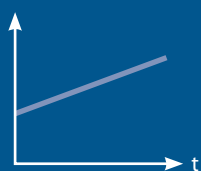
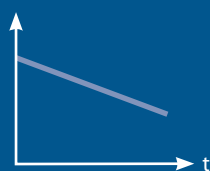


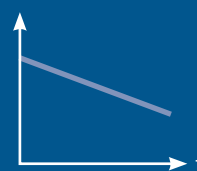
Would you invest in this company?



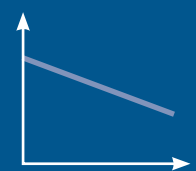
Profit



Employee
satisfaction



Client loyalty



Human rights

Corporate responsibility in the global market

Why human rights issues are growing
more relevant for Swiss small and
medium-sized companies



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Human rights as challenge and opportunity for small and medium-sized companies

Small and medium-sized companies are increasingly finding themselves confronted with human rights issues on three fronts:

Pressure from clients: Many small and medium-sized companies supply their products to major trading and consumer goods companies that are clearly visible on the market. These in turn have made commitments towards their clients and are now increasingly demanding that their suppliers are able to both guarantee and provide evidence of respect for human rights standards.

Challenges in emerging markets and developing countries: Globalisation is enabling more and more small and medium-sized companies to operate independently abroad, where they have to face unknown realities: different cultural norms, legal uncertainty, political instability, unreliable administrative bodies, lack of respect for the environment, and violations of human rights. How should small and medium-sized companies behave in such circumstances?

Expectations on the part of stakeholders: Society expects companies to behave responsibly and to respect the standards of their home country when they purchase, manufacture or export their goods abroad, even though the standards in foreign countries may be less stringent and regulatory. As banker Foster Deibert astutely remarked, "No project is too small or too distant to be detected on the radar of attentive interest groups". Human rights and the rights of workers in particular, corruption and utilisation of resources are especially sensitive issues.

Many small and medium-sized companies prefer to be perceived as part of the solution rather than the problem. To avoid facing the above challenges, they are taking steps to examine their own sense of corporate responsibility and identify suitable measures to strengthen it. Precautionary measures are a sound investment in the future: companies that set an example and enhance their reputation can create competitive advantages for themselves on the market and secure their continued success both in the short term and the long term.

During the discussions held at the 2006 annual conference of Political Affairs Division IV (PA IV) of the Swiss Federal Department of Foreign Affairs (FDFA) it became apparent that internationally active small and medium-sized companies generally do not have sufficient resources at their disposal to comprehensively clarify and address central human rights issues. In many cases they are also not familiar with the practices and circumstances of the countries concerned. They therefore have to rely on a pragmatic analysis of their exposure to human rights issues and on the use of risk management and market positioning tools.

In order to respond to these needs, Political Affairs Division IV (PA IV) of the Swiss Federal Department of Foreign Affairs (FDFA) initiated a platform for small and medium-sized companies (cf. page 11 for further details) together with the Sustainability Forum Zurich. This working paper is the platform's first publication. It takes a look at the question of where and how small and medium-sized companies are exposed to human rights issues and goes on to provide information concerning specific instruments, methods and options for effectively addressing human rights issues in the course of daily business activities.

Although this publication is addressed to small or medium-sized companies, it often draws on cases that involve multinational enterprises. This is simply because multinationals have a longer history of corporate responsibility having been confronted with human rights issues already many years ago. Initially, human rights issues were only discussed internally in those companies, but now they have increasingly become subject of public interest. By contrast, human rights issues are relatively new to small and medium-sized companies, and are not brought out into the open as much as in the case of multinationals. Nonetheless and despite this delay, they are just as pressing.

We hope you will find this paper interesting and informative.

