

Human rights in supply chains: Promoting positive practice

DECEMBER 2015



Project Partners

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In Australia, the business-led Global Compact Network Australia brings together signatories to the UN Global Compact, including a number of Australia's leading companies, non-profits and universities, to advance corporate sustainability and the private sector's contribution to sustainable development.

The GCNA offers a platform for dialogue, learning and influence that is inclusive, practical and leading edge. Through its activities, the GCNA provides a meeting point where organisations can build best practice around sustainability, and builds relationships and partnerships across the region and globe to advance sustainable business models and markets.

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Citation

When citing this report, please use:

AHRC, ACCSR, GCNA 2015, *Human rights in the supply chains: Promoting positive practice*, Melbourne.

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1.0 Introduction

Australia is a modern society with a unique and multifaceted approach to human rights protection. We have historically been a good international citizen, engaging closely with major global human rights treaties and viewed worldwide as a just and fair society with a strong legal system governing labour rights.

Australian businesses, by nature, are expected to operate as exemplar organisations with strong and effective leadership, reflecting Australia's culture, values and identity. The rhetoric of the individual right to 'a fair go' is translated by Australian business into 'doing the right thing'. Diversity and equal opportunity, non-discrimination, worker health and safety programs, Indigenous reconciliation and fair wages are all markers of organisations being employers of choice, and 'doing the right thing'.

The collapse of a Bangladesh factory in April 2013, killing more than 1,100 garment workers and injuring many more, made human rights in global supply chains tangible for Australian businesses and consumers. This event thrust business practices, worker safety and other labour rights in factories all across the world, into the spotlight. It galvanised the desire of many businesses to do the right thing beyond their direct operations. It prompted greater scrutiny of supply chain arrangements, both internationally and domestically, broader analysis of what human rights means to, and how it can be addressed by, business.

As key manufacturers and purchasers of labour, materials and products, the Australian business community finds it cannot turn a blind eye to human rights abuses in its supply chains, regardless of whether businesses' contributions are direct or indirect through supplier partners. Scrutiny of human rights issues in supply chains has traditionally focused on labour rights abuses such as child labour, slavery, trafficking, unfair wages or unacceptably poor working conditions. However, it is important to recognise that other human rights issues including displacement and resettlement, the rights of Indigenous peoples and the right to safety and security of the person can also arise in relation to the supply chain.

In an environment of heightened transparency through digital media, civil society and consumer activism Australian businesses not only increasingly recognise their responsibility to do the right thing, but also the risk of *not* doing the right thing. Recent news reports exposing violation of labour rights in Australia's 7-Eleven retail chain and the fresh food supply chain practices cemented this understanding, highlighting that this is not just an offshore issue.

This report provides a unique insight into the current drivers, practices, and challenges of Australian businesses in managing human rights in their supply chains. Importantly, the report provides practical guidance to assist business with identifying and addressing human rights risks in their supply chains.

The United Nations Guiding Principles on Business and Human Rights require companies to address 'human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts'. The UN Guiding Principles are now a global standard for preventing and addressing adverse human rights impacts related to business, supported and implemented by a growing number of Australian companies, the Australian Government and civil society. They are incorporated into several leading corporate sustainability initiatives such as the UN Global Compact, to which there are currently over 120 Australian signatories.

In a landmark collaboration, the Australian Human Rights Commission partnered with two leaders in the business and human rights field to produce this report: the Australian Centre for Corporate Social Responsibility and the Global Compact Network Australia.

Our research sought to map how Australian businesses currently deal with human rights issues in their supply chains.

Even as business leaders face hurdles dealing with vast, complex global supply chains, our findings point to opportunities for increasing visibility and power to influence human rights outcomes through stronger relationships and partnerships.

Our research finds that:

1. Addressing human rights issues has become more important within Australian businesses' sustainability agendas and businesses are increasingly linking human rights issues to their supply chains.
2. Businesses are committed to human rights because it is the right thing to do. They are also trying to align with employee values and expectations and build brand and reputation as a responsible business.
3. Businesses focus their human rights efforts where they have direct operational control. Consequently, they place high importance on traditional workplace issues such health and safety, non-discrimination, and diversity and inclusion.
4. While they have the aspiration and commitment to address human rights impacts in their supply chains, many businesses lack clear strategies and processes to trace, monitor and address such risks.
5. Limited visibility into suppliers' practices and limited staff capacity and authority to address human rights impacts remain the most salient barriers for Australian businesses.

We are encouraged and optimistic by current examples of a number of leading Australian businesses taking ownership of their supply chains and the human rights issues within them, as well as the vast scope for improvement articulated by business in this research.

We encourage all stakeholders to read the report and further internal as well as external multi-stakeholder dialogue around how to best prevent and mitigate adverse human rights impacts in supply chains.



Professor Gillian Triggs
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Global Compact Network
Australia



2.0 Methodology

This report brings together insights from a three-stage research project that aims to understand the current state of practice in Australian businesses in addressing human rights in supply chains, and shed light on challenges and potential solutions for improving practices where required.

We have examined:

- Findings from ACCSR's *The Annual Review of the State of CSR in Australia and New Zealand (2009–2015)*¹ about changing business priorities in addressing human rights issues and improving supply chain;
- Results of a survey completed by 90 Australian businesses targeted for this report. Invitations to participate in the survey were sent to Australian businesses that participated in the State of CSR research, and a sample of key contacts of the AHRC and GCNA.
- In-depth interviews with four organisations within the finance and agriculture and food supply sectors to explore sector-specific challenges and opportunities in addressing human rights impacts.

We focused particularly on the finance sector because it has touchpoints across the whole of Australian society. Banks and other financial institutions are considered leaders in their approach to corporate social responsibility, and over the past decade have developed their thinking in responding to human rights impacts related to their business, investments and other financing arrangements.

The agriculture and the food supply sector was a focus in this study due to recent media allegations regarding violations of labour rights. The AHRC has identified this sector as a priority for industry action. Australian consumers have also demonstrated a significant interest in the supply chains practices of this sector.

3.0 Context

3.1 Protecting human rights in the 21st Century

One of the most significant developments in the human rights debate since the beginning of the 21st century is the increased recognition of the link between business and human rights. After the adoption of the Universal Declaration of Human Rights in 1948, human rights were largely viewed as a government responsibility. With globalisation and growth in transnational economic activity, though, businesses have been increasingly called on to be more accountable for the rights of people who are adversely affected by their activities.

In 2001, the United Nations Global Compact was launched as a call to businesses to align their operations and strategies with universal principles in the areas of human rights, labour, the environment and anti-corruption, and to support broader UN goals. Specifically on human rights, the UN Global Compact asks companies to both *respect* human rights (not negatively impact human rights) and look for additional ways to *support and advance* human rights – including in relation to supply chains. The UN Global Compact has grown to become the world's largest corporate sustainability initiative, and has played a key role in engaging businesses on issues of human rights around the world.

Recognising the need for greater clarity around the roles and responsibilities of all stakeholders regarding business-related human rights impacts, the United Nations Guiding Principles on Business and Human Rights (UN Guiding Principles) were developed and endorsed unanimously by the United Nations Human Rights Council in 2011. The UN Guiding Principles and the UN Protect, Respect and Remedy Framework on which they are based are now the global standard for preventing and addressing the risk of adverse human rights impacts linked to business activity. They clarify the roles of States and businesses in addressing impacts on human rights, and provide guidance to develop policies, rules and processes based on their respective roles and circumstances.

Globally, businesses are responding by incorporating the UN Guiding Principles into their policies and operations. Through steps such as incorporating human rights expectations into corporate codes of conduct and supplier agreements, commitments to various international frameworks, and greater scrutiny of business partners, businesses are recognising their responsibility to respect human rights through their own activities and business relationships – essentially a quest to do no harm, the baseline expectation set by the UN Guiding Principles.

Another recent development bringing additional momentum to the business and human rights space is the adoption of the Sustainable Development Goals (SDGs) by the UN General Assembly in September 2015. The SDGs call for concerted action by governments, business, and civil society “to end poverty and create a life of dignity and opportunity for all, within the boundaries of the planet”. The specific SDGs to end poverty in all its forms, promote decent work and economic growth, and revitalise global partnerships for sustainable development speak to the heart of the business and human rights agenda, and highlight an opportunity for businesses to take an active role in realising the SDGs.

3.2 Human rights in supply chains

The International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work identifies a number of ‘core labour standards’ that are universally applicable. Core labour standards are recognised as important human rights in a number of ratified international human rights instruments including the *Convention on the Rights of the Child* (CROC). Core labour standards include freedom of association, the right to collective bargaining, elimination of all forms of forced labour, abolition of child labour, and elimination of discrimination in employment and occupation.²

The UN Guiding Principles state that businesses have a responsibility in relation to adverse human rights impacts that occur through their own activities and business relationships. ‘Business relationships’ include ‘relationships with business partners, entities in its value chain, and any other non-State or State entity directly linked to its business operations, products or services.’¹³

According to the UN Guiding Principles, business enterprises' responsibility to respect human rights requires that they:

- a) Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; and
- b) Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

Negative human rights impacts can occur at any level of a business's supply chain – from direct suppliers (also known as Tier 1 suppliers) to several layers of sub-contractors that supply products and raw materials to direct suppliers. The spotlight on human rights issues in supply chains has traditionally focused on labour rights abuses such as child labour, forced labour, trafficking or poor working conditions. However, all human rights issues – such as rights related to resettlement, Indigenous peoples' rights, the right to safety and security, privacy – can also arise in businesses' supply chains.

