



## Community Engagement and Investment to Advance Human Rights in Supply Chains

A *Good Practice Note* endorsed by the United Nations Global Compact Human Rights Working Group on 26 November 2012

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The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment, and anti-corruption. In June 2006, the Global Compact Board established a Human Rights Working Group. The goal of the working group, whose inaugural chair was Mary Robinson, former UN High Commissioner for Human Rights and President of Ireland, and currently is chaired by Mr. Pierre Sane, is to provide strategic input to the Global Compact's human rights work. The following is one of an ongoing series of notes on good business practices on human rights endorsed by the working group. Rather than highlighting specific practices of individual companies, Good Practice Notes seek to identify general approaches that have been recognized by a number of companies and stakeholders as being good for business and good for human rights.

### I. Introduction

Longstanding concerns about poor social and environmental conditions in companies' supply chains, along with heightened public scrutiny of business behavior, have led to rising expectations that companies should seek more effective ways to improve their suppliers' environmental, social and governance ("ESG") practices. Moreover, a combination of national and local regulations, international covenants, frameworks, and various declarations, has made clear that there is a corporate responsibility to respect human rights.<sup>2</sup> This responsibility has been affirmed by the United Nations with the endorsement of the UN "Protect, Respect and Remedy" Framework in 2008 and the Guiding Principles on Business and Human Rights for implementation of the Framework in June 2011. The UN Framework and the Guiding Principles advance a responsibility to avoid infringing on the rights of others and to adequately address any adverse human rights impacts that nevertheless occur. While individual businesses are responsible for respecting human rights within their operations, the Guiding Principles provide for the prevention and mitigation of adverse human rights impacts linked directly to enterprises' business relationships, including within their supply chains, even if they have not otherwise contributed to those impacts. Moreover, signatories to the UN Global Compact agree to uphold and promote the Global Compact's ten universally accepted principles.

<sup>1</sup> Grateful acknowledgment is given to UN Global Compact Advisor and Good Practice Project Leader Prof. Chip Pitts of Stanford, under whose direction this Good Practice Note was prepared.

<sup>2</sup> Among other rights, companies should respect international labor rights within their supply chains, including the right to freely choose employment, the freedom of children from labor, the freedom of individuals from forced labor, the freedom from discrimination and the freedom of association and collective bargaining. In addition, the United Nations Global Compact encourages its signatories and other companies to apply the ten Global Compact principles to their supply chains.

## ➤ Focus of this Note

Community engagement, including but not limited to the primarily philanthropic activity referred to as community investment, has arisen as a mutually beneficial way to advance human rights in supply chains. In community engagement, companies familiarize themselves and develop relationships with the stakeholders of the communities in which they operate in order to minimize any negative externalities and offer aid and other initiatives that will benefit community members. For companies embracing their responsibility to address the full range of human rights impacted in their supply chains, including but not limited to labor rights,<sup>3</sup> this Note aims to explain some of the critical advantages, pitfalls and good practices related to engaging with and investing in suppliers' communities. The Note draws from literature on the relevant issues as well as numerous interviews with executives of corporations employing global supply chains, representatives of international human rights organizations, and academics in the field of human rights and corporate social responsibility. The role of engaging suppliers' communities in the global effort to advance human rights has yet to be embodied in any broadly applicable hard law international legal instruments, although the expectation increasingly appears in a number of soft law<sup>4</sup> instruments ranging from the Global Reporting Initiative (a *de facto* global standard increasingly embodied in domestic law and governance codes around the world) to the UN Global Compact itself and the Framework and Guiding Principles. This Note thus represents an important step in helping companies understand how and why they should take an interest in their suppliers' communities.

## II. Human Rights Standards

The UN Human Rights Council's unanimous endorsement of the Guiding Principles on Business and Human Rights for implementing the UN "Protect, Respect and Remedy" Framework solidly reaffirms the corporate responsibility to respect as the global standard for all business enterprises. This responsibility implies that businesses should avoid infringing on the human rights of others and should address adverse human rights with which they are involved. In order to meet the responsibility, the Principles stipulate that enterprises need to have in place certain policies and processes to know and show that they are respecting human rights. These include a policy commitment to respect human rights, a human rights due diligence process, and processes to enable the remediation of adverse human rights impacts. These are also the key basic elements underlying all human rights-related good business practices.

