



SMEs and the Responsibility to Respect Human Rights

A summary of a workshop with SMEs and IOE members on the UN Guiding Principles on Business and Human Rights

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The International Organisation of Employers (IOE) is the largest private sector network in the world. It consists of 156 national employers' organisations in 148 countries that collectively represents more than 50 million companies. Since 1920, the IOE has been at the forefront of social and employment policy debates taking place in the ILO and across the UN system, as well as in the G7/G20 and other emerging fora.

The IOE is recognised for its unique expertise, advocacy and influence as a powerful and balanced voice for business at the international level. It helps bridge policy with practice on pressing employment and social challenges, including human rights and the future of work. It was actively involved from the outset in the multi-stakeholder consultations that resulted in the UN Guiding Principles on Business and Human Rights.

www.ioe-emp.org

Shift

The IOE would like to thank Shift for facilitating and summarising this workshop. Shift is the leading center of expertise on the UN Guiding Principles on Business and Human Rights (UNGPs). Shift's global team facilitates dialogue, builds capacity and develops new approaches with companies, government, civil society organisations and international institutions to bring about a world in which business gets done with respect for people's fundamental welfare and dignity. Shift is a non-profit, mission-driven organisation.

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Background

This summary note provides an overview of the key takeaways from an April 2019 workshop with IOE members and 14 small and medium-sized enterprises (SMEs), co-convened by Shift and the IOE to explore the experiences, challenges and good practices of SMEs in implementing the UN Guiding Principles on Business and Human Rights (UNGPs).

The participating SMEs came from a range of sectors and countries. They combined both a commercial and values-driven mission and most were linked to exports. They all shared a firm commitment to respect human rights and had varying experiences of putting respect for human rights into practice.

As such, the takeaway points noted here reflect a snapshot of the leading practices of a small number of SMEs around the world, especially those that are values-driven and operate in global supply chains, and it aims to demonstrate what is possible for SMEs despite the business challenges that they face.

Rationale

To date, most attention on business and human rights - in terms of awareness-raising, capacity-building, advocacy, training and policy measures - has focused on the policies and practices of the largest global companies, especially those that are headquartered in the West. SMEs are often an afterthought in discussions and in broader capacity-building initiatives on business and human rights. Yet they form the backbone of national economies and the global supply chains of large companies. They account for about 90% of all businesses¹ and contribute up to 45% of total employment in the world (and 60% in emerging economies²). Their collective contribution to society and the planet is huge.

Furthermore, the UNGPs explicitly state that “the responsibility of business enterprises to respect human rights applies to all enterprises regardless of their size, sector, operational context, ownership and structure.”³

A joint IOE/ILO 2016 survey⁴ of more than 250 SMEs from 32 countries showed that 65% of respondents were aware of the UNGPs and that 72% thought that the significance of human rights for their company will increase in the future. At the same time, respondents also identified core challenges that SMEs face in meeting their human rights responsibilities, such as:

- A lack of resources (46%);
- Not being sure about their obligations in light of government duties (36%);
- National law not being enforced in practice (36%);
- It being difficult to operate in situations where fundamental economic, ecological, and social standards are not part of national law (31%);
- It being difficult to translate policy commitments into relevant operational procedures (29%).

In addition, more than 70% of respondents said that they expect employer organisations to provide training to them on how to apply the UNGPs, to share information about challenges and best practices in the country and to raise awareness of the UNGPs.

This workshop aimed to explore some of the challenges and successes for SMEs in implementing the UNGPs, including through sharing good practice amongst participants.

¹ https://www.ifc.org/wps/wcm/connect/277d1680486a831abec2ff995bd23db/AM11IFC+IssueBrief_SME.pdf?MOD=AJPERES

² <https://www.worldbank.org/en/topic/sme/finance>

³ https://www.ohchr.org/documents/publications/GuidingprinciplesBusinessshr_eN.pdf

⁴ https://www.ilo.org/wcmsp5/groups/public/--ed_emp/--emp_ent/--ifp_seed/documents/publication/wcms_535220.pdf

Key takeaways from the workshop discussion

1. The drivers for SMEs to focus on human rights

For each of the SMEs participating in this workshop, the main motivating factor for their work on human rights was **the values instilled in the company by the leadership**, who were often the founders of the company. For instance, one CEO commented that at its core, operating with respect for human rights was really about “how you see yourself in the mirror.”

This intrinsic motivation was reinforced, and in some cases re-ignited, by a variety of other concerns. For some, doing business with respect for human rights was seen as **the only avenue for a successful business in the long-term**. One participant explained how the owners of a small coffee company were driven by their experience of seeing swathes of Guatemalan coffee fields burned by farmers, who felt there was no value in harvesting the crop. This brought home to the business owners the need to invest in a sustainable pricing structure for the sourcing of their main commodity.