The movement to address human rights in supply chains was born in the 1990s, out of the exposure of human rights violations in the supply chains of several multinational apparel and footwear companies in developing countries. This anti-sweatshop movement was primarily led by NGOs and the media, and persuaded global brands to recognise their responsibility for working conditions in suppliers' factories and the potentially catastrophic impact of reputational damage associated with human rights violations.⁴ As a result, businesses began to respond through a variety of social compliance programs that established standards for employee health and safety in their international supply chains.

In 2013, the collapse of the Rana Plaza building in Bangladesh led to a renewed focus on labour practices in global supply chains. The incident, which killed over 1,100 garment industry workers and injured over 2,500, demonstrated the need for businesses to take more strategic action to understand risks that lie within distant suppliers and improve their practices to ensure supply chain integrity. The Rana Plaza building had passed its social compliance audits, but subsequently failed to fix dangerous working conditions identified through the audits.

The growing power of the internet and social media continues to fuel NGO and consumer activism to expose labour and human rights violations in global supply chains and drive corrective action.

2014 and 2015 saw a number of scandals involving large multinational corporations sourcing products made with the use of forced labour. An investigation by The Guardian newspaper revealed that a Thai seafood giant that sells prawns to leading global supermarkets operates fishing boats manned by trafficked slaves. Among those accused for knowingly supporting these conditions are several high profile supermarket chains in the US, UK and Europe.⁵

In response to these revelations, the UK Government passed the *Modern Slavery Act* in early 2015, requiring UK-based companies to be transparent about actions they are taking to eradicate slavery and trafficking in their supply chains.⁶ The UK was not the first jurisdiction to introduce such requirements – in 2012, the state of California introduced similar legislation to improve transparency in supply chains (see box on page 7 for more information).

3.3 Human rights in Australia

Business and human rights issues for Australian companies have traditionally been seen as an offshore issue. In an advanced economy with sophisticated laws and regulations governing labour practices and working conditions in Australian operations, many organisations have historically not perceived human rights as a domestic issue.

However, in 2015 the Australian Broadcasting Corporation's (ABC) Four Corners program alleged a number of violations of fundamental labour rights on Australian soil related to major companies' supply chains. This was a wakeup call for Australian businesses, regulators and consumers alike to examine what human rights mean for businesses in Australia, particularly around supply chain-related labour rights issues. For example, two Four Corners episodes⁷ revealed systemic issues of overworking and underpaying migrant workers. These findings led to Senate Inquiries into labour practices of businesses with alleged illegal labour practices, and refocused the human rights and labour practices agenda within the domestic context.

Australia has strong laws governing labour rights, and slavery is a criminal offence under the Commonwealth Criminal Code, which can catch conduct both within Australia and offshore. However, Australia does not currently have strong, specific reporting requirements aimed at increasing disclosure around human rights issues that may occur in supply chains.

In other parts of the world, this is starting to change.

California Transparency in Supply Chains Act

The *California Transparency in Supply Chains Act* came into effect in 2012, requiring companies to report on their action to eradicate slavery and human trafficking in their supply chains.

The provision applies to mid-size and large retailers and manufacturing companies with global annual revenues over US\$100 million. It affects about 3,200 companies based in California or doing business in the state.

The law requires companies to disclose on their website, initiatives to eliminate slavery and human trafficking from their direct supply chain for goods sold. Companies must disclose how they evaluate and address risks, audit suppliers, ensure that suppliers comply with local laws and regulations, maintain accountability standards for employees and contractors, and provide employees training on slavery and human trafficking.

UK Modern Slavery Act

Under the *Modern Slavery Act 2015*, the United Kingdom introduced new reporting requirements for large companies. The legislation requires companies to publish an annual “slavery and human trafficking statement” outlining steps taken to ensure that slavery and human trafficking are not taking place anywhere in the business or their supply chain.

The requirement came into effect in October 2015, and covers any company operating in the UK with an annual global turnover exceeding £36 million. The law does not force companies to take action to address issues of slavery, but if they are not taking steps, they will be obliged to publicly disclose that. This law will apply to around 12,000 UK and non-UK companies.

Supply chain related labour rights challenges also continue offshore for Australian businesses. Baptist World Aid’s *Australian Fashion Report 2015* examined over 91 fashion brands sold in Australia, and explored how Australian retailers are taking action to ensure workers in their supply chains are not being exploited.⁸ The research found that, although Australian businesses have improved their labour rights management systems, over 75 percent of those included in the research still do not know where their cotton, fabrics and inputs are sourced from.

For many industries, supply chains can be highly complex. They may be comprised of hundreds or thousands of businesses, coordinated by different firms at different stages. Delivering low-cost products to consumers means relying on low-cost producers.

These producers have tight margins and tight timeframes, often forming short-term business relationships with their business customers, which limits their capacity to offer the level of protection to their workforce that consumers and others at the top of the value chain expect.

However, there is an increasing push for businesses in Australia to unravel these complexities and start influencing suppliers’ practices to ensure that workers’ fundamental rights are respected and living standards lifted.

Gaining full transparency into supply chains and strategically addressing human rights impacts within them is a relatively new movement for businesses worldwide. There are obvious leaders and laggards in this area, but overall, how well do Australian businesses understand human rights impacts across their supply chains? How are they working to address these impacts?

The Australian Government is taking steps to tackle the issue of human rights in the supply chain. In 2014, the Minister for Justice, the Hon Michael Keenan MP, announced the formation of a Supply Chains Working Group comprising experts from government, business, industry, civil society, unions and academia. The Working Group has been examining ways to address serious forms of labour exploitation in the supply chains of goods and services. Australia's National Action Plan to Combat Human Trafficking and Slavery 2015–19 was also announced in 2014, which provides the strategic framework for Australia's response to human trafficking and slavery.*

Supply chain challenges have also been a key point of multi-stakeholder discussion at Australia's annual national dialogue on business and human rights, led by the Global Compact Network Australia in partnership with the Australian Human Rights Commission.**

3.4 Evolution of human rights and supply chain priorities

As a part of the *Annual Review of the State of CSR in Australia and New Zealand*, ACCSR monitors sustainability issues that Australian organisations will prioritise in the year ahead. Over the past seven years, ACCSR has tracked the level of priority that businesses accord to “improving our supply chain policies and practices” and “addressing human rights issues within our sphere of influence”.

When we compared year-on-year change since 2009 (as shown in Figure 1), we saw a similar evolution in the priorities for supply chain improvement and human rights – when the priority of one issue increased, so did the other, and vice versa. Furthermore, changes year-on-year in the priority accorded to supply chain management were mirrored more dramatically by the

priority to address human rights impacts – even slight changes in the priority given to supply chain issues translated into pronounced variations in human rights. This trend implies that when businesses think of supply chain issues, human rights and labour practices are likely to be important aspects of that.

The publication of the UNGPs in 2011 was a milestone for businesses understanding and managing their impacts on human rights. Therefore, we used 2011 as a baseline for understanding how business priorities have changed.

Since 2011, addressing human rights issues has become more important within Australian businesses' sustainability agendas, with a seven percent increase in the level of priority that businesses give to this issue (see Figure 2).