Community engagement contributes to the corporate responsibility to respect human rights embodied by the Guiding Principles and the UN Global Compact commitment to support human rights. Rights of suppliers' communities that can be positively affected include, but are not limited to, rights regarding child labor, education and other children's rights, enjoyment of the environment and natural resources, protection and assistance of family and preservation of indigenous culture, and the right to work under humane conditions and for fair remuneration.

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<sup>3</sup> "Supply Chain Sustainability: A Practical Guide for Continuous Improvement," UN Global Compact and BSR, 2010, serves as a good starting point for companies seeking to develop their approach to advancing human rights in their supply chains.

<sup>4</sup> "Soft," in the sense of authoritative but formally non-binding.

### **III. Advantages for Companies of Engaging and Investing in Communities to Advance Human Rights in Supply Chains<sup>5</sup>**

- **Community engagement helps establish successful relationships with suppliers and their stakeholders, reducing costs, improving quality and promoting steady supply**

The costs involved in establishing reliable supply chains vary across industries, but they often include securing financing, constructing necessary infrastructure, developing relationships with local or national government, and managing political risks. Many of these necessary investments can simultaneously benefit local communities, and the mutual gains can be enhanced through community engagement. Since suppliers often employ and/or source raw materials from community members, inclusion of the community in investment decisions can also improve employee morale and input quality. As supply chain relationships develop to a more intimate and trusting stage, they allow companies to work better with suppliers to quickly spot problem areas and solve supply problems. Once a supplier becomes a permanent or regular member of a company's supply chain, maintaining a stable relationship can become vital to the company's ongoing success.

- **Building goodwill with communities earns indispensable social licenses to operate**

Getting the informal acceptance to operate within communities (a "social license") is often as or more important than legal licenses to operate. While legal licenses can establish a company's foothold in a country, acceptance by local communities can give the company space to develop larger, more robust supply chains. Community engagement, founded on policies and practices of respecting human rights, is important to earning and preserving social licenses. Philanthropy and the positive externalities of operations, e.g., job creation, are rarely sufficient to secure a social license, which more often calls for community input on how operations and externalities are managed vis-à-vis their effects on the community.

- **Proactive demonstration of ESG commitments enhances corporate reputation**

In order to retain a social license to operate on a global scale, a company must avoid being viewed as socially or environmentally irresponsible. Burgeoning use of social media and stakeholder activism make this difficult for companies that do not proactively manage their reputation. In this challenging environment, companies can improve their brand image and earn customer confidence by effectively engaging with suppliers' communities and including them in local investment initiatives. Such efforts help prevent human rights concerns from raising negative attention from stakeholders in the first place, and also demonstrate companies' corporate responsibility when communicated to stakeholders. International corporations that have suffered PR disasters as a result of human rights issues in their supply chains can apply their hindsight and lessons learned to introduce community-focused initiatives in their operations in emerging markets to preclude reliving negative experiences.

Moreover, numerous widely accepted international standards regarding human rights and the environment have established legal and social baselines of conduct for companies. Companies that work with their suppliers to jointly meet ESG commitments will have an advantage in being able to lower compliance costs, e.g., by combining productivity-enhancing initiatives with compliance-related initiatives.

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<sup>5</sup> An overview of the advantages of supply chain sustainability programs can be found on the "Supply Chain Sustainability" page of the UN Global Compact Website, at [http://www.unglobalcompact.org/Issues/supply\\_chain/index.html](http://www.unglobalcompact.org/Issues/supply_chain/index.html).

## **IV. Practical Pitfalls to Avoid When Engaging with and Investing in Communities to Advance Human Rights in Supply Chains**

### **➤ Community investment without community engagement**

While direct community investment is typically welcomed by community stakeholders, a lack of engagement with key community stakeholders in making the investment can reduce its mutually beneficial value and increase its cost. The most common mistake occurs when companies impose an investment on a community without sufficient consultation, but it may be equally problematic to assume that community leaders know, without wider deliberation, exactly what the community needs in an investment initiative. Dialogue and education are especially important in emerging markets, where economic and infrastructure development may be pursued much more single-mindedly than in more developed countries, and community engagement initiatives often face negative impressions and resistance in large parts of the populations, including in or around target communities themselves.