¹ 2006 annual conference of Political Affairs Division IV of the Swiss Federal Department of Foreign Affairs <http://www.eda.admin.ch/eda/g/home/foreign/humsec/frpziv/jako.html>

Human rights and small/medium-sized companies

“In the past, clients only cared about quality and price. But now people also want to know about the social conditions under which a product has been manufactured.”
Vadar O’Hara, Nike

Corporate responsibility

CR describes responsible corporate behaviour. Prerequisites for the credible implementation of corporate responsibility include:

- Clarification of corporate values. A written commitment, e.g. in the form of an ethical code of behaviour (social responsibility) is a positive indicator here.
- Definition of management processes for the systematic consideration of social issues (social responsiveness).
- The introduction of transparent verification processes to monitor corporate behaviour (social accountability).
- Proof of verifiable, and where possible, measurable performance (social performance).

The overlying and most important requirement for an effective corporate responsibility strategy is that the company’s owners and management set an example by putting ethical values into practice.

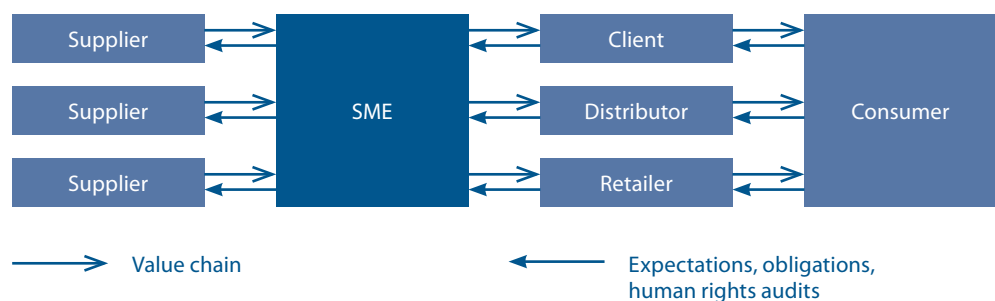
The impact of human rights issues on small and medium-sized companies

Negative impact on company management: Health risks at the workplace, discrimination, prohibition for associations, unions and trade organisations to carry out activities, child labour and other human rights violations can interfere with good corporate governance and lead to major stakeholder demands as well as to difficulties in obtaining credit facilities.

Negative market response to corporate behaviour: A company can only be successful if it enjoys the confidence of its relevant stakeholders (employees, clients, suppliers, investors, etc.). If the perception of these groups is positive, the company is able to benefit from significant competitive advantages:

- The degree to which employees *identify* with their company reflects the internal reputation of a company. A sound internal reputation promotes commitment to quality and encourages innovation and good performance. In the case of SMEs in particular, each employee has a major influence on the company’s reputation.
- A company that is perceived to be *attractive* and to possess a strong sense of responsibility is regarded as a desirable employer and business partner, as well as a worthy company to invest in.
- If a company has a sound *external reputation*, it is able to tap new markets more easily and benefit from more stable prices for its products and services. Clients and employees show greater loyalty, and the company’s ability to procure capital is greatly enhanced.

Stakeholders also respond to the behaviour of suppliers. Increasing transparency and the greater availability of information have given rise to increased social awareness. Major corporations in particular have undertaken commitments towards their clients to respect human rights, and have passed on these commitments to their suppliers – which are often small and medium-sized companies. They expect the latter not only to demonstrate that they themselves respect human rights, but that they make sure their own suppliers do so, too.



Human rights issues are of relevance along the entire value chain

The most relevant human rights for small and medium-sized companies

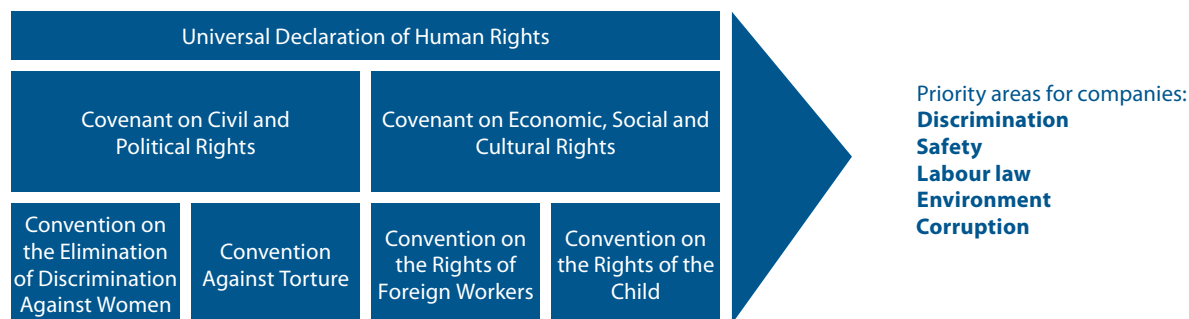
All human rights are important, of course, and all are codified in binding conventions under international law. Although these conventions are signed by national governments, they are increasingly seen to also apply to private individuals and companies. Five aspects of the human rights framework are of particular relevance to corporate activities²:

- a **Equal opportunities and non-discrimination:** Companies may not through their activities demean or otherwise disadvantage groups of people, especially women, children, the elderly, the disabled, foreign workers, etc., or ethnic groups (minorities, indigenous peoples, etc.).
- b **Safety of persons:** Companies are obliged to guarantee the safety of people who are involved in work and production processes. This also applies to people who are indirectly involved, e.g. if they protest peacefully against a company and security personnel intervene, or if the company is protected by external security providers.
- c **Labour standards:** Labour standards include the prohibition of child labour and forced labour (e.g. as punishment for a different ideology, to work off debt or in the form of enforced overtime), the provision of acceptable workplace conditions, fair wages, the right to assembly, to join unions and to participate in collective negotiations.
- d **Protection of the environment:** Most Swiss small and medium-sized companies are aware of the relevance of, and their responsibility for, the protection and efficient utilisation of natural resources. Here a connection with human rights exists in that an intact environment is a vital factor for human existence and development.
- e **Corruption:** Corruption (especially bribery of public officials), and the failure on the part of local governments to respect applicable international conventions and guidelines, are contrary to the human rights principles of self-determination and sovereignty.

“The guiding principle of Switzerland’s foreign policy is ‘Do no harm’. This principle can also be applied by companies.”
Federal Councillor Micheline Calmy-Rey

- More than 12 million people throughout the world perform forced labour.
- According to UNICEF, more than 190 million children between the ages of 5 and 14 are being forced to work, the majority under exploitative conditions. Between 5 and 10 percent work for companies that export goods, e.g. in textile factories, quarries, cocoa and coffee plantations.
- The ILO estimates that at least 10 percent of employees in the world’s tourism industry are children.

² Classification based on “A Guide for Integrating Human Rights into Business Management”; www.blihr.org



Human rights are defined in seven international conventions and further described in accompanying documents. These result in five priority areas for companies.

“It is not easy, but dealing with dilemmas is a core competency that companies have to develop. They have to make a decision, then be aware of what they have decided in favour of.”

Lise Kingo, Novo Nordisk

AA1000

Certifiable social standards of accountability
www.accountability.org.uk/aa1000/default.asp

Global Reporting Initiative

Guidelines for reporting in the area of corporate and social responsibility
www.globalreporting.org

Business and Human Rights Resource Centre

Independent site providing information on the human rights behaviour of companies
www.business-humanrights.org

Can small/medium-sized companies become accomplices in human rights violations even though they comply with the relevant legal provisions?

This question is becoming increasingly important within the debate on the legal aspects and consequences³ of corporate responsibility, and it encompasses several dimensions:

Complicity applies if a company actively supports human rights violations, for example if it provides information about private individuals to the state or third parties and thus has to anticipate that the recipient(s) thereof will commit human rights violations on the basis of the supplied information.

Even if a company **benefits** from human rights violations by other parties, **it is also guilty of complicity**. This applies even if it does not actively support the violations. A frequently cited example of this is the violent suppression of workers' protests. Another case is when a company enters into a partnership with a government even though it could have known in advance that this government will violate human rights within the scope of the collaboration, for example by forcing persons associated with its business activity to relocate. The consequences of complicity may range from damage to the company's reputation through to legal disputes.

Finally, a company may become a **tacit accomplice** if it is aware of systematic or ongoing human rights violations but fails to report them to the relevant authorities. This may apply, for example, if a law discriminates against groups of persons due to their origin or sex.

