

What does effective human rights risk management look like?

5 insights from practice

INSIGHTS SERIES –

Keys to effective human rights due diligence



Global Compact
Network Germany



HUMAN RIGHTS &
LABOUR



Background

Business and human rights has become an increasingly important topic on the corporate sustainability agenda. The German Network of the UN Global Compact has been assisting companies to live up to their human rights responsibilities since its inception 20 years ago. The 10th anniversary of the [UN Guiding Principles on Business and Human Rights](#) (UNGPs) – celebrated in June 2021 – provides an opportunity to reflect on some of our key insights for effective human rights due diligence. This series offers companies food for thought, highlights inspirational practice and shares valuable lessons learned to stimulate business managers and decision-makers towards an ambitious, transformational approach to respecting human rights in line with the UNGPs.

The publications in this series give emphasis to approaches, strategies and mindsets that:

- are effective and meaningful
- grow legitimacy and increase transparency across corporate human rights practices
- help to raise trust between stakeholders.

The insights shared in the series are based on the experience of Global Compact Network Germany in supporting business practitioners to implement human rights due diligence. They include knowledge gathered through engaging with businesses, and the know-how of our partners and experts over the years.

WHAT THIS INSIGHTS SERIES IS ...

The Insights Series aims to present a selection of key lessons learned and success factors for respecting human rights in the spirit of the Ten Principles of the UN Global Compact and in line with the UNGPs, providing companies with inspiration for effective and meaningful human rights due diligence and continuous improvement.

... AND WHAT IT'S NOT

The Insights Series does not provide guidance on how to 'comply' with the UNGPs, nor does it constitute a step-by-step guide to human rights due diligence or meeting legal requirements. Reference to existing guidance is included at the end of this publication.

The corporate responsibility to respect human rights

In 2011, the UNGPs established the first internationally recognised, comprehensive framework defining the roles of states and companies in addressing the negative impacts of business on people's rights. Developed by John Ruggie, the then Special Representative of the UN Secretary-General on Human Rights and Transnational Corporations and Other Business Enterprises, and his team, the UNGPs' 'Protect, Respect, Remedy' framework says that

- states have a **duty to protect** human rights against human rights abuses by third parties, including by business;
- businesses have a **responsibility to respect** human rights and address risks associated with their business activities and relationships; and
- people whose rights have been impacted by business must have **access to remedy**.

In spelling out the corporate responsibility to respect human rights, the UNGPs also operationalised the human rights-related expectation contained in the **Ten Principles of the UN Global Compact**: that businesses shall respect human rights and ensure they are not complicit in human rights abuses by others. The **OECD Guidelines for Multinational Enterprises**, in turn, were updated in 2011 to include stronger reference to human rights and provide detailed guidance on human rights due diligence in line with the UNGPs.

These three frameworks share an underlying idea: business respect for human rights can only be achieved by putting people at the centre of a risk-based approach, changing the perspective from risk to business, to risk to people. This fundamental shift of perspective is what defines **human rights due diligence** – and also constitutes a crucial contribution business can make to the **sustainable development** agenda more broadly.¹

The UN Working Group on Business and Human Rights – tasked with promoting the implementation of the UNGPs – asks states to publish **National Action Plans on Business and Human Rights (NAPs)** to detail their priorities and actions in implementing the UNGPs. The Working Group also encouraged states to adopt a **'smart mix'** of measures – including voluntary and mandatory, national and international – to ensure and encourage businesses to respect human rights. In recent years a growing number of countries adopted **legislation** – such as Germany's Supply Chain Due Diligence Act and France's Loi sur le Devoir de Vigilance – that implicitly build on or explicitly refer to human rights due diligence as set out in the UNGPs.