The most effective and sustainable community investment initiatives engage key community stakeholders in constructive dialogue on an ongoing basis, based on transparency, meaningful participation by affected individuals and groups and accountability; as opposed, for example, to a single Q&A session or one-way “consultation as informing” sessions. True ongoing dialogue and engagement often involves numerous studies and trials in initial stages.<sup>6</sup> It is important to recognize and value the knowledge of local experts as essential to assessing the appropriateness of proposed community investments.

### **➤ Misdirected, incomplete and/or detrimental community engagement or investment by a lack of due diligence, misidentification of key community stakeholders, etc.**

Failing to appreciate a community’s diversity, relations, and other structures varying from society to society can undermine otherwise effective community engagement efforts. Even relatively small communities can be surprisingly diverse, speaking multiple languages, composed of different ethnicities and interests, practicing several different religions, etc. Community engagement efforts may fail if only an unrepresentative subset of key community leaders is consulted; important interests may be neglected and community tensions may inadvertently be enhanced. Due diligence is required to avoid causing or contributing to adverse human rights impacts, such as discrimination, disempowerment of affected individuals, etc.

Working with intermediaries, such as local NGOs, can help to mitigate the risk of this occurring. Intermediaries can help companies to identify appropriate stakeholders, or significant portions of the engagement process can be outsourced to the intermediary. Companies should attend to the risk that an intermediary’s interests may not align with the interests of the broader community, or that an intermediary may not fully understand the needs of the community.

### **➤ Unmanageable program scope**

While broad sustainability programs are desirable, and sometimes necessary, companies that are new to supply chain sustainability must be realistic in setting their program scope in order to allocate time and resources for adequate planning and implementation. In general, emerging markets will present more numerous and challenging obstacles, requiring sourcing and supplier companies to dedicate relatively more time, energy and resources—although these are often cheaper in absolute terms, and the pay-off can be much higher. Most importantly, enterprises should exercise due diligence in establishing and maintaining sufficient awareness of actual and

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<sup>6</sup> See “Setting up a Multi-Stakeholder Panel as a Tool for Effective Stakeholder Dialogue,” UN Global Compact, 2010.

potential adverse human rights impacts linked to them through their suppliers. In order to set priorities for community engagement, an assessment of the impacts' significance should be carried out with due diligence and consideration of the severity of each impact (with regard to international human rights standards and the communities' own perceptions), its receptivity to prevention, mitigation or remediation, and other factors relevant to each impact. Supply chains may have certain "hot spots" where human rights impacts are severe enough, or remediation is more difficult after delay, such that immediate attention is necessary. Due diligence for human rights risks should be based not merely on the tier of the supplier, but rather on such "hot spots" and, generally, on areas where risks of adverse human rights impacts are most significant. This is often where profit margins are lowest, e.g., production of raw materials.

➤ **Failure to involve and fully engage the supplier in the community investment initiative**

Companies that treat engagement with suppliers' communities as implicitly acceptable, and thus commence the initiatives without the suppliers' invitation or approval, run the risk of alienating their suppliers, potentially souring valuable relationships. Suppliers unconvinced of the value of community engagement initiatives can actually negate the efforts of collaborating stakeholders, e.g., by holding back valuable resources, hiding negative data and/or fabricating research results. On the other hand, suppliers can add great value to the community engagement process. Failing to leverage suppliers' knowledge and connections as community insiders can stifle the success of even the best designed community-focused initiatives.

It is especially important to involve suppliers holding effective monopolies over resources that sourcing companies cannot do without, such as water or energy, since embittering relationships with such suppliers can devastate a sourcing company. While it can be challenging to motivate such suppliers to take on additional projects, dialogue aimed at conveying the importance of the proposed initiative, and the business benefits to the supplier, can help encourage even powerful suppliers to work alongside their customers to engage with and invest in their communities.

## **V. Good Practices in Engaging with and Investing in Communities to Advance Human Rights in Supply Chains**

➤ **Establishing an ongoing, transparent dialogue with and between key community stakeholders, including relevant suppliers**

Early on in any effort to develop a community engagement and investment initiative in a supplier's community, a company should establish multilateral dialogue between itself, the supplier, and key community representatives. Through both encouraging and demonstrating openness and transparency in such talks, companies can ensure that their community investments are purposeful, respectful, accountable, and ethical, which is essential if human rights risks are to be fully addressed, and for mutual gains to be realized. Care should be taken to understand important community interests, which are often broad and diverse.