³ cf. (for example) John Ruggie: <http://www.business-humanrights.org/Links/Repository/825101>

Pragmatically sustainable

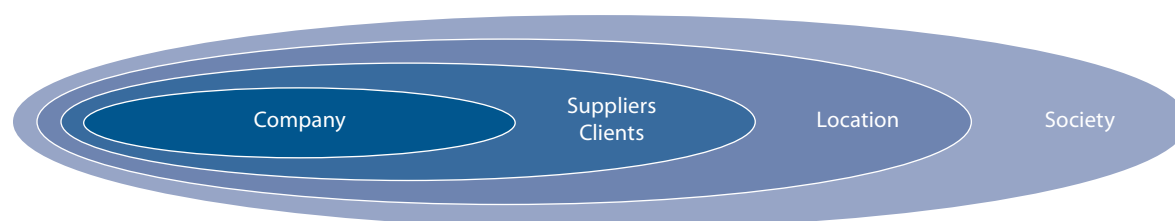
Swiss textile company Switcher (2005 sales, 79 million Swiss francs) obliges all suppliers and licensees to observe a detailed code of behaviour that includes human rights aspects, such as non-discrimination and the provision of reasonable working conditions. Compliance with this code is monitored by an independent auditing company. Switcher regards co-operation with its partners as an evolving process: suppliers who fail to meet the required criteria are given an opportunity to improve. Its interpretation of specific regulations is also pragmatic. For example, if an employee wants to increase his/her income by voluntarily working extra hours, he/she should not be prevented from doing so by rules prohibiting excessive working hours.

Are companies responsible for human rights violations committed by suppliers and in society at large?

Consumers are well aware that a company is not an isolated entity that has no influence on its surroundings. Stakeholders therefore expect companies to use their influence to ensure respect for human rights.

- Doing nothing while citing legally defined company limits is not sufficient. This is what Nike discovered when it tried to deny its responsibility for the working conditions of its suppliers.
- Glossy brochures quickly raise doubt regarding the truth of their content, as Nike again discovered when a court classified its “Social Responsibility” report as false publicity.
- Experience has shown that, while it is major brands that first appear in the spotlight, investigations rapidly extend to other players in the value chain. For example, as importer of “Toys R Us” products, a Swiss trading company was accused of insufficient transparency. According to a rating of toy manufacturers by a coalition of NGOs, “Toys R Us” does not pay attention to socially acceptable production standards. The accused Swiss trading company did not want to provide any information for the rating. Rather than keeping silent and risking reputational damage, far-sighted small and medium-sized companies seize on such incidents as an opportunity to improve their reputation. They stress their responsible behaviour when dealing with partners and are thus also able to influence the human rights policy of their partners, which in turn enhances their own credibility and reputation.
- Responsibility applies not only to the manufacturing of products, but also – and increasingly so – to the use of these products. Lawsuits brought against tobacco companies, weapons manufacturers, casinos, fast-food chains and providers of high-tech products, etc., clearly illustrate this.

Even if clear boundaries do not exist, drawing attention to the sphere of influence of a company makes it possible to view things pragmatically: the closer a company is linked to people, be it in political, economic, contractual or geographical terms, the greater its moral or “concrete” responsibility. Or, put differently, a company’s responsibility diminishes as its degree of proximity and thus sphere of influence lessens. But every company, including the smallest, has a sphere of influence.



The specific responsibility of a company is based on its sphere of influence.

“If companies – no matter how large or small – no longer view themselves as victims when it comes to human rights, they will discover that actively dealing with human rights issues opens up new opportunities for them.”
Gary Steel, ABB

New dimension of the debate on complicity

In April 2006, the British newspaper “The Observer” published an article on the production of saris in the Indian fashion industry. Under intolerable conditions, children are required to sew thousands of glass beads onto these expensive and highly sought-after items of clothing by hand.

As supplier and market leader in the production of high-quality glass beads, Swarovski is being held jointly responsible for this situation, even though it clearly does not operate sweatshops of its own (as the article confirms), and focuses solely on the manufacture and sale of glass beads.