Figure 1: Evolution of priorities from 2009 – 2015

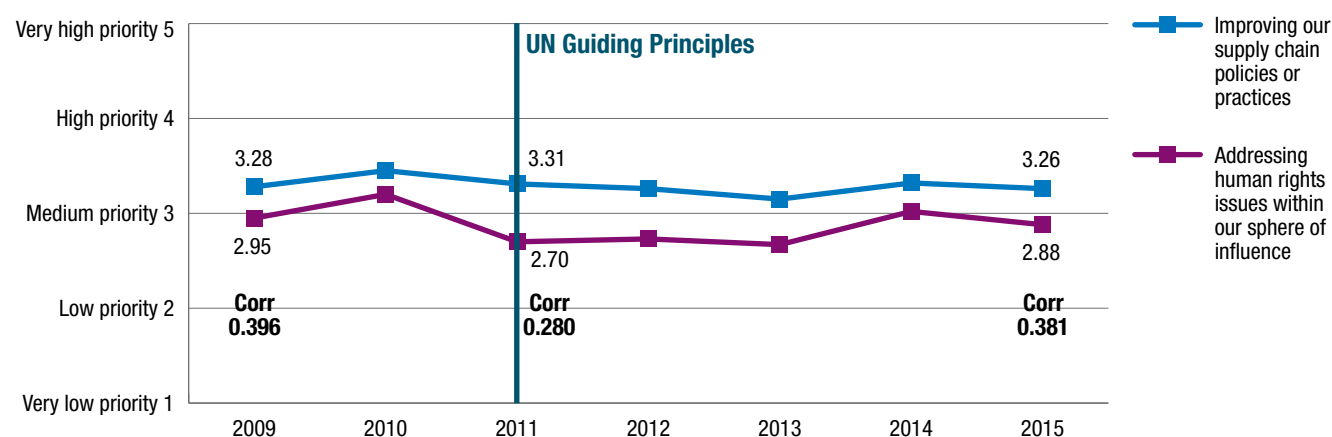
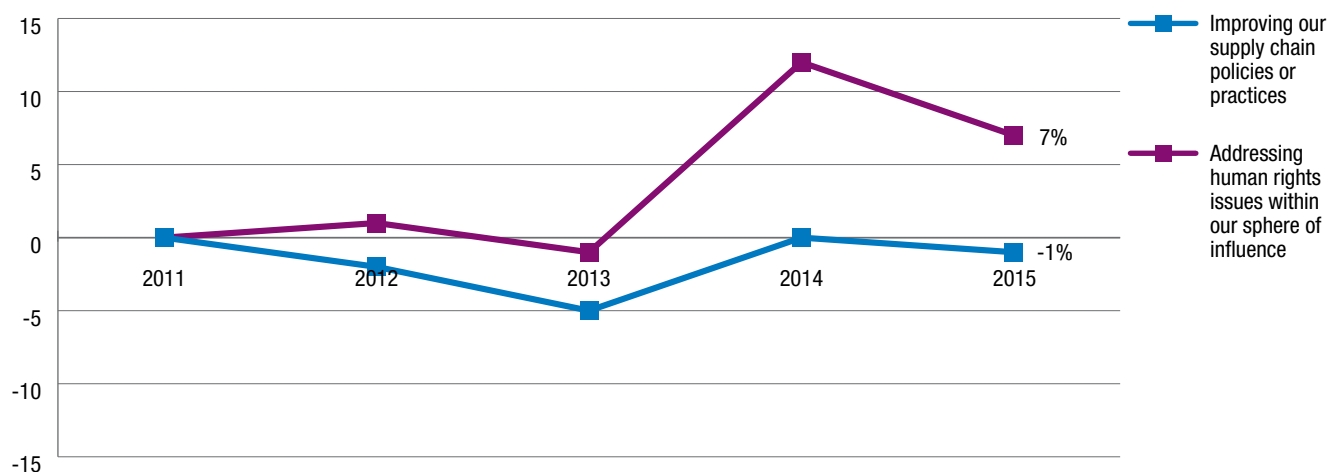


Figure 2: Change in priority since 2011



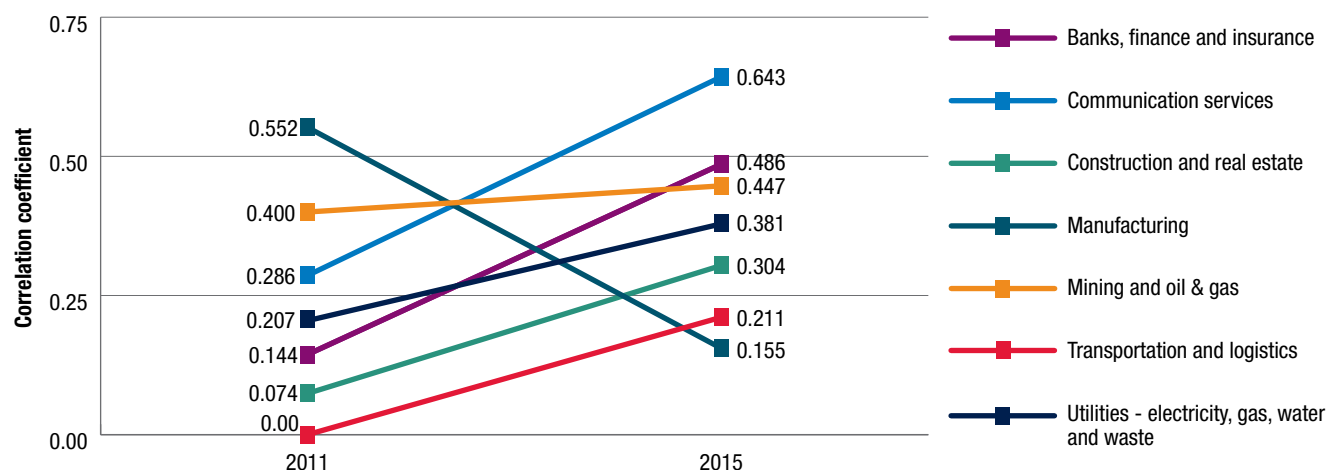
The *State of CSR* research also revealed that between 2011 and 2015, the level of priority accorded to human rights and supply chain issues increased for organisations that are mature in their approach to corporate social responsibility or sustainability, but decreased for others. While these two issues are slowly rising in prominence on the business agenda of CSR leaders⁹, they are slipping through the fingers of many other Australian organisations. It may be that, as economic conditions became more challenging, businesses that were not CSR leaders focused their resources more towards what they saw as core business, rather than issues of sustainability.

What do these changes in priority mean in terms of whether businesses are really understanding and acting on human rights impacts within their supply chains? The correlation between the priority granted to supply chain and human rights issues may indicate how strongly businesses connect the two issues. If businesses recognise human rights as an important issue, it may be because human rights is a material risk in their supply chain, and so they may be more inclined to take action to improve their supply chain practices.

The correlation between priorities granted to the two issues had increased between 2011 and 2015 for all industries, except for manufacturing, indicating that businesses are increasingly linking human rights issues to their supply chains (Figure 3).

The decrease in correlation observed in the manufacturing sector is consistent with the decline of the sector in Australia,¹⁰ and the focus away from human rights and overall sustainability issues.

Figure 3: Correlation between priority granted to supply chain and human rights issues



How to read the correlation scores:

1 = Perfectly positive correlation: when an aspect increases by 1% so does the other one

0 = No correlation

-1 = Perfectly negative correlation: when an aspect increases by 1%, the other one decreases by 1%

Banks and telecommunication companies showed the highest increase in the correlation between human rights and supply chain issues. Organisations in these two sectors are generally mature in their approaches to CSR, and are among those driving the broader conversation about sustainability issues in Australia. For example, Westpac, National Australia Bank and Telstra were all identified within the CSR Top 10 in *The Annual Review of the State of CSR in Australia and New Zealand*.

The State of CSR research indicates that many industries in Australia are increasingly linking human rights as an important issue within their supply chains. How does this translate into tangible business action? How advanced are Australian businesses in understanding and addressing human rights impacts within their operations and supply chains? Why do companies decide to take action, and what challenges do they face in doing so?

4.0 Drivers: Why do companies address human rights?

A national level survey of 90 Australian businesses explored current drivers, practices, and challenges of Australian businesses in managing human rights in their supply chains.

4.1 Businesses say values drive human rights commitments more than customer, investor or regulatory pressures

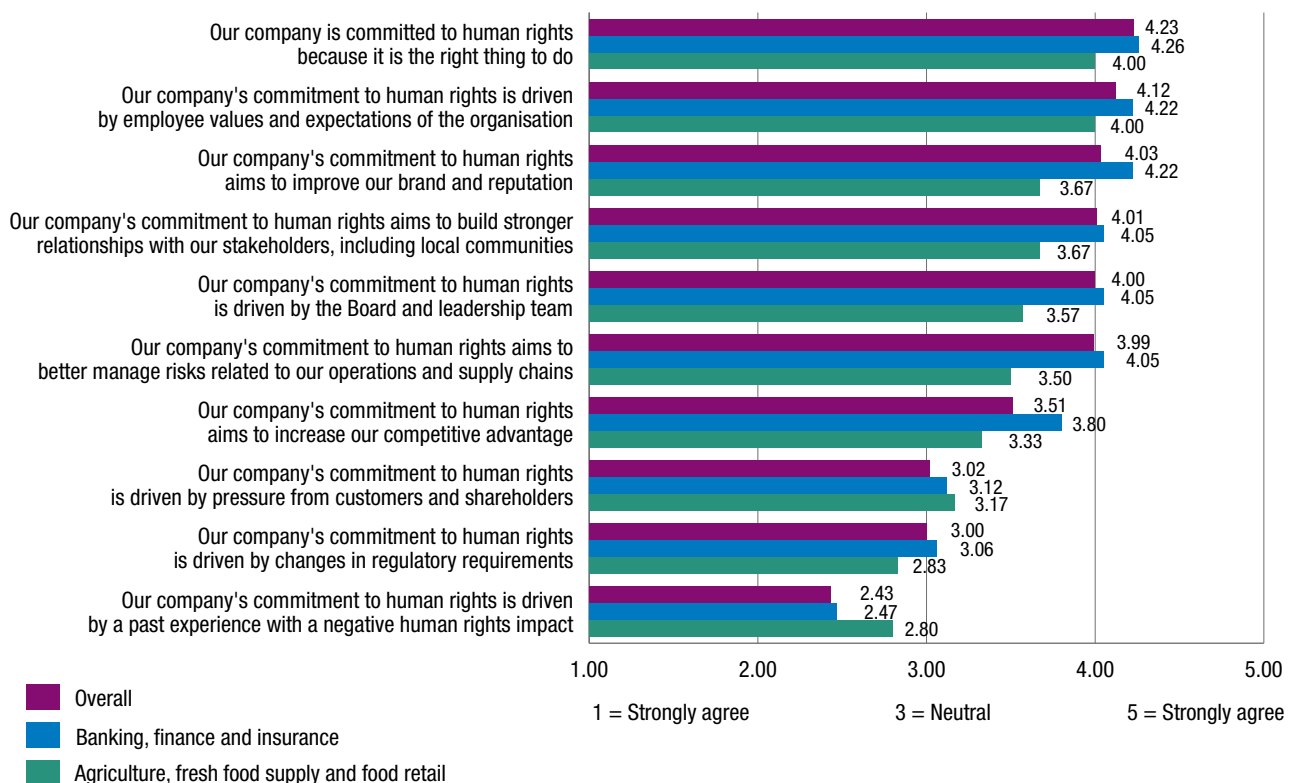
We asked Australian businesses to rate how significant the different drivers are for their commitment to human rights.