A number of business-to-business (B2B) SMEs underlined that **the expectations of their business customers** added a further rationale to their focus on human rights, with one highlighting that a project on the living wage emanated from a customer’s request. It was the view of another that clients increasingly expect respect for human rights as a baseline and that better performance on this agenda can be the distinguishing factor if a buyer is choosing between two suppliers. Equally, for SMEs competing for a slim supplier base, demonstrating a commitment to listening, empathising and dealing fairly with business partners can cultivate loyalty, particularly in a smallholder farming context.

The **engagement and motivation of employees** within SMEs further fueled the participants’ commitment to human rights. One participant explained that their company had recently been voted one of the top three businesses to work for in their country in large part due to their work on sustainability. This, in turn, has positive knock-on effects for the business, with a CEO commenting that trusted and empowered workers tend to be more creative and more proactive in managing health and safety risks.

Disasters, such as the Rana Plaza building collapse in Bangladesh in 2013, have made a huge impression on the leadership of some medium-sized companies (as they have for some of their larger counterparts) and had catalysed a number of the participating companies to take a more rigorous approach to managing human rights impacts. **Regulation** has also played a role in maintaining momentum on human rights for medium-sized companies. The UK Modern Slavery Act’s Transparency in Supply Chains requirement had also served as a tool for one company to sustain the leadership’s attention on a spectrum of human rights issues, not only modern slavery. Another Finnish SME supported the campaign in Finland on mandatory human rights due diligence to establish a level playing field between businesses.

It was suggested that **lenders, investors and sourcing firms** can do more to reward those SMEs that focus on human rights with increased capital and market access. This point was supported by a business participant’s observation that SMEs - with their inherent flexibility - tend to respond more quickly to take advantage of **market incentives** than larger companies.

2. Embedding the responsibility to respect: How to maintain your commitment as your business grows

Participants discussed the advantages that SMEs may have over larger businesses in relation to embedding their commitment to human rights throughout the company. With committed leadership and fewer staff, it can be more straightforward to achieve a holistic approach with the relevant functions pointing in the same direction. The **governance system** for managing human rights issues appeared to be more efficient and relatable and have the direct involvement of senior decision-makers. One participating SME had in place a cross-functional sustainability committee chaired by the CEO to oversee its work on human rights and ethical trade, while another had a human rights working group, comprised of senior directors, which met on a quarterly basis. A medium-sized apparel company explained how the sustainability function was on an equal footing with the buying team, with the person responsible for human rights reporting directly to the Buying and Design Director – something that is often challenging for larger companies in the sector to ensure.

Many SMEs talked of a **general company culture** that focused on understanding the different family and business backgrounds of vendors, as well as empathy for workers and their empowerment, which lent itself to supporting respect for human rights. SMEs' relatively reduced resources makes treating their people well, and ensuring employee motivation, of paramount importance. A number of small business owners talked of consciously trying to model the behaviours that they expected of their employees, and of being afforded the platform to do so through frequent opportunities for face-to-face interaction. These leaders treated their employees on a more equal footing, proactively shared problems and challenges they faced and encouraged employee dialogue.

This focus on people, and growing a culture of raising and listening to challenges, was reflected in some of the **SMEs' hiring and teaming strategies**. Some medium-sized businesses took the unusual step of hiring staff, who from the start voiced clear expectations, and sometimes concerns, about their companies' sustainability and human rights performance. To cite one participant: "I was once speaking with a student one day who talked with such disgust that slavery and child labour is in the industry, so I offered her a job." While inexperienced in business, these (often younger) hires were passionate drivers of the human rights agenda inside the company and provided a helpful counter-perspective to their colleagues who would focus on more traditional business activities.

Many participating SMEs also described feeling remote from formal corporate language and approaches associated with larger firms, as well as abstract human rights terminology. They were accustomed to **doing business in simpler, face-to-face and more authentic ways**, which had implications for their work on human rights. This could be an asset when developing and embedding a policy commitment on human rights. One participant said that producing a policy statement on human rights initially felt "stale" and "corporate" and was received with suspicion by employees and trusted suppliers. Thus, the way that a policy commitment is written and communicated needs to be in line with the culture and feel of the company, rather than carried out as a dry, top-down, box-ticking exercise. One SME said that "it is not about educating colleagues on human rights from the top down. It's about dialogue: sharing information and perspectives across the company." Participants also underscored the importance of carefully articulating the company's commitments when encouraging

employees to treat each other with respect or when communicating its values to business partners. A participant explained that using terms like "human trafficking" failed to engage colleagues, while talking about "treating people respectfully" or "making stuff responsibly" tended to garner better results. One business talked of its period as a micro startup when the founders – in order to ensure they were working to the right ethos and values – brought their mothers to work to critique the company, asking them "are you proud of this business?" Another SME explained that when it was unsure how to proceed, it returned to the simple question of "what is the best thing to do?"