Source: www.business-humanrights.org/Updates/Archive/Observer-Thepriceofsparkleischildslavery

Methods and instruments available to small and medium-sized companies for dealing with human rights issues

Priorities for companies in dealing with human rights issues

As the illustration below shows⁴, three levels of priority can be identified for companies when dealing with human rights issues.

- a The lowest (and fundamental) level concerns **mandatory** measures: respecting the existing laws and regulations, even in situations where the local government is either incapable or unwilling to meet its own obligations.
- b The next level concerns **desirable** measures, i.e. precautions that a company should take in order to meet the legitimate expectations of stakeholders and assume an appropriate level of co-responsibility for the observance of human rights. What this involves in concrete terms has to be clarified for each individual company.
- c While the above levels more or less explicitly serve to minimise risk, the third level – **optional** measures – concerns a long-term commitment by means of which a company can positively differentiate itself by demonstrating genuine leadership and far-reaching self-commitment in the area of human rights. This may, for example, take the form of a joint project with stakeholders, financial support or a philanthropic commitment.
The potential consequences here also need to be taken into account. For example, new expectations and demands may arise, and by making commitments that are too ambitious, a company can also render itself vulnerable. Sufficient attention therefore needs to be paid to suitable communication.

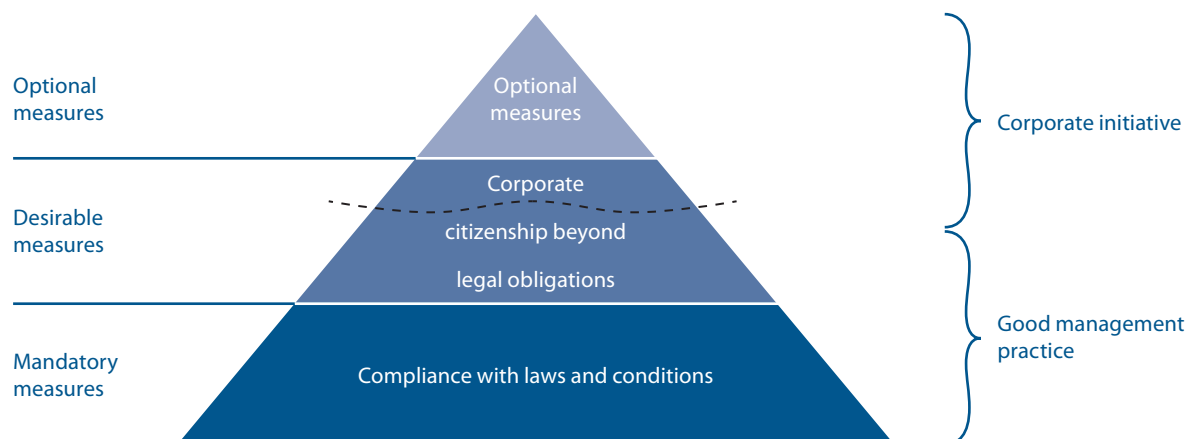
“NGOs comment on our behaviour and sometimes draw attention to points that are important for us. Sometimes they point out problems and we we have to reflect carefully on how we should respond to them. And sometimes we feel they are on the wrong track. But different views ultimately give rise to new ideas.”

Lord John Browne, BP

“To achieve long-term benefits for shareholders, it is essential to generate social added value”.

Niels Christiansen, Nestlé

⁴ Based on: Klaus M. Leisinger, On Corporate Responsibility for Human Rights, Basel 2006,



Measures to ensure compliance with human rights should be carried in a consistent and coordinated way. It makes no sense for a company to make donations to a human rights organisation if the company does not commit itself to implementing human rights in its own operations.

How can companies find out whether it is in conflict with human rights standards?

Knowing that a company has to respect human rights is not sufficient. In order to act responsibly and verify the effectiveness of corresponding measures, companies also need to use instruments and apply relevant methods.