Overall, businesses said that they are committed to human rights because it is the right thing to do. Their commitments are also driven by employee values and expectations, brand and reputation, and the desire to build stronger relationships with stakeholders, including local communities.

Experience with a negative human rights impact, regulatory requirements, and pressure from customers and shareholders were the three weakest drivers for action on human rights.

Australian businesses also said that better risk management (related to operations and supply chains) is not a key driver for taking action on human rights. Interestingly, stakeholder pressure and risk management have often been identified as key drivers for businesses taking action on human rights in supply chains. It could be that respondents to this survey were more comfortable discussing consistency with values rather than risk management, or because many Australian businesses see themselves as early in their human rights journey, where the focus is still on policy development rather than implementation and human rights due diligence.

Figure 4: Drivers for commitment to human rights



Question: State the extent to which you agree or disagree with the following statements.

In the banking, finance and insurance sector, businesses' key drivers for addressing human rights closely reflect those of the overall group. However, increasing competitive advantage was identified as a more significant driver for this sector than it was for others. This is likely due to the highly competitive nature of the industry and the use of social responsibility as a point of competitive differentiation. Interestingly, there are growing calls for businesses to approach human rights as a "pre-competitive" issue, and for businesses to work with each other, and with government, NGOs and other stakeholders, to find the best solutions to human rights issues.¹¹

All drivers were weaker for the agriculture, fresh food supply and food retail sector, suggesting the sector is relatively behind others in developing a strategic commitment to human rights issues. However, for this sector, past experience with a negative human rights impact was a stronger driver for action than it was for other sectors. The need to manage risks related to operations and supply chains was a much weaker driver for this sector than others. Until 2015, human rights issues in this sector did not receive much public exposure, which is consistent with the survey results identifying stakeholder pressure as a weaker driver for this sector.

"Ethical sourcing is something that is very important to our customers, to Coles and to the broader Wesfarmers business. We listen to and respond to our customers' concerns – we know we are a big business and we have a big responsibility."

– Andrea Currie, Technical Manager for Responsible Sourcing, Coles

Case study:

Westpac's risk management spans entire value chain

At Westpac responding to human rights issues in the supply chain is driven not only from a risk management perspective, but also from a leadership standpoint, says Westpac's Group Head of Sustainability Siobhan Toohill.

"Westpac has continued to refine its human rights position statement, into which we have factored extensive engagement with NGOs. It's valuable to engage with civil society, as well as customers, to ensure we're striking the right balance to meet expectations," says Siobhan.

"We are aware that risks exist beyond the first tier, so Westpac sought to be proactive and do a 'deep dive' through our tiers to identify where the material risks lie and what the most material issues are within the supply chain."

"We are doing it because we want to have better awareness of our risks. More recently we've been approached by organisations around specific risks that we know exist generally in supply chains. We need to prioritise, so we can better engage and respond, and know where the issues lie."

"What we do with this information and how we manage it gives us more pointers for conversation with category portfolio managers to engage with them and address risks."

According to Siobhan, as a bank, Westpac has to consider not just supply chain risk. "Risks in supply chains can also sit in customer and investor chains. We look across these three different value chains; we need to understand material risks in each of those chains and look at the correlation between them as we establish processes and develop decisions on sensitive issues and sectors," she said.

"We have expertise on how you manage risks that some Tier 1 and Tier 2 suppliers might not, and it gives us a value-add and talking point in our relationship with them. That brings us back to customers – having a multifaceted approach can lead to innovation and collaboration."

Case study:

Pathway to regulation – tabling all the options for an Australian approach

During recent years, national and state governments in the United States and the UK have enacted regulations requiring companies to transparently disclose how they are working to eradicate slavery and human trafficking in their supply chains.

We spoke with Jaana Quaintance-James, Ethical Sourcing Manager at David Jones, about how these regulations might influence the thinking of political leaders in Australia.

Jaana is a member of the Attorney-General's Department (AGD) Supply Chains Working Group, examining ways to address human trafficking, slavery, and other serious exploitative practices in the supply chains of goods and services. "There are five types of policy response being considered by that Group" says Jaana. "Regulation, co- and quasi-regulation, economic instruments, voluntary instruments and awareness raising."

"The quasi- and co-regulation options are the most meaningful for me because we forget that until not long ago many companies had their heads in the sand, and it's not that they're not tackling these issues because they are bad people, but because they don't know how to address them, so a regulatory response is almost too hard a response."

"The co-regulatory response provides more opportunity to raise awareness, engage and help people do what they need to do. I feel it's more appropriate to where companies are at in Australia."

5.0 Addressing human rights in the value chain

Whether they are driven by internal values and ethics, or the need to enhance brand and reputation, Australian businesses have strong reasons for addressing human rights issues.

However, in taking action less than half of the respondents to the survey (47%) agreed that their business had a written policy on human rights. Even fewer (36%) agreed that their business reports publicly on its human rights policy and commitments.

Having a human rights policy and being transparent about efforts through public reporting can also demonstrate a business' maturity in instituting processes to manage its material human rights issues and risks. However, results of the survey suggest that in Australia many businesses do not yet have this level of sophistication.

Understanding where businesses focus their human rights efforts, issues they think are relevant to them, and the mechanisms by which they implement their commitments sheds light on how mature Australian businesses are in addressing their material human rights issues in their operations and supply chains.

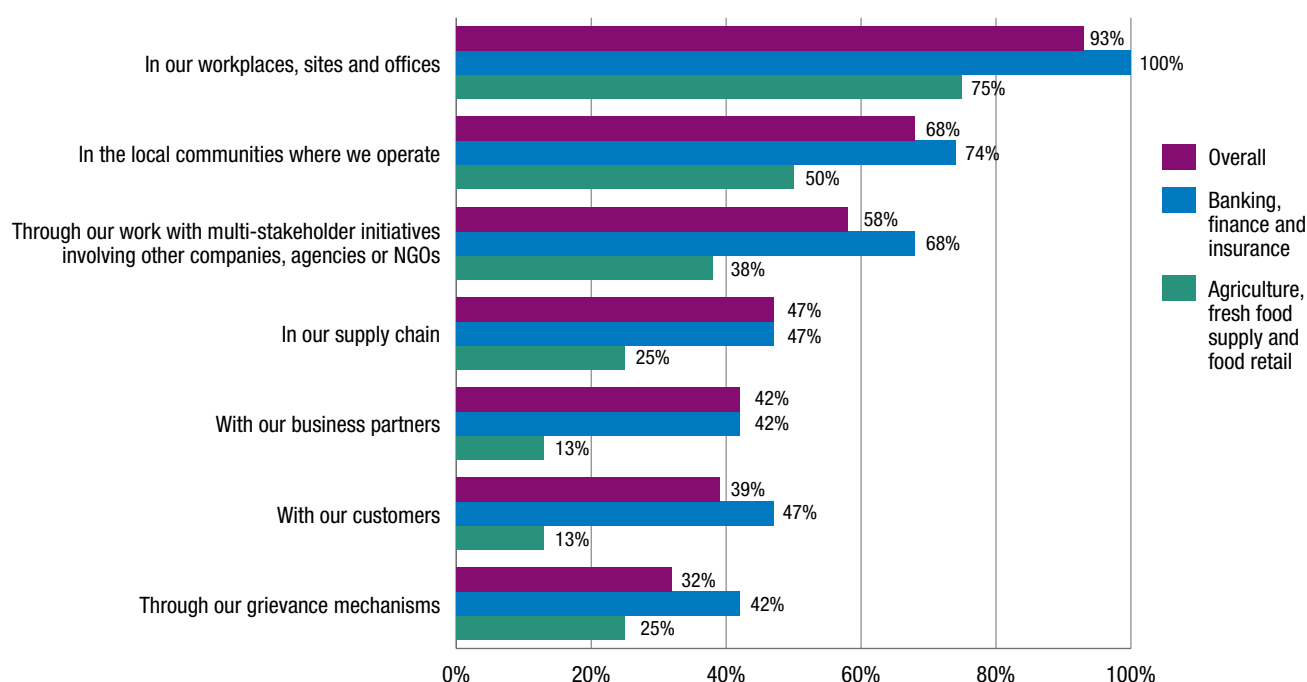
5.1 Human rights focus across the value chain

We asked survey respondents where their businesses focus their human rights efforts. The majority (93%) said efforts are focused on "our workplaces, sites and offices", showing that businesses tend to focus on human rights where they have direct operational control.

