WHY SHOULD RETAILERS CARE ABOUT HUMAN RIGHTS IN THEIR SUPPLY CHAINS?

THE ANSWER IS SIMPLE: TRANSPARENCY AND COMPETITIVE ADVANTAGE.
TRANSPARENCY

If you are looking for an unintended consequence of the internet and social media age, it is that companies, no matter the industry they are in, or where they are located in the world, are having to become more transparent.

However, this argument needs to be qualified. Indeed, within this framework, the depth and relevance of monitoring is neither unique nor uniform, but complex in both its nature and its philosophy. As a result, the quality of the information provided by the supervisor is variable and needs to be placed in context of the field of practice. Taking this argument a stage further, we can say that the quality of information provided by a supervisor to ensure compliance with the rules is not exactly comparable to that provided by a supervisor to ensure compliance with the principles.

The reason that companies need to be more transparent is that if they don’t tell their story, someone else will. Take the example of Nokia, who were subject to the film “Blood in the Mobile” by director Frank Poulsen. Poulsen was able to draw a direct link between the minerals used in Nokia’s mobile phones and the illegal tin mining taking place in DR Congo where conflict has cost the lives of 5 million people and 300,000 women have been raped. Nokia were asked by Poulsen, on film, to give a guarantee that they are not buying conflict minerals. Nokia weren’t able to give that guarantee. This was not exactly reputation enhancing.

Now, on the one side, one can argue that how is Nokia supposed to know where the minerals come from that are used in its phones; particularly when they may be sourced by a supplier two or three tiers removed from the company. However, the other side is that a company the size of Nokia with its financial might and valuable brands should absolutely care if any impacts arising from its own operations, or those of its suppliers, cause harm to others. This is more than just doing the right thing; it’s about protecting its reputation and brands, which have taken years and millions to build; it’s about fully engaging with all stakeholders:

- Consumers who want to make sure that by buying a product they are not indirectly contributing to the harm of others
- Workers who need to be engaged with, to have trust enhanced to promote productivity, to have their needs understood
- Suppliers who need codes of conduct and regular communication to ensure a deep understanding of their processes and to enable a more consistent high quality and sustainable supply of goods
- Investors who are looking for their investment to increase in value through greater profitability and non-erosion of intangibles such as reputation and brands through poor risk management

Up until the last decade it can be said that supply chain behaviours have been off the radar for most retailers. Of course, retailers have usually wanted the best quality suppliers, at the cheapest price and delivered in accordance with pre-agreed timetables. However, what has changed is the transparency of understanding how those suppliers were able to achieve all three of these pre-requisites. Reputations of retailers, who stock products from companies that have been shown to stock goods from suppliers which cause harm to others, become damaged. Even though Nike are now at the forefront of ensuring ethical human rights products in their supply chain, nobody can forget the Nike “tick” logo being used as the letter “V” in SLAVERY.

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COMPETITIVE ADVANTAGE

It could be said that the old fashioned view of competitive advantage in the retail industry is one where retailers consistently are able to turn around high margin products which their competitors cannot match ie there is differentiation in either the products and/or the delivery of the products. What we are seeing today are new generations asking different questions; where did that product come from, how was it manufactured and how does it impact the environment?

The only way retailers can answer these questions is through a deep understanding of their suppliers. Paul Polman, CEO of Unilever said “We cannot choose between (economic) growth and sustainability – we must have both.” By addressing the risks of human rights impacts in the supply chain, one addresses most sustainability issues.

So what can retailers do about protecting themselves from adverse human rights behaviour in their supply chain? First stop is for all retailers to adhere to the United Nations Guiding Principles on Business and Human Rights. These consist of 31 clear and concise principles over 24 pages which set out how all businesses should address and protect against negative human rights impacts. The key points are as follows:

• The Board should implement and embed clear, sound policies through its entire operation;

• The business needs to understand where its key human rights risks lie through due diligence and gap analysis

• The business needs to design and implement appropriate controls within its own operation and to advise its suppliers on the controls they are expected to implement

• The business needs to implement appropriate grievance mechanisms for all, including suppliers, to raise issues and to properly remediate where harm has been caused.

In this respect, Mazars, one of the world’s leading auditing and tax consultancy practice, and Shift, a non-profit centre on business and human rights, which largely consists of the UN team who drafted the UN Guiding Principles, have come together to write a standard for companies to report on their compliance with the UN Guiding Principles and a standard for auditors to be able to provide independent assurance on these reports. This project is officially supported by the UN Working Group for Business and Human Rights and their recent discussion paper, and response to comments, can be found at www.shiftproject.org/project/deciding-global-human-rights-reporting-and-assurance-standards.

If retailers follow through with their adherence to the UN Guiding Principles there will be a positive answer to the question “Do your suppliers, and your supplier’s suppliers, trust you?”

We started off by considering the impact of transparency on retailers; the result is that if retailers want to take full control of their risks, maximise their contribution to society, increase their competitive advantage and thereby their profits, they will need to move their culture away from that of legal compliance to one of moral compliance. Not such an easy job when western business is full of lawyers and litigation! However, a number of retailers are already leading in human rights risk management and are benefiting. Others need to catch up before consumers and investors fully grasp the issues and react accordingly.

FIRST STOP IS FOR ALL RETAILERS TO ADHERE TO THE UNITED NATIONS GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS

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