¹ The UN Global Compact describes the principles-based approach to the Sustainable Development Goals (SDGs), including the ways in which the Ten Principles and the UNGPs interact with the SDGs, in its 2016 White Paper [The UN Global Compact Ten Principles and the Sustainable Development Goals](#)

Effective human rights risk management

Companies have access to plenty of technical, step-by-step guidance on how to implement the UNGPs, including: how to identify, assess and prioritise human rights risks, acting upon them, tracking the effectiveness of their efforts and providing for remediation of negative impacts.²

This publication takes a different approach. Building on Global Compact Network Germany's experience in raising awareness on and building capacity for human rights due diligence, it highlights selected **success factors that can help make human rights risk management truly effective**. Effectiveness here is understood as achieving two goals:

- 1) benefitting people at risk and
- 2) helping to build a stronger business in the long term.

Human rights risk management at a glance

In business, risk management is the process of identifying, assessing and controlling risks to a company, most commonly this relates to financial or operational risks. Human rights risk management on the other hand is the practice of identifying, assessing and responding to human rights risks, defined as **risks that business activity may pose to the rights and freedoms of people**.

The objective of human rights risk management is to prevent, mitigate or end negative impacts of business activity on people.

Managing human rights risks is an essential part of the UNGPs' concept of human rights due diligence. It is therefore fundamental for businesses to fulfil their corporate responsibility to respect human rights. Companies are expected to conduct their human rights due diligence in a way that is **risk-based and adequate** in relation to their potential and actual impacts. Therefore, managing human rights risks means **knowing**

how business activities can directly and indirectly impact people, **assessing risks of negative impacts according to the severity and likelihood** of their actual occurrence and **acting upon them** with the objective of preventing, mitigating and remediating impacts.

For businesses to effectively manage risks to people, the UNGPs ask companies to integrate human rights risk management into their strategy and operations. Recent due diligence legislation and consumer and investor interest in companies' human rights performance reinforce this expectation.

Five insights on effective human rights risk management

There are many elements to making human rights risk management 'effective'. The following insights highlight five selected considerations that, based on our experience, play a particularly important role. Accordingly, effective human rights risk management is **strategic, incremental, embedded, collaborative** and **rightsholder-focused**.

The insights build on the experience of companies when implementing human rights due diligence and aim to stimulate reflection and ideas.

² A selection of examples is referenced in [Annex 2](#) of this paper.

INSIGHT
1

Human rights risk management becomes effective when it is used strategically

It is important to understand the strategic relevance of human rights for business. Interest in how a company is **embedding human rights into business strategy** is on the rise: human rights due diligence legislation is growing, financial institutions are increasingly linking investment decisions to human rights considerations, and civil society and consumers are progressively putting pressure on companies to account for their social impacts.

At the same time, corporate board members are interested in growing their business, ensuring competitiveness, improving customer loyalty, attracting and retaining talent, shielding their business against legal and regulatory risk, and ensuring access to markets and investments.

Yet cases of adverse human rights impacts directly translating into disrupted business operations, higher costs, litigation, frozen assets or reputational damage are numerous and increasing. A fully embedded human rights risk management process is therefore of strategic relevance, as it can both support business growth and reduce risks to business.

A key factor in successfully mainstreaming human rights into business strategy is **leadership from the top**. It ensures human rights considerations are integrated into the business strategy and operations, it sets the expectations of employees, suppliers and partners and creates the right level of resources, incentives, measurement and transparent reporting that is needed. This is addressed further in [Insight 3](#).

BRINGING IT TO LIFE

Increasingly, companies are integrating human rights risks into strategy development by understanding the reduction of risks to people also as opportunities for the business. What does this mean in practice: By reviewing their business models, governance, core products and services with respect for human rights in mind, they future-proof and ensure long-term business success. By using social and environmental insights, companies are able to both grow their own business in innovative ways and tackle industry-wide challenges in partnership with others. Human rights insights become an integral part of this reset and a useful input for leadership teams to develop new ideas.

INSIGHT
2

Human rights risk management becomes effective when it is implemented incrementally

The scope of human rights risk management is broad: The UNGPs expect a business to look at **all** its human rights risks in their business operations as well as relationships and supply chains. At the same time, it is hard to fully assess all the implications of business decisions and activities and to address all risks at the same time.

An emerging response to this challenge is to **move quickly** from identifying to prioritising risks. This enables a company to rapidly focus its attention and resources on a few, but selected risks and to act on them. With experience and growing capacity, the company will be able to incrementally expand the range of risks acted on.