Secondly, many organisations focus their efforts on local communities where they operate. Depending on the sector, addressing impacts within local communities is often regulated by the federal, state or local governments, or undertaken as a part of company strategies to maintain their social licence to operate.

Collaboration – working with multi-stakeholder initiatives and NGOs, and participating in collective industry action – is also an area where businesses focus their efforts (Figure 5). This is particularly a strength in the banking, finance, and insurance sector. Given the complexity of global supply chains and the human rights issues within them, including many systemic challenges that contribute to human rights impacts, it can be incredibly difficult for a single business to address the issues.

Figure 5: Focus of companies' human rights efforts in the value chain



Question: Where does your company focus its human rights efforts?

Accordingly, collaboration is often the key to achieving the leverage required to affect change.

“Industry is making sure that workers are treated fairly and their rights are considered. That’s the direction the cotton industry is heading, because it’s important to the sale of the product and market access.”

– Rick Kowitz, myBMP Manager, Cotton Australia.

Based on responses to the survey, the banking, finance and insurance sector appeared strongest in addressing human rights issues across the value chain, including in relation to their operations, business partners and customers. As a largely customer-facing sector, they have a greater focus on addressing human rights issues linked to them through their customer relationships.

Compared to the overall group, a higher proportion of banking sector respondents also said they have established grievance mechanisms for employees, customers and other stakeholders to raise issues, with clear processes for responding to them.

Our results suggest that the agriculture, fresh food supply and food retail sector lags behind others in its focus of human rights efforts across the value chain. This may be because public scrutiny was only brought to this issue in this sector recently.

Multi-stakeholder initiatives on business, human rights and supply chains

- **Australian Dialogue on Business and Human Rights**
www.unglobalcompact.org.au/new/wp-content/uploads/2015/08/2015-Australian-Dialogue-on-Business-and-Human-Rights.pdf
- **Attorney-General’s Department Supply Chains Working Group**
www.ag.gov.au/CrimeAndCorruption/HumanTrafficking/Pages/Australias-response-to-human-trafficking.aspx
- **GCNA Human Rights Leadership Group for Business**
www.unglobalcompact.org.au/leadership-groups/human-rights
- **Fair Labour Association**
www.fairlabor.org
- **The Voluntary Principles on Security and Human Rights (mining, oil and gas companies)**
www.voluntaryprinciples.org
- **Better Cotton Initiative (managed by Cotton Australia within Australia)**
<http://cottonaustralia.com.au/the-better-cotton-initiative---information-for-industry>

Why are grievance mechanisms important?

Remediating or cooperating in remediation is part of corporate responsibility to respect human rights, where a company has caused or contributed to an adverse impact.

Principle 29 of the UN Guiding Principles for Business and Human Rights states that “to make it possible for grievances to be addressed early and remediated directly, business enterprises should establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted.”

Formal grievance mechanisms are complaint processes that can be used by stakeholders (employees, customers, business partners and communities) that are negatively affected by business activity and operations. They are an important way for businesses to uncover adverse human rights impacts as a part of their ongoing human rights due diligence, and respond in a timely manner. In doing so, they can prevent complaints or grievances from escalating over time into more major disputes or human rights abuses.

Where directly linked to an adverse impact (such as through the supply chain), a business is not required to provide for remediation, it may take a role in doing so and stakeholders may well expect that.

The UN Guiding Principles identify criteria to ensure that operational-level grievance mechanisms are effective. They should be legitimate, accessible, predictable, equitable, transparent, rights-compatible, and a source of continuous learning. They should also be based on engagement and dialogue as a means to address and resolve grievances.

Widely used reporting frameworks such as the Global Reporting Initiative (GRI) recognise the importance of grievance mechanisms and encourage companies to transparently report on issues raised and resolved.

5.2 Human rights issues for Australian businesses

Respondents were asked to identify the most important human rights issues for their businesses. As illustrated in Figure 6, the most important issues for Australian businesses are those that concern their immediate workforce, such as workplace health and safety, non-discrimination, gender equality, and diversity and inclusion. This is consistent with organisations indicating that the focus of their human rights efforts are within their workplaces, sites and offices.

Community engagement for addressing impacts on social, economic and cultural rights, was also a highly important issue for most businesses, and particularly for the mining sector. In Australia, human rights issues related to communities include the social and economic impacts of the extractives industry, as well as rights and freedoms related to Indigenous communities.

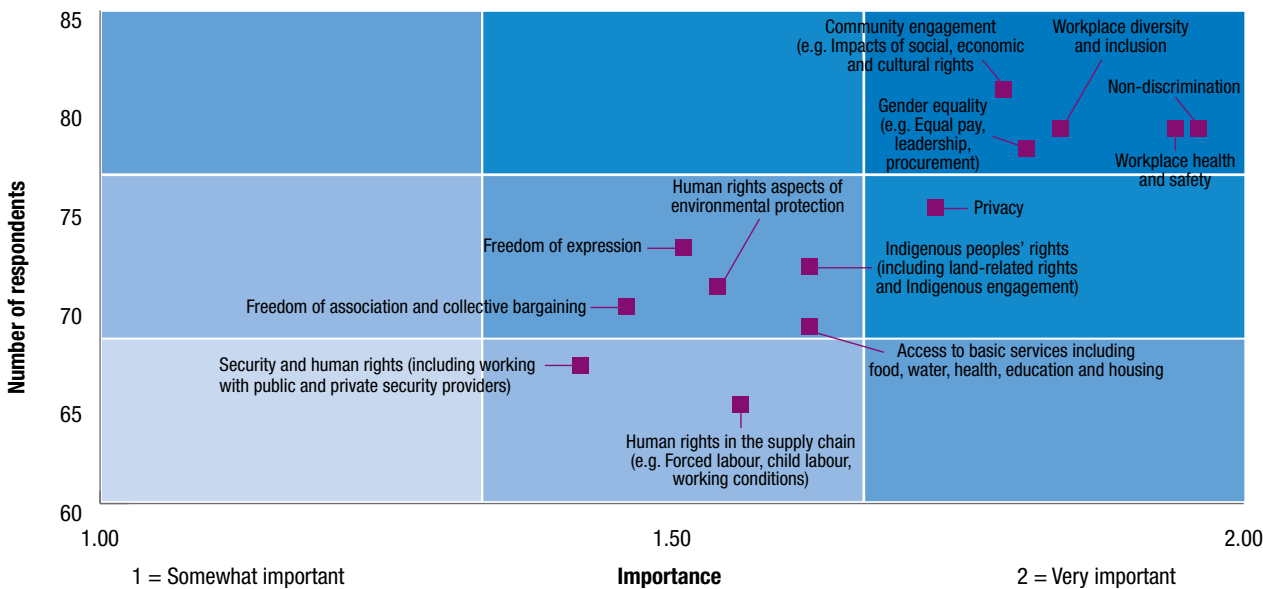
In comparison to direct employee issues, fewer businesses placed a high degree of importance on human rights in the supply chain. This may be as a result of the view held by many that human rights issues such as child labour and forced labour are not prevalent in the domestic Australian context, but only in distant supply chains in developing countries. It may also be because many businesses feel confident and knowledgeable about the practices of their Tier 1 suppliers, but do not have sufficient visibility into lower tiers to have identified human rights risks in relation to those more distant suppliers as material or important.

“Workers rights are all included in the Australian cotton industry’s Best Management Practice (myBMP) program’s human resource modules. Australia has fairly strict requirements as far as workers go. On top of that, the industry has best practice standards as well.”

Rick Kowitz, myBMP Manager, Cotton Australia.

