of indigenous peoples. Their lands and territories are a fundamental source of physical, spiritual, religious and cultural survival.
- Companies will respect that indigenous peoples have a right to Free, Prior and Informed Consent (FPIC). FPIC allows indigenous peoples to freely have the choice, based on sufficient information concerning the benefits and disadvantages of an economic project.
- Companies will include indigenous people in the decision making process.

Worldwide, over 370 million individuals are indigenous. They mostly live in remote areas of the world, and are divided into at least 5,000 peoples of great internal diversity. Indigenous peoples are generally considered to be the descendents of the pre-colonial peoples, and have their own distinct languages, cultures, and social and political institutions.

Although the rights of indigenous peoples are recognized via the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), adopted in 2007, their position is increasingly under pressure because they often occupy lands that are particularly rich in minerals and natural resources while their position in regional, national or global decision making processes is weak. A violation of their right to lands, territories and resources has far-reaching consequences for indigenous communities, because of the special relationship they have to their lands: to them it represents a fundamental source of not only physical, but also spiritual, religious and cultural survival. A concession by a government to an oil, gas or timber company, a decision to start a large agricultural project or the construction of a dam without carefully consulting and assessing the potential impacts for indigenous peoples can therefore have a big impact. Impacts which can result in conflicts and forced displacement, leading to further marginalization, increased poverty and a decline in the health of indigenous peoples.

As we explained while discussing the right to land, economic projects that are carried out in a way that is respectful of indigenous people's rights, can have a positive impact on both indigenous peoples and companies involved.





## ➤ Common Problems with Indigenous People

- No prior knowledge of existing land-claims (both formal and customary) or denial of them.
- No comprehensive baseline has been carried out to provide a benchmark against which the potential impact of a project can be anticipated and change measured.
- A company has entered into an area without first seeking permission to do so.
- The company has engaged with the wrong groups or with persons who do not have authority to speak on behalf of the relevant group or community.
- There is a disregard for, or ignorance of, among representatives of the company, the local customs.
- Inadequate or inequitable compensation for land and/or distribution of benefits.
- Environmental degradation.
- Social dislocation and/or land disputes.
- No mechanism exists to resolve disputes or grievances.

## ➤ Recommended Actions

- A review has been made of indigenous claims (either formal or customary) over the lands and territories where a company plans to operate.
- A social impact assessment or other social baseline analyses have been realized in consultation with potentially affected indigenous communities.
- Permission has been obtained from the concerned community before entering an area.
- Information has been gathered on local entry protocols as they relate to permission to enter a community and access traditional lands.
- All representatives of the company are well briefed on local customs, history and legal status, and understand the need of cultural sensitivity.
- Reputable advisors, NGOs, round tables and other parties with good local knowledge have been consulted.
- A strategy on how to generate sustainable opportunity employment for the affected population has been developed.
- The decision making process is inclusive, transparent and accountable. The result is a negotiated agreement between the company and the local community
- A mechanism to resolve disputes and grievances has been put in place.
- Include the end of the economic activity in the planning process and address the socio-economic as well as the environmental aspects of closure.

### Links to Resources

Good practice guide: 'Indigenous Peoples and Mining', published by the International Council on Mining and Metals (ICMM) (2010).

## Conflict Areas

➤ CHILD LABOR   ➤ FORCED LABOR   ➤ HEALTH & SAFETY   ➤ FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING   ➤ DISCRIMINATION   ➤ GENDER EQUITY

### Common Standards

- Companies will take necessary steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do no harm.
- Companies will carefully monitor their business relations, transactions as well as flows of funds and resources and to develop a rigorous supply chain management system to assess and monitor if and how their suppliers obtain resources and raw materials in conflict-affected and high-risk areas.
- Companies will establish strategic, transparent and rigorous stakeholder engagement mechanisms.
- Companies will pay attention to the monitoring of security forces provided by private contractors as well as public security forces.
- Companies will act upon sanctions and restrictions of (inter)national governments like UN resolutions which relate to commercial transactions with certain regions or countries.

The worst business-related human rights violations often occur in conflict-affected areas or other situations of widespread violence. Conflict-affected environments refer to countries or regions where there is a risk of violent conflict breaking out; that are in the midst of violent conflict; or which have just emerged from it and are characterized as post-conflict settings. In these contexts, human rights are generally under pressure.

Amongst the businesses that most frequently operate in conflict-affected areas and therefore run most risks of violating human rights are the companies extracting resources such as oil, gas and minerals. There is a direct relation between natural resource wealth and conflict, the most conflictive aspect being the governance of these resources. Natural resources frequently become both a source of conflict and a means to continue it, as rival armed fractions, either governmental or rebel groups struggle over their control and use them as a means to fund their war effort and to enrich themselves. Besides the fact that these commodities are used to keep the war going, they are often produced under terrible circumstances, which can include child labor and forced labor.

Another issue linked to working in conflict-affected areas is that companies often hire public or private security forces to protect their operations. They provide cash, equipment or other forms of material support to soldiers, police or other armed groups around their operating areas. For companies, this entails the risk of becoming involved in killings, torture, sexual gender-based violence, mass displacements of people and other human rights abuses.

Finally, there are also examples of companies who interfere in local politics in a negative way, for example through supporting with money and logistics the campaign of candidates that were favorable to the company. In these cases, they directly benefit from the predominance of weak forms of government, which gives them a degree of freedom to maneuver and discretion that would otherwise not be possible.



## ➤ Common Problems with Conflict Areas

- Lack of a robust supply chain management system which monitors and maps the supply chain.
- No dialogue with stakeholders including, suppliers, sub suppliers, government, communities and civil society.
- No conflict analysis has been made to understand the local conflict dynamics.
- The company has not consulted its own government (national Ministry of Foreign Affairs) to check sanctions and restrictions on trade with certain countries and has not consulted them for general guidelines and advise.
- No settlement and grievances mechanisms are in place.
- No screening of public and private security's track record on human rights before hiring them.
- No attention has been paid to corruption and bribery of the company's own staff and of third parties.

## ➤ Recommended Actions

- Set up a supply chain management system which maps and monitors the supply chain. The system should allow for monitoring of conditions under which goods are made as well as their origin. Specific for conflict areas it should pay attention to the fact that funds paid for goods are not used to continue or start conflicts.
- Before starting to operate in a conflict-affected area, conduct a conflict analysis to understand the local conflict dynamics. This should be conducted alongside other assessments such as human rights assessments and environmental assessments. Analysis should be updated frequently.
- Strive for meaningful and constructive engagement and dialogue with stakeholders affected by core business operations and supply chain partners. Consult local stakeholders but make sure to also regularly consult your own Ministry of Foreign Affairs for advice, guidelines, sanctions and restrictions.
- Join a multi-stakeholder initiative or other joint initiative in order to bundle strengths and efforts.
- Develop policies and mechanisms to settle disagreements and grievances
- Companies will develop detailed policies and procedures on specific bribery and corruption issues. Such policies and procedures should be applied to the company's own staff and to any third-party (i.e. governments, local suppliers, joint-venture partners, agents or community organizations) contracting with the company. Set up training if necessary.
- When contracting local private or public security services to protect their installations, screen potential security provider's track records, including their human rights records, and ensure that they have requisite policies and codes of conduct that reflect good practice in security provision. Provide relevant human rights training to security forces, where possible.

### Links to Resources

Guidance on Responsible Business in Conflict-Affected and High-Risk Areas: A Resource for Companies and Investors'. A joint UN Global Compact – PRI publication (June 2010).

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