A second approach is to **decentralise human rights risk management**. Different business units or functions manage human rights risks that exclusively relate to their part of the business, whilst the central human rights and top management teams act as an oversight board, identifying systemic patterns, root causes, blind spots and ensure lessons learned are exchanged across the business. Here too, an emerging practice consists in starting with a few selected functions – such as procurement, HR, logistics – or business units, such as country operations or specific products with a high-risk profile. Over time, leveraging experiences and lessons learned, companies can incrementally grow the range of units engaged in proactively managing human rights risks.

BRINGING IT TO LIFE

Companies with a robust risk assessment approach have found a way to do both: identify relevant risk data that is often scattered across the organisation without being 'labelled' as human rights risk data (such as HSE, HR or supplier audits), and use this data to create a business-wide human rights risk profile. This helps companies to get a complete view of a broad range of topics and swiftly move on to prioritise risks based on where action is needed most. On the other hand, decentralising the management of these prioritised risks to the teams best placed to address them enables companies to accelerate action and address a broader range of risks in parallel.

INSIGHT
3

Human rights risk management becomes effective when it is embedded across the business

Embedding respect for human rights across a business is a recurring theme in the UNGPs. Growing experience of companies implementing human rights risk management shows that embedding is most successful when it happens in a variety of ways and through different means. From having clearly assigned responsibilities, building on existing processes and improving internal exchange of information to leveraging the links across the full spectrum of sustainability – environment, social and governance.

The proverbial **breaking down of silos** is essential to effective human rights risk management. This starts with a common understanding of what human rights mean for the business, how this translates into the work of different functions (HR, procurement, sales, sustainability, etc) and which existing management systems can be adapted to integrate human rights aspects.

Thinking and working in silos also affects sustainability efforts where **different agendas and topics** run in parallel or even compete with each other, instead of informing each other. A classic example is creating separate systems for environmental and human rights risk management, especially with regard to supply chains. Recognising how closely impacts on nature and people relate to each other, companies have benefitted from treating human rights risk management as an integral part of their broader sustainable business agenda. This can help companies successfully embed human rights insights into their processes and operations, pool resources and create synergies. With legislation starting to combine due diligence around social and environmental themes (e.g. France, Germany) and the emerging recognition of a human right to a healthy environment, companies that understand the connections and embed this understanding in their governance, processes and risk management systems will also be better prepared to respond to evolving regulatory requirements.

Assigning responsibilities and related KPIs to employees at different levels – for example by integrating human rights risk management in role descriptions – is one of the most useful tactics to embedding human rights across a business. This creates accountability and builds awareness and ownership of human rights risk management at all levels from head office to operations.

BRINGING IT TO LIFE

Companies with advanced due diligence approaches are increasingly bringing knowledge and responsibilities traditionally held by corporate affairs functions down to the operational teams that liaise directly with (small) suppliers, contractors or smallholder farmers. This is where risks and impacts are most obvious and where teams have deep insights into the reality on the ground. Raising human rights awareness for all employees and educating them on how to recognise and report issues can be a highly effective (and efficient) way of managing risks, especially for those working in the supply chain teams. For example, quality or technical staff who hold relationships with suppliers and engage with sites regularly are well placed to pick up risk indications 'on the go'. Often, just keeping eyes and ears open and asking a few targeted questions can help make observations on more and perhaps less obvious human rights risks.

INSIGHT
4

Human rights risk management becomes effective when it is supported by collaboration with business partners and peers

Building trust and working with suppliers, peers and stakeholders to manage human rights risks may still seem to require excessive resource and capacity investment. However, approaches based on partnerships enable companies to not just manage human rights risks, but to manage them well and work towards addressing root causes. While this insight focuses on business-to-business collaboration, [Insight 5](#) deals with engagement of rightsholders and their representatives.