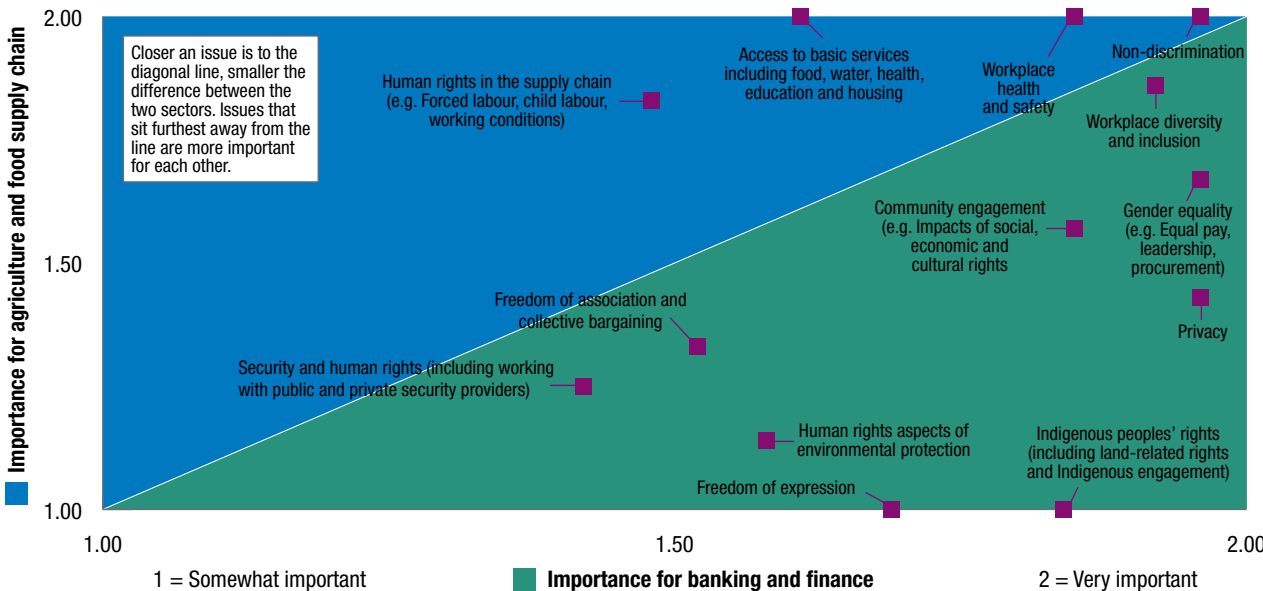
There are significant differences between industries in the human rights issues they consider important. Figure 7 shows a comparison of issues considered important for the banking and finance and the agriculture and fresh food supply chain.

Figure 6: Most important human rights issues for Australian businesses



Question: What are the human rights issues that are important to your business?

Figure 7: Differences in human rights issues considered important by the banking and finance sector and the agriculture and fresh food supply chain



As Figure 7 indicates, privacy was a more important issue for banks than for other industries, which is consistent with concerns over the right to privacy in the digital age and financial security risks that institutions and their customers can be exposed to. This may also be compliance driven, with requirements for banks to comply with Australian customer data privacy laws.

Businesses in the finance sector also said that Indigenous peoples' rights are highly important. Australian banks are leaders in adopting Reconciliation Action Plans (RAPs) that support Indigenous communities, including strategies to increase financial inclusion and literacy among Indigenous Australians and products and services that support Indigenous businesses.^{12,13,14,15}

Respondents from the agriculture, fresh food supply and food retail sector identified access to basic services such as food, water, health, and human rights in the supply chain as very important issues, in addition to common workforce issues. This may be because the sector's social responsibility is framed around issues obviously linked to their core business – in particular access to food, and the nutrition, health and wellbeing of customers. The issue of human rights in supply chains has likely risen in importance recently as a result of recent public revelations of working conditions in domestic, Australian supply chains. While this sector may be lagging in action, as discussed section 5.1, it still views the issue of human rights in supply chains as important.

"We are engaged in a process related to labour hire standards in the fresh food supply chain. We have a big program running to make sure workers are treated properly and that is something important for our business to address."

– Andrea Currie, Technical Manager for Responsible Sourcing, Coles

Organisations that responded to this survey identified which issues they think are important for their businesses, but in practice, how are they strategically addressing human rights issues in their supply chains?

5.3 Initiatives addressing human rights issues in supply chains

Results from the survey for this report and the State of CSR research suggest that Australian businesses are starting to connect human rights issues and supply chain practices, and appear to be more aware of addressing human rights issues in general. However, data from the survey suggests that in the context of human rights, the labour practices of suppliers and business partners remains a significant area of challenge for Australian businesses.

As shown in Figure 8, many respondents said they have a responsible sourcing policy. However, clear processes and accountabilities to integrate human rights standards into supplier practices, effectively identify potential issues and take corrective action remain largely underdeveloped. That is, there is a disconnect between what Australian businesses aspire to do, and translation of their good intentions into actual strategy and action.

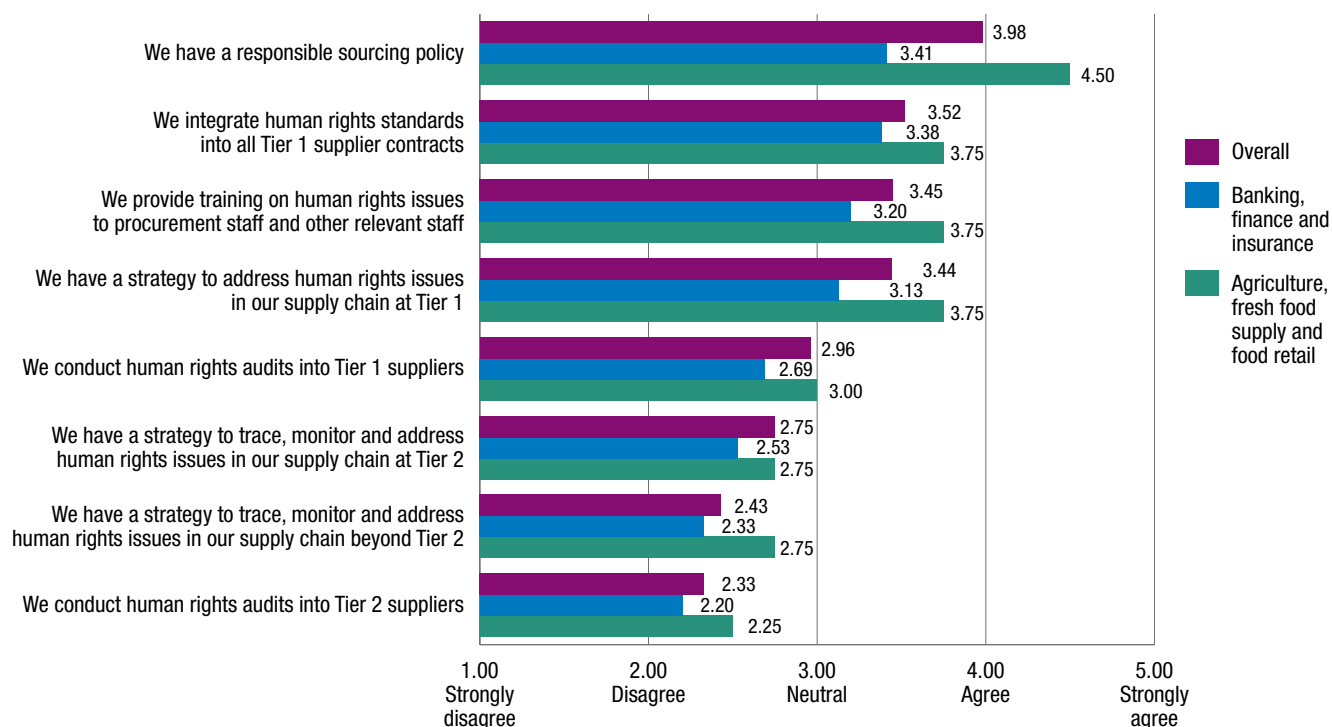
Figure 8 shows that business action to manage human rights impacts tends to only extend to Tier 1 suppliers: integrating human rights standards to supplier contracts, providing training to relevant staff, and having a strategy to address potential issues occur more often with Tier 1 than Tier 2 suppliers. Less than half of respondents indicated that their businesses conduct human rights audits at Tier 1 and even fewer have mechanisms to trace, monitor and address issues at Tier 2 and beyond.

Our results suggest that Australian businesses are still falling short in gaining visibility and adequately responding to potential human rights risks that may exist at different stages of the supply chain. Suppliers at Tier 2 and beyond currently remain uncharted territory for many.

"We look strategically at opportunities for collaboration through Tier 1 suppliers. If we have a large supplier with a similar philosophy or intentions regarding sustainable performance and risk management, we can identify where the mutual wins are and potentially work with them. Some of the challenges are around visibility into Tier 2-5 suppliers, because it depends on different contracts and commercial relationships."

– Siobhan Toohill, Group Head of Sustainability and Community, Westpac

Figure 8: Australian business activities related to human rights in supply chains



Question: Rate the extent to which you agree with the statements about how your company manages human rights issues in the supply chain.

The agriculture, fresh food supply and food retail industry was ahead of others in having processes to manage human rights risks at Tier 1 (see Figure 8). While this sector is less likely than others to have a policy commitment to human rights, it is far more likely than others to have a responsible sourcing policy.

Most of Australia's largest food retailers have responsible sourcing policies and supplier contracts that specify labour practice standards, particularly in relation to workplace health and safety. Having local sourcing strategies means that many fresh food suppliers are based in Australia, thus the ability to trace and monitor practices of Tier 1 suppliers should be relatively easier.

However, according to the survey the industry still has limited incidents of conducting human rights audits into their direct suppliers, and in having mechanisms to identify and manage human rights issues at Tier 2 and beyond.

"Despite best intentions, traditional models of supply chain auditing have a limited ability to pick up human rights issues. There needs to be innovation in the area of auditing to find a way that places workers and their rights at the heart of the auditing model. A transactional tick box approach misses the opportunity to have a genuine impact on workers' needs and supply chain human rights."

