
How Companies are addressing Labor and other Human Rights Risks in their Supply Chains

Executive Roundtable Summary

Virtual Conference – February 17-18, 2021

Background

The UN guiding principles on business and human rights, the UK Modern Slavery Act, European and other national regulation, as well as many financial institutions, are demanding that companies meet higher social standards to reduce risks and improve their business performance, very much by what has become the norm with environmental necessities. Often, for large companies, their responsibility is expected to go well beyond their operations to include their suppliers. The objective of this Roundtable was to learn from companies in various industries about their experience with managing human rights, including labor rights, throughout their value chains and to understand how to implement best practices. The Roundtable brought together 41 senior sustainability-, procurement-, and compliance executives from nine countries, including 55% from international companies, 35% from academia/NGO/associations, and 10% service providers.

Participants



Host

- Exequiel Rolón, Sustainability & Community Relations Manager, Fresnillo plc

Moderators and Facilitators

- Beveridge & Diamond, Madeleine Boyer
- Fresnillo: Alicia Sanchez
- Sostenibilidad Global: Isabel Studer
- Suseco: Louise Nicholls
- World Environment Center: Glenn Prickett

Speakers

- (retired from) AkzoNobel: Dick Bartelse
- Driscoll's: Baruch Macias Camarena
- F. Hoffmann-La Roche: Kelley T. Hinds
- Harvard Kennedy School: Jane Nelson
- OECD: Roberto Martínez
- Workforce Disclosure Initiative: Rosie Mackenzie
- Social Accountability International: Jane Hwang
- Suseco: Louise Nicholls
- Sustainabil: Willem Bulthuis

Key Points

- (1) Poll questions during the Roundtable** revealed that almost half of the companies are driven by their ethical commitments to address human rights in their supply chains, while 20% refer to national or international law or policy, and another 15% have not taken action yet. Only 16% of participants are mostly driven by external demands from business partners and investors while NGO campaigns and media exposure have not been mentioned to be a major factor. When it comes to evaluating the human rights performance of suppliers an encouraging 23% have systems in place to monitor even beyond tier 4, while the majority of 54% are just monitoring tier 1 suppliers. 15% of participating companies do not monitor human rights risks.
- (2) The Global Policy Environment asks companies to “do no harm and manage risks”:** The framework on the social side for business is now the [UN Guiding Principles for Business and Human Rights](#). And this “S”-component in ESG is getting more important. The Corona pandemic has elevated the awareness of vulnerable people and social injustice. Furthermore, in addition to the ongoing “old” human rights challenges associated with inadequate labor conditions, poor wages, and health & safety in global supply chains, digitization, and data mining have created new vulnerabilities in cyberspace. This is not

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limited to the social media business but extends to data protection in all companies. As human rights are affected by almost each of the 17 UN Sustainable Development Goals (SDGs) company governance must be much more strategic on the alignment between their environmental-, procurement- and human resources teams. **Hard Law Developments** especially in the [European Union](#) and some of its national states, but also in the [UK](#), California, Canada, Australia, and Switzerland (where a strict law was recently rejected only by a few votes in a referendum) indicate clearly that “the train has left the station”.

With these developments ongoing, companies are clearly advised to embed “respect for human rights” in their corporate structures by (a) implementing oversights by the Board of Directors, (b) aligning corporate policies and standards with human rights policies, (c) integrating human rights goals into strategy, culture, and incentives, and (d) undertaking operational and supply chain [due diligence](#). Furthermore, their (e) accountability mechanisms should include grievance mechanisms that workers can use as well as public goals to build trust. (f) Corporate Partnerships can be used to achieve scale while they greatly help to transition from a compliance-driven checkbox mindset to a collaborative learning mindset, which drives innovations and competitiveness.