There are many ways to **collaborate with peers** on human rights risk management, both formal – through industry associations, engaging in sustainability networks or multi-stakeholder initiatives (including the UN Global Compact) – and informal through direct engagement. Human rights risks are often systemic in an industry, region, or supply chain. By collaborating with peers, companies can create a bigger impact, perhaps increasing the leverage over high-risk clients and suppliers, or co-creating solutions that address not just the symptoms but also the root causes of human rights issues. Collaboration enables management of human rights risks to become sustainable, be more efficient for individual companies, and to continuously innovate and improve. It can also increase transparency and provide a platform to raise industry standards, for instance through engagement, membership criteria, or coordination of goals and incentives that create an industry-wide race to the top on human rights performance.

Building trust with suppliers and business partners is not only important for strong business relationships, but equally important to best manage human rights risks. Relationships based on a partnership mindset have proven to be more effective and to provide business benefits for both the client and supplier companies. Improvements in human rights risk management move the agenda from compliance to joint investments that both partners commit to and prosper from. It also makes effective human rights risk management part of a shared understanding of quality. In trust-based relationship models, challenges and setbacks are voiced and discussed openly, and solutions are co-created for the benefit of both business partners and people.

CONSIDERATIONS TO MOVE FROM TRANSACTIONAL RELATIONSHIPS TO PARTNERSHIPS WITH SUPPLIERS

- **Share responsibility** with suppliers to prevent and mitigate human rights risks and address root causes. Consider how your business decisions and practices may support or hinder socially responsible practices in your supply chains.
- **Identify opportunities to support** suppliers to build their capacity in human rights risk management.
- **Co-create** action plans and solutions to improve risk management and address human rights issues. A joint approach respects both organisations' perspectives, goals and needs in implementation.

5

Human rights risk management is effective when it proactively takes into account rightsholders' perspectives

Changing the perspective from 'risk to business' to 'risk to people' is a fundamental **mindset shift** to enable business respect for human rights. This rightsholder-focus is a non-negotiable element of human rights risk management in line with the UNGPs. Too often human rights programmes are still driven primarily by 'risk to business' considerations, such as reputational risk or supply chain disruption. In addition, human rights programmes are often developed in central functions, far removed from the operations in which people are impacted. This is why this last insight reiterates the crucial significance of rightsholders' views and perspectives.

The effectiveness of human rights risk management relates to how well the business prevents or mitigates impacts on people, or remediates them in the event that impacts occur. It is therefore crucial to consider and understand people's realities and perceptions of how business operations and relationships may affect or have actually impacted their lives.

Human rights risks are **highly contextual and influenced by local culture**. Dedicated rightsholder engagement can help companies identify how to respond to challenges within a specific context. One-size-fits-all-approaches rarely work. Experience shows that meaningful rightsholder engagement can be resource-intensive and challenging. Yet companies report that once initiated, they benefit from new insights and a deeper understanding of the risks and impacts. On the one hand, truly taking into account rightsholder views allows them to develop solutions that are effective in reducing risks to people. At the same time, they are able to effectively reduce risks to business by preventing the escalation of human rights-related conflicts and grievances.

CONSIDERATIONS FOR BRINGING IN RIGHTSHOLDER VIEWS

- Engage rightsholders **throughout the process** of human rights risk management, not only during risk assessment but also when identifying solutions and following up on their effectiveness.
- Be open to a **diversity of channels** for bringing in rightsholder views, such as roundtables and forums, engagement with trade unions and NGOs, focus groups, surveys and worker voice tools, grievance channels and worker interviews. They differ in level of engagement and depth, but all have their place.
- Seek out **legitimate representatives** of rightsholders, such as work councils, trade unions, civil society organisations, or human rights defenders, who can translate risks and needs of the people they represent. Ensure that the company engagement does not put them at risk.
- Build on the **expertise of local staff**, who have first-hand, practical insights into the working and living conditions in their operational context and can help head office teams understand risks and design responses.
- **Engage with purpose** by clarifying the goals of rightsholder engagement and share the outcome of your findings and efforts with the rightsholders you engaged with, providing meaningful opportunities for them to feed back.

Key takeaways

As presented above, there is no one-size-fits-all solution to effective human rights risk management. There are, however, a number of success factors that facilitate it, as have been highlighted in this publication.