– Jaana Quaintance-James, Ethical Sourcing Manager at David Jones

Compared to the overall group, fewer respondents from the banking, finance and insurance sector agreed that their business had policies and processes to identify and manage human rights issues in the supply chain. It is possible that human rights is not viewed as a highly material issue for this sector's supply chain. Their human rights efforts have also been traditionally focused on stakeholders elsewhere in the value chain – on customers and investments that may have human rights implications for local communities and other stakeholders.

Case study:

Cotton Australia lifting industry practice

Cotton Australia is the peak body for cotton producers in Australia. It works with the Better Cotton Initiative (BCI), a global initiative that promotes sustainable cotton production.

“Cotton Australia administers BCI within Australia so we register growers who want to produce better cotton,” says Rick Kowitz, myBMP Manager at Cotton Australia.

The BCI Standard System is an integrated approach to sustainable and responsible farming that looks at environmental, social and economic impacts of cotton production, including human rights, fair pay, child labour, and the improper use of pesticides. It is designed to cover all aspects of the supply chain, from farmers to traders, spinners, mills, merchants.

The Australian cotton industry’s Best Management Practice (myBMP) program is a comprehensive farm and environmental management system that aims to ensure cotton is produced in a responsible and sustainable way. Australia’s myBMP – launched originally in 1997 – is an accredited program that directly aligns with the global BCI standards.

“The widespread adoption of the myBMP program has helped to deliver a responsible Australian cotton industry which is regarded as maintaining the world’s best practices and is seen as a model for change by other sectors of Australian agriculture,” says Rick Kowitz.

“We’ve sat down with the BCI and looked at what’s in both programs and mapped our standards and practices to make sure we supply cotton according to their principles,” says Rick Kowitz.

Through its partnership with the BCI and promotion of responsibly and sustainably grown cotton, Cotton Australia drives continuous improvement in response to new technologies and innovative tools, helping achieve better outcomes and value for Australian growers and others in the cotton supply chain.

The pressure is exerted downwards from the retailers, as Rick explains. “Big companies like H&M, Ikea, Levi’s and companies aligned with the BCI, have targets for sustainability and human rights. Australia is well-placed to help these major international brands and retailers – and others – in meeting these targets.”

“In the future, we anticipate that increasing pressure will come from consumers wanting to buy products produced in consideration of human rights and it will come from governments. There’s pressures from all stakeholders in the supply chain.”

6.0 Barriers to addressing human rights in supply chains

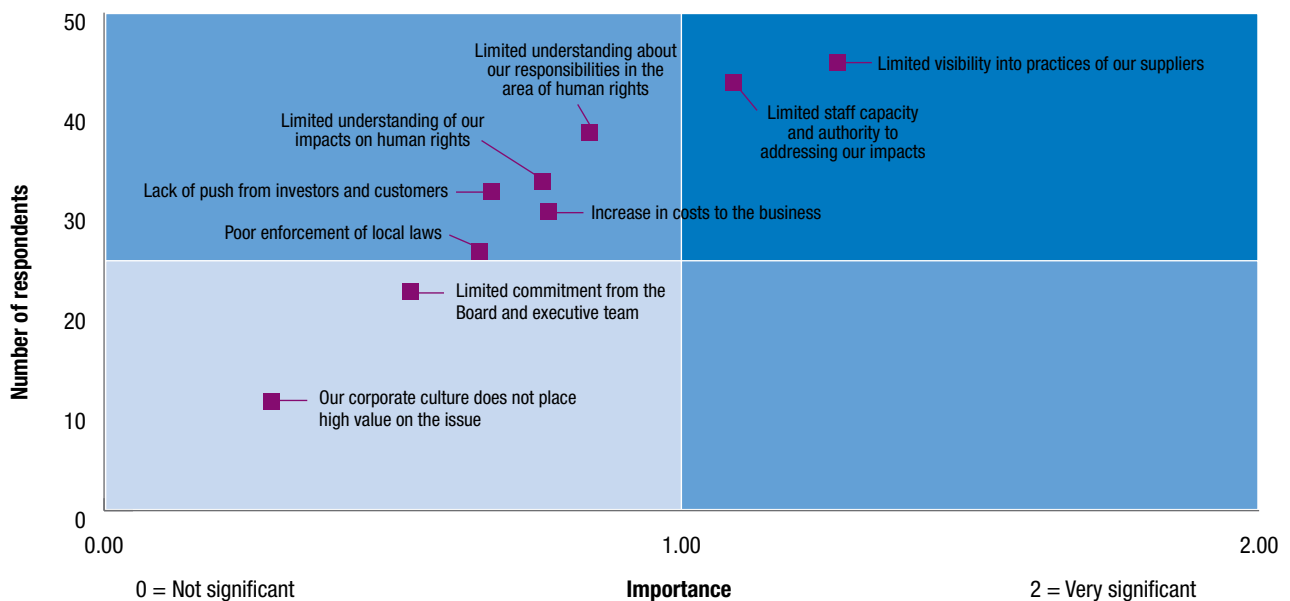
Limited visibility into practices of suppliers was the most significant challenge to addressing human rights in the supply chain for most respondents. Limited staff capacity and authority to address impacts were also identified as strong barriers.

For businesses that have multi-tiered and globalised networks of suppliers, gaining visibility is a significant challenge. While Australian businesses have direct connections with their Tier 1 suppliers, our data shows that their processes and practices are not sufficiently established to gain full visibility into either Tier 1 or lower tier suppliers.

The sheer complexity of some supply chains remains a significant barrier for businesses to gain visibility into their suppliers' labour practices. Within the retail sector, businesses operate with a highly diverse supplier base scattered around the world. Organisations are often limited in staff and resource capacities to manage data and processes required for human rights due diligence in the supply chain, even if they have well established policies and strategies.

See the case study on page 22 to learn about challenges in the cotton supply chain and how Australian businesses are tackling them.

Figure 9: Barriers to addressing human rights impacts in supply chains



Leverage to influence suppliers' practices

One of the greatest challenges that arises in effectively addressing human rights issues in supply chains is generating leverage to influence practices of suppliers. The UN Guiding Principles on Business and Human Rights require businesses to use leverage to address human rights impacts, and where it lacks the leverage, seek to increase it. The amount of leverage depends on the relative commercial importance or purchasing power a business has over a supplier, the quality of the relationship with a supplier, and additional leverage it can create through partnership with other actors, such as peers, NGOs and government.

Barriers that fall within the top left quadrant in Figure 9 are generally experienced by those who are in the early stages of addressing human rights issues in their supply chains, and have not fully immersed themselves in the core of the matter to fully understand the logistical challenges identified in the top right quadrant.

“[Supply chain] channels are very vast and complex with so many different product types, each having multiple raw materials ... One of the big challenges is the complex information management.”

– Jaana Quaintance-James, Ethical Sourcing Manager at David Jones.

Encouragingly, though, Australian businesses generally agreed that the corporate culture and leadership commitment are not significant barriers for action. This is consistent with human rights commitments being driven by internal values rather than by pressures from external groups.

Case study:

Business approaches to address human rights in the cotton supply chain

The cotton supply chain is vast and complex.

“There are five steps, sometimes more, back in the cotton supply chain: behind the factory is a mill, dyeing, spinning, and cotton ginning. Behind that, there’s a market and then there is a farm. Multiply that by different products and suppliers it’s very complex and that’s only for cotton products,” says Jaana Quaintance-James, Ethical Sourcing Manager at David Jones.

“One of our big challenges is complex information management ... even if I have all the information about locations and products, how do I manage that volume of data? It changes every day, and any data solution has to be live and responsive.”

In addition to its complexity, the nature of commercial agreements that suppliers have with their own suppliers poses a valid challenge to gaining visibility into Tier 2 suppliers. Suppliers often believe that protecting the identity of their suppliers gives them a commercial advantage.

David Jones highlights that building trust and good relationships with Tier 1 suppliers is critical to making them feel comfortable to share information and bring them along the processes.

Cotton Australia is working towards long-term solutions to assist businesses source ethical cotton through the myBMP program, in partnership with the Better Cotton Initiative.

As Rick Kowitz, myBMP Manager at Cotton Australia explains, “the Australian cotton industry’s Best Management Practice (myBMP) program is set up for cotton growers to ensure that Australian cotton is produced according to world’s best practice and is aligned with global standards, including the Better Cotton Initiative.”

Participating in accredited programs such as the Better Cotton Initiative is one way that clothing retailers can gain confidence about ethical practices in their cotton supply chain.

7.0 How to improve human rights practices in your supply chain

Supply chains are complex, and Australian businesses' capacity to address real risks that lie within their suppliers is still limited – but inaction is no longer an option.

In Australia, businesses are increasingly recognising that respecting human rights is not just the right thing to do, it's good for business. If actual and potential negative human rights impacts are not identified and managed, cost implications of supply chain disruptions, reputational damage or corrective action can be significant.

With a unified voice, consumers, civil society organisations, governments and the international community are signalling to businesses to take responsibility to improve labour practices of suppliers, and contribute to the wellbeing of people who are indirectly connected to their business.

The answer to the supply chain challenge lies in robust stakeholder engagement – working collaboratively with those who have an interest in or are affected by your business and to engage in constructive dialogue to create value and business resilience.