First and foremost, the company has to focus on core questions, e.g. which human rights issues are of relevance to the company, and what are the specific risks associated with human rights violations? By examining these aspects, the company management can define the right priorities. Here, useful instruments include:

- **Analysis of the immediate environment:** Identifying all relevant partners and interest groups helps gain an initial overview of potentially involved circles. By weighting these circles on the basis of degree of influence, a company can identify potential fields of action. Employees are certainly an important group of influence, followed by suppliers, unions, business locations and society.
- **Internal human rights audit:** In close collaboration with companies and industry organisations, the Danish Institute for Human Rights has developed an instrument that enables companies to audit their activities and check whether they comply with central human rights aspects.⁵ A checklist comprising 28 questions covers the areas of employee policy, supply chain management and assesses the impact of the company's actions on relevant social groups. For each question, the instrument provides easily verifiable indicators.

Working conditions as point of contention

Wal-Mart, the world's largest retailer, continues to be criticised for the working conditions existing among its suppliers. Workers in China, Bangladesh, Indonesia, Nicaragua, and Swaziland have filed complaints against Wal-Mart, as have companies in California after suffering losses due to Wal-Mart's behaviour. Wal-Mart is also facing complaints regarding the implementation of its code of conduct.

In its "Report on Ethical Sourcing" published in 2006 the retailer declares having tightened its ethical standards in areas such as security, health, freedom of assembly, and rights of foreign workers. According to the report, Wal-Mart performed over 13,000 audits at its 7,200 suppliers in 2005, of which 20% were unsolicited. Cases in which serious breaches were identified increased from 35.6% (in 2004) to 52.3%.⁶

"Leaving a country because human rights problems arise is not necessarily the best solution. With the commitment on the part of all stakeholders, it is possible for small and medium-sized companies in particular to meet the bottom-line requirements, namely economic growth, social responsibility, environmental protection and respect for human rights."

Scott Morrison, Metalor

ILO (International Labour Organisation)
Declaration on Fundamental Principles and Rights at Work
www.ilo.org/dyn/declaris/DECLARATIONWEB.INDEXPAGE

ILO (International Labour Organisation)
Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration)
www.ilo.org/public/english/employment/multi/overview.htm

ISO Standard on CSR
www.iso.org/iso/en/ISOOnline.frontpage

⁵ Online assessment:
<https://hrca.humanrightsbusiness.org>

⁶ <http://news.bbc.co.uk/2/hi/americas/6999418.stm>

www.laborrights.org/press/WalMart/WMethicalsourcingreport_ilrfpr_102407.htm

“Make the observance of human rights part of your normal ‘good management practice’ criteria – but treat this as a constantly evolving process, not as a project, since society’s expectations and demands will change.”

Klaus Leisinger, Novartis Foundation for Sustainable Development

Fruitful collaboration

Within the scope of a long-term partnership with Carrefour, one of the largest retail groups in Europe, the International Federation of Human Rights Leagues (FIDH) has developed a monitoring system that permits an assessment of the group’s own commitment to the observance of human rights. Thanks to its strategic co-operation with this widely recognised NGO, Carrefour has succeeded in enhancing the credibility of its corporate responsibility.

OECD

Guidelines for multinational companies
www.oecd.org/

Social Accountability International

Social standard SA8000: Certifiable management system and implementation of workers’ rights along the value chain
www.sa-intl.org

UN Global Compact

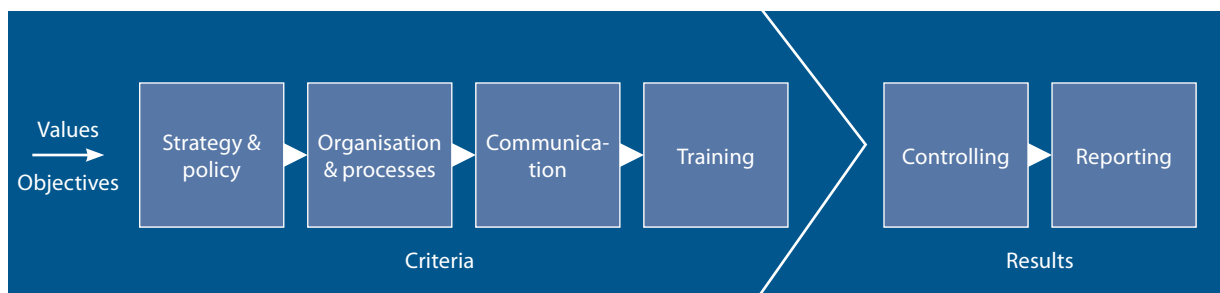
Principles of human rights, labour, environmental protection and anti-corruption to which companies can undertake a voluntary commitment.
www.unglobalcompact.org

How can companies optimise their response to human rights questions and ensure effective follow-through?