➤ **Make the first investment effective community engagement and due diligence in designing a community investment initiative**

The success of a community investment initiative will largely depend on the quality of the initial steps, i.e., generating meaningful dialogue with stakeholders and evaluating investment opportunities. For these critical preparatory measures to be effective, companies may find it prudent to invest up-front in training purchaser and/or supplier representatives. At the same time, communities must be able to understand the nature of the businesses and proposed initiatives in order to effectively contribute their local insight to the decision-making process. To

address this need, a good practice is to ensure that legal and technical advisors are available to community stakeholders, whether through direct investment or through coordination with the local supplier, NGOs, or the local government.

It is important to gather high quality data with which to explore and evaluate community investment opportunities, through primary research, running pilot programs, etc. Besides their informational value, such studies, in conjunction with ongoing dialogue, can help build trust between parties and promote a common understanding of local opportunities and challenges. Some initiatives begin as exploratory studies and go through several experimental programs before turning into very successful, sustainable community engagements. However, companies should be conservative in evaluating and reporting research results, since unrealistic pilot programs and overly optimistic findings can raise expectations beyond what can be fulfilled.

➤ **Partner with diverse stakeholders to ensure and enhance investment impact**

NGOs, governments, and other stakeholders with interests in promoting community investment are usually eager to partner with companies to plan, finance, and implement community engagement and investment initiatives. These diverse stakeholders typically have unique resources at their disposal, such as inexpensive and reliable service providers and expansive social networks, which can be invaluable in designing a cost effective initiative, and in ensuring that it is received well by the community. Other potential benefits of partnership include pooling of resources, reducing duplication, and mitigating the risk of sending conflicting messages.

At a minimum, companies considering a community initiative should consult with local interest groups and/or stakeholders to understand the external landscape in which their initiative will be implemented. Lacking an interest group, or intermediary, familiar with local customs may lead to miscommunications and/or practical difficulties in making and maintaining connections with key community leaders, especially when the communities are rural or isolated. It is especially important in emerging markets to engage or partner with local and federal government, as they are often very involved in corporate social responsibility policies. However, companies should always identify and work with entities truly representative of communities or their interests.

➤ **Innovate and invest in mechanisms and relationships to attempt creative and/or indirect approaches and promote self-sustaining synergies between stakeholders**

Sourcing companies, especially with respect to emerging markets, often complain about the distance, in terms of their sphere of influence or control, between them and problems at their suppliers. The same difficulty arises regarding sub-tier suppliers. In the latter case, sourcing companies sometimes have more luck approaching sub-tier suppliers, directly or via an intermediary such as a local NGO, to address community needs. In the former case, sourcing companies may need to develop mechanisms or invest in stakeholder mechanisms to offer CSR solutions to their suppliers indirectly. In both cases, partnering with other sourcing companies, especially where another sourcing company has a more direct and/or significant relationship with the supplier, can aid in advancing community engagement initiatives.

Moreover, by engaging diverse community members, companies can set in motion self-sustaining, continuous improvement mechanisms in their suppliers' communities. Gathering representatives from different community groups and/or communities can help all parties better understand their communities' needs. It can also foster innovative solutions, as individuals are exposed to new perspectives. Mutually beneficial introductions can be achieved through bilateral exchanges, regional or multinational conferences, and workshops.

➤ **Increase initiative impact by leveraging the competencies of investing partners**

Tying community investment initiatives to something that investing companies, their suppliers, or other investing partners, such as local NGOs, know and do well can produce more effective, sustainable and mutually beneficial results than might be achieved through less tailored investments. This strategy does not have to severely limit initiative design options, since business and technical experts regularly innovate applications for their expertise in other fields, e.g., using computers to educate local community members. Institutional investors, such as national banks, are often willing to support community-focused initiatives (even if only for PR strategies, which they may be better able to afford than many suppliers) and may bring considerable experience with such endeavors. Sometimes, academic and research institutions are the best partners in emerging markets, combining knowledge, neutrality, and good standing.

➤ **Encourage and facilitate direct community participation, monitoring, and reporting**

Community involvement in the design, implementation, and continuous improvement of a community investment initiative is essential for the community to feel a sense of ownership towards the project. This sense of ownership is important, as it gives the community a vested interest in ensuring the initiative's ongoing success. While this Note has already discussed the role of key community leaders in community engagement and investment initiatives, the inclusion of the broader community is necessary as well, since the members of the broader community are the target beneficiaries.