“For Westpac, it all comes back to having a deeply embedded and consistent framework that guides how we engage with all stakeholders. It is critical that the framework is relevant and meaningful for your organisation, that you are regularly having conversations to build alignment internally, and taking a consistent approach when engaging with stakeholders externally. You need to formulate a position that balances the aspirations of your organisation and expectations of stakeholders, whether they be NGOs or customers. Organisations have to formulate the right pathway that makes the most sense for them.”

– Siobhan Toohill, Group Head of Sustainability and Community, Westpac

Here are our suggestions on how to start working with your stakeholders to address human rights risks in your supply chain. The box on page 26 also provides tips from leading businesses on how to address human rights issues in supply chains.

7.1 Changing business models

Short-term contracts with multiple suppliers can limit a business's ability to create lasting change in suppliers' practices. An effective way to gain visibility and influence supplier practices is to change the procurement model to create long-term partnerships with suppliers.

Long-term relationships with suppliers enable businesses to communicate their standards and expectations related to labour rights. Investing in training and building the capacity of suppliers can support them in implementing robust workplace policies and practices that align with Australian businesses' values and standards, and in turn, start influencing practices of their own suppliers. This can help businesses gain visibility into their lower tier suppliers.

“One way to get visibility further up the chain and to encourage change in practices is to work closely with specific manufacturers. That would allow them to have similar arrangements with their suppliers.”

– Andrea Currie, Technical Manager, Responsible Sourcing, Coles

The long-term partnership model requires businesses to rethink where to best allocate their time and resources, while ensuring the financial viability of the products they source.

7.2 Role of industry collective action

Even if businesses have good intentions, they do not always have sufficient leverage on their own. The level of influence a business can have on its suppliers depends on how significant the entity is for the supplier as a customer.

Where a supplier services a number of customers, working in partnership with peer companies and industry groups is an effective way of expanding bargaining power and leverage, and effecting change.

“We are part of a working group of other retailers of fresh food and quick service restaurants working with the National Farmers Federation and Produce Marketing Association to develop an industry-wide response to issues around labour hire standards in the fresh food supply chain. It is important to us that workers are treated properly.”

– Andrea Currie, Technical Manager, Responsible Sourcing, Coles

The nature of human rights issues is highly variable by sector. A set of issues that are relevant to agriculture and the fresh food supply chain will not always be relevant to the banking and finance sector. Working collaboratively with industry peers can help businesses to capitalise on specialised experience and develop solutions to address sector-specific issues.

7.3 Social accountability

Being accountable to stakeholders for social and human rights impacts is an important way of driving improvement.

Being socially accountable means considering stakeholder evaluations of performance, establishing KPIs to measure social and human rights performance, and publicly reporting on social impacts, even when the news is not all good.

Being open and transparent with key stakeholders and suppliers in particular can build trust and strengthen relationships, enabling greater visibility into their operations, and opportunity to influence positive change.

Honest and transparent communication with consumers will also help build consumer confidence and positively influence brand and reputation.

“Consumers appreciate a realistic and honest view about what’s happening. Showing the challenges, what we haven’t achieved, why and being transparent about that journey is important. We want stakeholders to understand how complex it is, so we need to raise awareness.”

– Jaana Quaintance-James, Ethical Sourcing Manager at David Jones

Reporting on supply chain practices relating to the workforce, human rights and social impact is one way of demonstrating accountability to stakeholders.

7.4 Leveraging international frameworks

Before addressing human rights impacts in the supply chain, it is important to map your supply chain, engaging both internal business functions that deal with the supply chain, as well as external suppliers. International frameworks can guide the process of mapping the supply chain and prioritising which issues may be material to your business operations and the supply chain. Participating in multi-stakeholder dialogues can also help businesses contribute to and remain up to date with best practices and international developments in this area.

The United Nations Global Compact asks businesses to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption, and to support broader UN goals. The UN Global Compact is both a practical framework for action, and a platform for demonstrating commitment and leadership.

In Australia, the Global Compact Network Australia helps signatories to the UN Global Compact to integrate and operationalise the ten principles within their business practices and strategy, by providing a platform for national and international dialogue, learning and knowledge sharing, including through the GCNA’s Human Rights Leadership Group for business.

The Sustainable Development Goals, launched in 2015, lay out a path over the next 15 years to end extreme poverty, fight inequality and injustice, and protect our planet. The 17 goals are inextricably linked to issues of human rights, and there is a significant role for businesses in achieving the goals. The GCNA provides a key channel for Australian businesses to understand and engage with this agenda, including through its Sustainable Development Leadership Group.

The UN Guiding Principles Reporting Framework is the first comprehensive guidance for companies to report on human rights issues aligned with their responsibility to respect human rights. It provides guidance to businesses on how to show that they are meeting their responsibility, with meaningful information about their human rights policies, processes and performance.

The Global Reporting Initiative also provides guidance for companies on how to identify material issues by speaking with their stakeholders and disclose how they are managing human rights impacts. The metrics identified within the GRI framework enable businesses to monitor their performance and drive improvements over time.

7.5 Role of technology

Information and communication technology presents enormous opportunities for businesses in identifying and managing their human rights impacts.

According to the World Bank, by the end of 2014, over 40% of the world's population had access to the internet.¹⁶ People in least developed areas of the world are accessing the internet and social media platforms through their mobile phones.

These technology platforms can be leveraged to improve visibility in supply chains and strengthen human rights monitoring around the world.

They can amplify the voices of local communities and broaden engagement with NGOs and citizens on the ground to help identify any actual or potential human rights violations occurring outside the business radar.

Companies with leading supply chain sustainability strategies, such as Unilever, Cisco and Intel are using smart phones and mobile technologies to enhance connectivity across the supply chain, build capabilities of supply chain personnel and suppliers, and gain visibility into supplier practices.

"I always leave my business cards with factory workers I visit through audit process so they can get in touch any time they like ... Audits include local civil society groups and they would leave their business cards as well, but in the long term they [need] a mobile phone system with SMS messages."

– Jaana Quaintance-James, Ethical Sourcing Manager, David Jones

Case study:

Collaborative industry action to improve labour practices in the fresh food supply chain

Andrea Currie, Technical Manager for Responsible Sourcing at Coles, says that working conditions that have come to light in Australia's agriculture supply chains prompted Coles and other industry partners to develop an industry-wide solution.

"Our customers expect us to support Australian farms and products. Now, it's important to support the majority of primary producers who are doing the right thing for their workers by addressing poor labour hire practices."

"We have been working with our suppliers to understand their challenges around labour hire."

Coles is a part of a Working Group, involving fresh food retailers and quick service restaurants, working with the National Farmers Federation and the Produce Marketing Association to develop an industry-wide response to the issue.

"In August, this group released a set of guiding principles for labour contractors and for sustainable employment practices in the agricultural sector. One [set of principles] for farmers and growers who are directly employing people and one for farmers who are sourcing contract labour" says Andrea.

"We are communicating these principles to our primary producers right now, and are ready to support them to ensure there is lasting change in labour hire practices."

Tips from businesses on how to address human rights issues in supply chains*

1. Undertake a thorough analysis of your supply chain to identify where the material risks lie
2. Have conversations internally, engage with stakeholders and formulate a position that meets the aspirations of the organisation and expectations of stakeholders
3. Lock in long-term sourcing arrangements with suppliers where you can and build trust and good relationships in order to make progressive changes
4. Engage directly with suppliers to understand their labour practices and build capacity to manage issues
5. Identify preferred suppliers as a way of gaining scale to influence suppliers' practices
6. Establish meaningful grievance processes for workers in the supply chain to raise and resolve issues
7. Sign on to third-party certification and accreditation schemes
8. Adopt widely used frameworks that are relevant and meaningful to your organisation
9. Engage with civil society groups that have eyes on the ground to serve as a conduit between the organisation and workers in the supply chain
10. Communicate honestly with consumers about complexities, challenges, and achievements in improving human rights in the supply chain.

*From interviews with Coles, Cotton Australia, David Jones and Westpac.

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We would like to thank all respondents to the survey for this report, as well as the following organisations for their input to the research used to inform this report:

Westpac

Coles Australia

Cotton Australia

David Jones

Endnotes

- 1 *The State of CSR in Australia and New Zealand Annual Review* is the largest ongoing survey into CSR/sustainability practices in Australia and New Zealand. This is an annual research project led by the Australian Centre for Corporate Social Responsibility through its not-for-profit arm, CSRConnected.
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- 16 World Bank, 2015. Internet Users. Accessed on 29/10/2015. Available at <http://data.worldbank.org/indicator/IT.NET.USER.P2>
- * For more information on the Australian Government's work to tackle human rights issues in supply chains, please see <https://www.ag.gov.au/CrimeAndCorruption/HumanTrafficking/Pages/Australias-response-to-human-trafficking.aspx>
- ** GCNA leads an annual Australian Dialogue on Business and Human Rights. More information can be found at www.unglobalcompact.org.au. The national dialogue is also referred to at www.ag.gov.au/RightsAndProtections/HumanRights/Pages/Business-and-Human-Rights.aspx

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