In order for a company to successfully deal with human rights issues it has to systematically integrate them into its management process instead of treating them as an isolated matter. In this way, the company can make sure that it does not lose sight of its objectives and values.

The most important steps are as follows:

- a Making a **strategic decision** to consciously respect and comply with human rights principles. This includes formulating objectives as well as defining specific measures and realistic planning of resources.
- b **Integrating human rights into processes and corporate structure** (e.g. into the company’s risk analysis, personnel policy, code of behaviour): practical implementation can be supported with the aid of written guidelines and through the clear allocation of responsibilities.
- c **Communicating** information relating to human rights. This is primarily an internal process that includes:
 - Providing information about the company’s human rights policy, criteria and measures to employees and business partners. Putting the defined criteria and standards into practice is the most effective form of communication.
 - Providing institutionalised options so that employees and business partners can report violations without fearing negative consequences (e.g. hotline, whistle-blowing mechanisms).
- d Offering customised **training** of key personnel – including suppliers and business partners – guarantees the effective implementation of the company’s human rights policy.
- e **Performing periodical audits** of human rights practice on the basis of clearly defined criteria that have been adjusted based on the company’s sphere of influence. Together with their public reports, these audits form the basis for further improvements.



The integration of human rights aspects into business processes minimises the risk of human rights violations within the company.

How can companies benefit from previous lessons learnt relating to human rights issues?

The systematic processing of human rights issues in companies is still very much in its infancy, in particular in the cases of small and medium-sized companies.

This means that existing management tools are conceived in somewhat general terms, and instruments and aids designed to meet the needs of specific sectors and small and medium-sized companies are practically non-existent.

There are also very few opportunities for small and medium-sized companies to exchange experiences with similar companies, although many of them have already gathered practical experience in dealing with human rights issues when doing business.

In order to close this gap, Political Affairs Division IV of the Swiss Federal Department of Foreign Affairs and the Sustainability Forum Zurich have joined forces to create a platform that focuses on the principles of the UN Global Compact and that sets out to support small and medium-sized companies in their efforts to deal with human rights issues. This platform provides companies with an opportunity to exchange experiences and to provide or develop management aids designed to meet their specific corporate responsibility requirements.

The **UN Global Compact Platform for Swiss small and medium-sized companies** and its events are structured so that they offer participants the maximum benefits.⁶ The concept is as follows:

- At each event, company representatives present one or two case studies. Experts comment on those case identifying the strengths and weaknesses of the presented solutions. The sessions are then rounded off with plenary or group discussions during which proposals are developed to improve and define management criteria.
- The results of these events are summarised in form of learning aids and made available to participants in anonymous form.
- The main target group for these events are company representatives, and experts are called on as required. The atmosphere of the events is confidential, need-oriented and focussed on providing management support.

“It is appropriate to consider all options for action, but companies often do this in too isolated a manner for themselves alone.”
Alan Detheridge, Shell

Self-assessment

Gap Inc., one of the world's biggest clothing retailers, has developed a tool for assessing compliance with labour standards in the clothing industry. This tool goes beyond the use of common criteria such as costs, delivery times, quality and innovation, and is intended to be employed when placing orders. Gap is aware that its own business practices also motivate its suppliers to better observe regulations and thus wants to find ways to better collaborate with its partners. In order to avoid excessive and/or involuntary overtime, Gap wants to ensure that suppliers accurately assess their capacities before receiving a Gap order. Gap is also anxious to avoid inefficient procurement practices such as express orders and last-minute modifications.

⁶ Details and scheduled events of the UNGC Platform: www.unglobalcompact.ch/kmu