Involving a community directly in an initiative can also reduce costs. A good practice is to continuously consider how communities can contribute real investments of their own. This can be as simple as enlisting community members for joint or independent oversight committees, which monitor and report on social and environmental programs' successes and problem areas. Encouraging communities to participate, for example, in the construction of infrastructure, such as roads and buildings, can lower costs while simultaneously promoting community ownership.

➤ **Draw on ideas and good practices from common community investment initiatives**

Once a target community is selected, the efforts of industry peers and others to design and implement investment initiatives in that community, or in similar communities, should be explored. Often, international investors are the most likely to have adopted or developed a framework embracing human rights, and can be relied on to provide input for and promote initiatives in supply chains. Companies can also learn from investment initiatives commonly used within an industry, even if those initiatives have never been applied in a similar geography. The key to discovering and embedding good practices in the initiative design is to draw out lessons from many projects, but to ultimately design a unique initiative that is tailored to the local context. This means considering local needs, the purpose of the engagement, and the resources and competencies available to partners. Below are a few common types of community investment and engagement initiatives:

- **Commodity-specific programs:** Community investment initiatives are often formed around a particular commodity, especially when the target community's economy is centered on just one or two commodities. For example, global companies in the food production industry have developed and implemented fair trade programs and other initiatives to improve education, women's rights, clean water, health, and access to raw materials for farmers, while also providing them technical assistance and greater economic opportunities. These initiatives sometimes include a price premium for cooperatives, to encourage small hold farmers to improve efficiency and mitigate risks through pooling resources. With respect to fair trade, community investment is at the heart of the "social premium" prescribed by this movement. This approach promotes the creation of virtuous circles, as farmers continually

reinvest in their communities to further economic development and secure the rights of marginalized workers and others.

- Rationalization of the supply chain: One of the most widely applicable types of community engagement initiatives focuses on removing unnecessary or dishonest “middlemen” from the supply chain. Applied in industries ranging from electronics to mining, these programs improve human rights while decreasing costs and corruption by removing a layer of opacity from sourcing, along with any opportunities for middlemen to solicit bribes or unfairly leverage information asymmetry.
- Local sourcing: Some companies give priority to local suppliers and/or suppliers that source locally in order to involve small and medium enterprises (“SMEs”) and small hold farmers in their operations. Such purchasing policies are considered community investments when a company pays a small premium to promote sustainable growth in a community.
- Community infrastructure development: Investing in infrastructure is common throughout many industries and it is often one of the highest impact investment options, since it leads to self-sustaining continuous improvement in communities. For example, helping establish the IT infrastructure necessary to facilitate communication and information exchange in remote places of the world connects locals with cutting-edge technological resources, encouraging greater access to information and intellectual contributions to community development efforts. Establishing wells, bore pumps, mobile health clinics, and funding carbon reduction strategies similarly promotes continuous improvement. For companies with supply chains that involve the mining industry, investment in new roads in mining towns can reduce supply costs by lowering the costs involved in transporting the raw materials. At the same time, strategically placed roads can benefit the community as a whole by making once distant regions more readily accessible.
- Ancillary programs: The relationships established by global supply chains can be a conduit for goods other than those actually produced in the supply chains, as well as for information flows. Some companies have leveraged this reality to productively establish ancillary programs that allow members of local communities to access global markets for their goods, including artwork, textiles, and crafts of various sorts. One global chocolate company, for example, derives brand benefits by hosting art exhibitions that produce valuable supplemental income for community members. This initiative simultaneously highlights the company’s infrastructure and other investments in the region.
- Disaster relief and recovery: Companies can show community support while also protecting their supply sources by helping communities to prepare for and respond to disasters. While special care must be taken to appropriately engage with key community members post-disaster, an effective and helpful investment in disaster relief and recovery efforts often results in the investing company receiving a robust social license to operate in that community and others around the world.
- Education of local youth and others: Investing in the education of community youth, women, and others can help drive innovation and stimulate community growth. At the same time, it helps develop talent in the community. Investment in schools and education may thus enhance the quality of the local employment pool and serve as an indirect spur to economic development, helping to sustain markets while contributing to the promotion of human rights, poverty reduction, and economic development in local communities.

Comments and/or recommendations regarding the *Community Engagement and Investment to Advance Human Rights in Supply Chains* Good Practice Note draft are welcomed and may be directed to Prof. Chip Pitts ([chip.pitts@att.net](mailto:chip.pitts@att.net)).