- (3) The Regulatory Environment:** The [OECD Due Diligence Guidance](#) for Responsible Business Conduct is the negotiated standard backed by 48 governments, that sets a frame for responsible business conduct (RSB). It defines due diligence as the process companies take to identify, prevent, mitigate, and account for adverse impacts on RBC issues. Due diligence is applied to a company’s own operations, business relationships, and supply chain and helps companies to proactively manage risks. Companies should know that they must still demonstrate that they have taken proportionate action to seek to prevent or mitigate impacts linked to their business relationships and suppliers, even when they do not cause or contribute to impacts. It should be noted that slow business action on the OECD Due Diligence Guidance has been a driver for the development of hard law (see above), according to the European Union.
- (4) Investors are mainstreaming ESG evaluations of their portfolios and integrating Human Rights risk.** Recent [EY](#), [Stern](#), and [McKinsey](#) studies are showing how investors value good ESG performance (also see results from a [Jan 2021 WEC Roundtable](#)). Financial standard setting bodies and governments have recently been publishing new requirements for human rights due diligence on an annual basis, making clear that no company that wants to thrive on financial markets can ignore managing human rights. Amongst the drivers for this development is also a fear that suppliers will not be able to maintain their competitive advantage built on misuse of cheap labor as the younger workforce generation chooses to avoid the hard and unrewarding work. Supply chain resilience is also about respecting human rights!

When data on labor conditions, wages, or other workers’ rights are not available, investors have started to promote worker-centric disclosure standards; and while those are still under development, they also fund organizations that make this data available through surveys. To manage human rights appropriately companies are strongly advised to integrate ESG with their business strategy.

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- (5) Leading companies are enforcing human rights through a range of methodologies:** (a) staff is incentivized to take human rights seriously as those are part of their bonus compensation; (b) suppliers are not only asked if they share the same values and have a Code of Conduct in place, but third parties also evaluate if their management systems are suitable to respect human rights; (c) unannounced audits are an essential addition to announced audits; (d) where issues have been found collaboration takes place to correct those deficits, ultimately leading to greater trust and partnership; (e) auditors, trained with [SA8000 techniques](#), talk to workers on-site while separated from any managers; (f) vulnerable people in the supply chain are identified (through algorithms) and solutions to make their life easier are being developed e.g. with governments, such as building adequate infrastructure, guaranteeing safe places to rest, providing access to social security, etc.; (g) auditors get into a factory *with a mindset of wanting* to detect violations, and getting creative about not being cheated by site management; (h) trusted suppliers are rewarded with increased business; (i) suppliers that are constantly non-compliant are replaced; (j) accountability systems are implemented at Board level, human rights steering group, practitioner committee, etc. are implemented, and stakeholder engagement is established and ideally scientifically supported; and (k) partners are invited to raise standards together and to enable suppliers to deliver.
- (6) Tools are available to understand complex supply chains.** Leading companies have heavily invested in systems that identify suppliers as deep as eight tiers already. However, beginners can also benefit from advanced software solutions that help to develop deep supply chain insights. Their key value is not only to map several tiers in supply chains but to help make management decisions, e.g. to find suppliers that need help or to find materials that can be replaced by options that have less impact on human rights. **Supplier Support Visits** have been developed by leading companies in the past 10 years and have become an effective tool to improve performance, create trust, and stabilize relationships. They are investments into *retaining selected key suppliers* and improving productivity, rather than to certify. Suppliers are incentivized to participate and improve by being rewarded with more business and higher prices. Participating companies are partners and share the common goal to grow the business between both parties.
- (7) Management Programs to engage with suppliers are numerous** and range from (a) engaging workers to find innovative solutions to the toughest workplace challenges (SAI's [TenSquared](#) Program), (b) advancing health and well-being for waste-pickers in the Circular Economy while connecting them with companies in need of ethically sourced recycled material (SAI's [Inclusive Waste Recycling Consortium \(iWrc\)](#)), to (c) various supplier capacity building programs. Practitioners advise to just start human rights enforcement journeys – it is about getting going, about learning through the process, and about involving people who build a personal connection to the task and hold themselves accountable. **To get support from top management**, managers are advised to make the topic relevant for their audience: for some this is around financials (risk avoidance or cost avoidance), while for others it may be showing that company standards are being taken seriously and that they are being implemented, no matter what the topic is.

Further resources: (a) [Human Rights Due Diligence in High Risk Circumstances: Practical Strategies for Businesses \(2015\)](#); (b) <https://sdg.humanrights.dk/>

Note: WEC Executive Roundtables are conducted under the Chatham House Rule.