At times, effectively embedding respect for human rights in an SME may require a robust defense of such a strategy. The CEO of a medium-sized business had to explain to shareholders that, while sourcing their key agricultural commodity with higher social standards would result in a hit to short-term profits, it was still the right thing to do - not least over the long-term. **Participating in peer-learning networks** helped a number of SMEs to further crystallise their work on human rights within the organisation, helping them to understand how to better manage human rights risks, and supporting them to make the case that maintaining a focus on human rights is important and that any challenges are also common for industry peers.

Participants also described the importance of characteristics, such as **persistence**, so that the SME retains and steadily grows its focus on human rights amid the daily competitive pressures, including on cost and staff focus, and in rarer situations such as a company re-structure or sale which can lead to sustainability functions getting absorbed into new roles. It is also important when defending the SME's culture and work on human rights to buyers and financiers who may ask why their product is more expensive than their competitors.

3. Identifying and assessing salient human rights issues

Participating SMEs described various efforts to map their supply chains. While this can seem like a daunting exercise for companies with limited resources, it is often less complex than the challenge faced by large multinationals. As SMEs tend to have **fewer suppliers and customers**, this **can enable deeper relationships with those business partners**. Indeed, several SMEs explained how they spent a significant amount of time selecting suppliers that would have the ability and willingness to work with them to meet their expected standards. These stronger relationships facilitated open discussions on identifying risks to people.

One SME with an agricultural supply chain reported that suppliers proactively brought up issues of child labour, rather than claiming full compliance with the buying standards and hiding the problem. This allowed for a more **open, partnership approach** to this systemic challenge, which is not unique to one firm. In a different sector, an SME was able to rely on the trust they had established to overcome the first-tier suppliers' initial reticence to share information about their own supply chain. They persuaded their commercial partner that they were not about to source directly further down the supply chain and that they were actually responding to the expectations of their own customers. Another SME in the apparel sector overcame the same first-tier suppliers' concerns that it would be undercut by a capacity-building programme by stressing that its success relied very much on their relationship and underscoring that every supplier has a unique value-add to the product.

A clear message from participants was that spending months mapping risks across the entire value chain inevitably means a reduction in time, energy and resources to address these risks. Participants explained that, as part of its rigorous analysis, **thoughtful prioritisation of business relationships, sourcing countries and supply chains** for assessment was crucial to ensure resulting action in a timely manner. Some medium-sized businesses with more experience of managing human rights issues began by taking a broad approach and then zero-ed in on its salient human rights risks by using indicators and dialogue with partners and other stakeholders. One company that had focused on the supply chain for its main commodity had also started to identify and address the human rights risks connected to the uniforms worn by their employees. Another medium-sized agricultural business had also started to assess the risks to people in its packaging supply chain. These examples indicate the potential for SMEs to look for risks in emerging areas, despite the constraints on resources.

The participating businesses discussed different tools deployed to assess risk to people, as opposed to pure risk to business. One SME in the textile sector carried out a form of bespoke auditing, in which they trained certain auditors to better understand the company's culture. At the same time, there was recognition of the limits of an audit-based approach and the need to **augment audit-based tools with direct engagement with suppliers and other stakeholders**, particularly in higher risk settings. At the same time, while many of the companies used "certification", participants felt that where these schemes relied on farmers or suppliers financing their own participation in the scheme, this often meant the intended financial benefits were negated by the cost of participation. Equally, it was noted that certification played into the counter-productive sense of "policing" felt by some suppliers.

4. The creative use of leverage

The concept of leverage is an important part of meeting the responsibility to respect. In the UNGPs, it means the ability of a business enterprise to effect change in the wrongful practices of another party that is causing or contributing to an adverse human rights impact.⁵ It is often particularly relevant to value chains.

Participants acknowledged that **SMEs often lack the concrete commercial leverage of larger multinationals and, therefore, need to think more creatively about how to exercise their influence**. One common approach deemed crucial for smaller companies is finding other forms of leverage through partnering with suppliers. One medium-sized apparel business rolled out programmes on freedom of association and worker voice in challenging contexts, despite having less than 5% of the product buy from the targeted suppliers. The business achieved buy-in by explaining the benefits of the programme, and drawing on the trusted relationship it had developed with suppliers, rather than requiring suppliers to participate. In other contexts, the company found that collaborating with several industry peers of a similar size on non-competitive capacity-building was feasible both for retailers and their joint suppliers. Another SME described how setting up its "secondary tier programme" initially required a lot of effort to allay the concerns of its first-tier suppliers, who feared being undercut by the initiative. The SME had to carefully explain that, in fact, the programme would help eliminate those first-tier supplier's risk by building the capacity of the companies in the tiers below through training and upskilling.