Recognising the strategic importance of business respect for human rights in all operations is powerful in setting the tone across an organisation and in relationships with its partners and other stakeholders.

Taking an incremental approach allows a company to familiarise itself with human rights risks and grow into a robust set of systems and actions with a human rights mindset. This also helps to increasingly embed human rights into all levels and across all functions of a business without 'shocking the system'.

Moving from transactional relationships to partnerships with suppliers and entering into wider collaborations with peers are powerful ways to take stronger action to address human rights risks and their root causes.

Finally, effective human rights risk management is guided by proactively considering the perspective of rightsholders. Keeping the focus primarily on risk to business inhibits the thorough understanding of how business may affect people and limits the effectiveness of efforts to manage human rights risks.

Annex 1

Legal frameworks

A growing number of jurisdictions are adopting legislation that implicitly builds on or explicitly refers to human rights due diligence in line with the [UN Guiding Principles on Business and Human Rights](#), such as

- **Germany's** [Supply Chain Due Diligence Act](#) – adopted in July 2021 – which specifically defines due diligence obligations as well as expectations towards risk management in relation to defined human rights and environmental aspects;
- **France's** [Loi sur le Devoir de Vigilance](#) (in French), which was one of the first combining requirements on environmental and human rights due diligence;
- the **European Union's** [Conflict Minerals Regulation](#), which defines supply chain due diligence obligations for Union importers of certain minerals originating from conflict-affected and high-risk areas; or
- **Switzerland's** [responsible business legislation](#) (in German), requires companies in scope to exercise due diligence in relation to conflict minerals and to child labour.
- Additionally, in 2020 the **European Commission** announced the development of [mandatory human rights and environmental due diligence legislation](#).

Annex 2

Selected sources of useful information and practice-oriented guidance

Readers interested in learning more and looking for practice-oriented guidance on human rights risk management are invited to explore the following selection of tools and resources.

Global Compact Network Germany offers a wide range of guidance notes, tools and other resources on business and human rights and the UNGPs, including:

- The [Human Rights Capacity Diagnostic Tool](#), enabling companies to assess the level of maturity of their human rights due diligence and risk management systems
- A [Five Step Guide](#) on how to get started on human rights due diligence with lots of practical examples
- A selection of in-depth case studies on [Human Rights Risk and Impact Assessments](#)

The **UN Global Compact** also offers a variety of practical tools and resources to support companies in implementing human rights due diligence, including:

- An [E-Learning Course on Operationalising the UNGPs](#), jointly developed with the Office of the UN High Commissioner for Human Rights and Shift
- The [Decent Work Toolkit for Sustainable Procurement](#), helping companies to integrate decent work considerations into procurement systems
- A variety of on-demand webinars on business and human rights topics as part of the [UN Global Compact Academy](#)

A range of **helpful resources** – including guidance notes, online tools and e-learnings – are also provided by:

- Office of the UN High Commissioner for Human Rights, in particular [interpretive guides on the UNGPs](#)
- OECD, in particular the [Due Diligence Guidance for Responsible Business Conduct](#)
- [Business and Human Rights Resource Centre](#)
- German Federal Government's Helpdesk on Business and Human Rights, in particular the [SME Compass](#)
- [ILO Helpdesk for Business on International Labour Standards](#)

IMPRINT

The UN Global Compact and the Global Compact Network Germany

The UN Global Compact is the world's largest initiative for sustainable and responsible business. Based on the Ten Universal Principles and the Sustainable Development Goals (SDGs), the UN Global Compact pursues the vision of an inclusive and sustainable society. More than 18,000 participants at the UN Global Compact, among them 14.000 companies, contribute to the global vision. The Global Compact Network Germany is one of the largest of the UN Global Compact's 70 Local Networks. It currently comprises 760 participants – including 700 companies, ranging from DAX to SMEs – as well as 60 representatives of civil society, academia and politics. Aiming to induce change processes within companies and support the strategic integration of sustainability, the Global Compact Network Germany focuses on the topics of human rights & labour standards, environment & climate, the prevention of corruption, reporting as well as on promoting the business contribution to the SDGs.



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