⁵ <https://www.ungpreporting.org/resources/glossary/>

Participants also repeated their experience that in identifying risks, it was crucial to select suppliers aligned with the values espoused by the business in order to have the ability to influence them. A **more intensive supplier selection process** was judged a key "leverage moment" in the business relationship. One SME also explained that it actively sought fewer suppliers (i.e. 70% of the business came from three main suppliers) who were roughly of the same size as them to ensure they could more easily engage and relate to each other.

Even where the potential for leverage is not considered in the formation of business relationships, there may be ways for SMEs to re-shape those relationships. The owner of one small services company **spoke personally with their clients** to explain that they needed to re-negotiate contracts at a higher cost to pay higher staff wages, and in several cases was successful in doing so. This sort of willingness to take business risks and to explain the impacts of commercial agreements in human terms can add up to an ability to influence a seemingly resistant - and more powerful - business partner. Moreover, recognising that there was a limit to what one company can do alone, the owner of this business had **reached out to industry peers** to set up a discussion on how they could collectively commit to certain standards for staff across the industry.

One of the challenges that a number of the SMEs faced was **the difficulty in finding NGO partners to collaborate with**. Many of the larger, well-known organisations required substantial funding to initiate a relationship and may not be prepared to work in the specific supply chains connected to a company where doing so may not reach a sufficiently high number of people to justify the programmatic intervention.

Another interesting example of leverage was articulated by a medium-sized agricultural business, which **opened its high performing suppliers up to the public, other businesses and government** to learn about how they were successfully applying their standards. The owner of this business saw this as a natural step: "When you do the right thing and find common sense solutions to problems, then these good news stories will attract the attention of government and others."

5. Grievance mechanisms

Participants discussed the **dual role of operational-level grievance mechanisms** in that they can: (a) allow companies to provide or enable remedy when a harm has occurred; and (b) offer insights into issues and trends that need to be addressed as part of a company's ongoing human rights due diligence process.

The idea of putting in place various **different channels for workers, community members and other stakeholders to raise issues** with the company resonated more strongly with participants than establishing a single, "one size fits all" mechanism or hotline. The approach needs to be context-specific, with one participant pointing out that in one country, if a worker has an issue then they will call the appropriate government-provided helpline, but in another there is zero trust in such mechanisms.

One participant explained that **understanding the point of a grievance mechanism is crucial**. If a business puts having zero grievances or complaints as its main aim, then it would instill a closed

culture in which grievances are not raised but the issues still exist. Conversely, an open approach to a grievance mechanism means that issues are raised and can be addressed quickly and directly before they escalate.

Another small business owner commented that when workers feel respected, and that their managers understand them, they will raise issues and concerns with them. Creating this **culture** depends on workers' awareness of their rights, among other things. This owner introduced WhatsApp groups to disseminate information on workers' rights, as well as fortnightly employee dialogue meetings without management to encourage peer-to-peer learning and to provide a forum for discussion. Equally importantly, the company introduced emotional intelligence training for managers and those responsible for receiving complaints.

Participants discussed how, in order for affected stakeholders to use a mechanism, they needed to feel that there was little chance of **negative repercussions** for them in doing so. Participants also agreed that the company should not assume what an appropriate solution to a complaint should be; rather, they ought to engage with the affected stakeholder to fully understand their perspective and **mutually agree on remedy**, which very often includes something as simple as an apology for the harm caused.

Finally, participants discussed the feasibility of **questioning suppliers on the effectiveness of their own mechanisms** to receive complaints. It was agreed that simply asking about the existence of such mechanism would not be particularly effective.

6. The most useful support to SMEs to respect human rights

The day closed with a discussion of the types of support SMEs would like to receive to further their work on human rights. The following suggestions were made:

- **The State fulfilling its duty to protect human rights** (pillar one of the UNGPs). Regular labour inspections were specifically mentioned, as were powers to enforce non-compliance with regulations.
- **Government-backed incentives** to SMEs that performed well in relation to human rights.
- **Public authorities** enabling respect for human rights through contracting by **ensuring payment on time** and at a cost that allowed for the realisation of labor standards.
- **The role of employers' organisations** in supporting SMEs to implement the UNGPs through awareness-raising of standards and expectations of business, capacity-building efforts and training, engaging Governments and bridging the work of MNEs and their local suppliers.
- **Information on NGOs and external experts** that could support SMEs on specific human rights issues in different geographies.
- **Peer-learning opportunities** for SMEs outside of their country and industry.