

Foreword

In June 2011, the United Nations Human Rights Council unanimously endorsed the UN Guiding Principles on Business and Human Rights, which I developed with support from all stakeholder groups. They were the final product of my six-year mandate as the Secretary-General's Special Representative on Business and Human Rights. This was the first time that the Human Rights Council issued authoritative guidance on business conduct in relation to human rights; it also marked the first time that the Council had ever "endorsed" a normative text that governments did not negotiate themselves.

The Guiding Principles lay out in some detail the steps required for states and businesses to implement the "Protect, Respect and Remedy" framework on business and human rights I had proposed to the Council in 2008, and which it welcomed. It reaffirms that states have a duty to protect human rights and prevent and sanction abuses by third parties, including business; it establishes that companies have a responsibility to respect human rights; and it stresses the need for greater access to effective remedy, both judicial and non-judicial, for victims of business-related human rights abuses.

Evidence that the Guiding Principles are taking hold can be seen in a range of developments. For example, the updated Guidelines for Multinational Enterprises of the Organisation for Economic Cooperation and Development (OECD) now include a specific chapter on human rights that draws on the Guiding Principles. Similarly, the International Standards Organisation's (ISO) 26000 social responsibility standard and the revised Performance Standards of the International Finance Corporation (IFC) have embraced the Guiding Principles as their benchmark in the area of human rights. The European Commission has invited all EU member states to submit national plans for implementation of the Guiding Principles. These and other initiatives at national and regional level are crucial for building further momentum. But the work of implementation has only just begun.

This new report by the Institute for Human Rights and Business (IHRB) and the Global Business Initiative on Human Rights (GBI) contributes to that goal by examining how the Guiding Principles can and should inform business relationships – the daily interactions between companies of all sizes in different sectors and locations across the world. Based on discussions with representatives of 14 international companies, the report describes how these companies are beginning to incorporate human rights issues and the Guiding Principles into their relationships, including the traditional focus on supply chains as well as joint ventures, mergers and acquisitions, licensing and franchising, among others.

I am grateful to the companies who shared their experience to date of seeking to apply the Guiding Principles in their operations and business relationships. They made this report possible. Their experience provides important insights into the challenges and opportunities that lie ahead. The report makes clear that companies must still take the actions needed to reinforce human rights policy commitments, align incentives, embed human rights into management systems, and build capacity with business partners to address adverse human rights impacts. But progress is being made.

Companies increasingly make reference to human rights issues in their business operations – in due diligence investigations, in contracts with partners, operational guidelines, and reports to investors and other stakeholders. All this, supported by the work of industry associations and multistakeholder initiatives and international organisations, is helping to build what the report calls “a culture of expected adherence to the UN Guiding Principles”.

Achieving this also requires understanding and action on the part of a much broader range of professional service advisers, including legal, accounting, consulting, lobbying, and tax specialists who advise businesses on their relationships. They too have a responsibility to respect human rights.

I wish to thank IHRB and GBI for providing intellectual leadership in this area. I hope all parties involved will continue their commitment to advancing the business and human rights agenda in coming years.

John G. Ruggie

*Berthold Beitz Professor in Human Rights and International Affairs, Harvard University
Chair, Institute for Human Rights and Business*

Executive Summary

Context and Rationale

This report (the Report) takes stock of efforts by companies to address human rights impacts associated with their business relationships. Behind the macro trends and data of globalisation lies a complex array of individual business relationships, each with specific commercial objectives. This Report explores the implications of the United Nations (UN) Guiding Principles on Business and Human Rights (Guiding Principles)¹ for these relationships, looking at how responsible business commitments and practices are being integrated at the micro level.

Business relationships can spur economic growth, build efficiency, create access to technologies and services, and generate opportunities for formal, safer employment. Between enterprises, commercial relationships can transmit and implement new business practices and innovations regarding responsible business conduct. At the same time, the urgency to address adverse human rights impacts of business activities has emerged, for the most part, *precisely in the context of business relationships* – in particular in relation to supply chains. This is not surprising. Business transactions are now frequent in regions where the rule of law is limited or fragile, and regulatory and policy frameworks are silent or regressive with regard to international human rights standards. Business partners may have very diverse values, levels of capacity, or commitment to legal compliance or international standards of responsible behaviour.

A growing number of corporations recognise the business case for working with partners to integrate responsible business practices. Potential benefits include: reduced operational disruption; efficiency gains; diminished reputational risks (of actual or perceived involvement in human rights abuse); improved access to capital and markets; and the avoidance of legal claims. As a result, companies have taken action to establish socially sustainable business practices and value chains with their business partners in a range of sectors, and this is increasingly reflected in policy commitments, codes of conduct, and company assessments and audits. Industry-wide and multistakeholder initiatives have also been part of the same effort to address human rights in the context of business relationships.

Companies have a responsibility to respect human rights: which means to act with due diligence to avoid infringing on the human rights of others and to address adverse human rights impacts with which they are involved. This extends to addressing adverse human rights impacts with which a company is involved through its business relationships. This is one of the key messages that the UN Human Rights Council sent to all actors when it

1 Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie, Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework, A/HRC/17/31, 21 March 2011. At: <http://www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf>.

unanimously adopted the UN Protect, Respect and Remedy Framework (PRR Framework)² for business and human rights in 2008, and subsequently the UN Guiding Principles in 2011.

The Guiding Principles make it clear that a company may be involved with adverse human rights impacts in different ways – through its own activities and through its business relationships. The Guiding Principles articulate that the responsibility to respect human rights extends to managing adverse human rights impacts through business relationships and provide guidance on how to prevent and address those impacts. **They put business relationships squarely on the business and human rights map.** The increasing number of references to the Guiding Principles in diverse contexts (e.g. in standards, in contracts between business partners, in industry association initiatives, guidance for companies and in multistakeholder initiatives) suggests that a culture of expected adherence to the Guiding Principles is developing. By extension, given this alignment, businesses are far more likely to face consistent expectations about their responsibility regarding human rights from business partners as well as from governments, investors, and wider society.

Report Focus and Key Findings

At the heart of this Report is a high-level review of how a group of 14 multinational companies in diverse industry-sectors³ address human rights in the context of their business relationships.

The Report:

- Sets out concepts in the Guiding Principles that are relevant to this exercise.
- Considers six types of business relationships: joint ventures; mergers, acquisitions and disposals; franchising and licensing; suppliers and service providers; direct customers; and state–investor relationships.
- Looks beyond the contractual aspects of business relationships because contracts often do not capture the whole picture of how human rights are or can be addressed in business relationships.
- Examines the entire “life cycle” of the business relationship, in line with the approach of the Guiding Principles.

The Report considers how the participating companies have begun to **embed** the responsibility to respect into their internal management structures, which in turn helps support efforts in extending their human rights expectations to their business

2 Protect, Respect and Remedy: a Framework for Business and Human Rights, Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie, A/HRC/8/5, 7 April 2008, <http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf>.

3 See Chapter 1.

partners. None of the companies interviewed claimed to have achieved full integration of human rights across all business functions, including those dealing with their business relationships. More work in this area is required. Key methods of reinforcing human rights in a company's internal culture and systems include: raising awareness through training; developing clear incentives and disincentives for staff and business partners; and providing clear guidance on how to address human rights in business relationships while balancing human rights considerations against other imperatives for the relationship.

The participating companies indicated clearly that, to assess and manage human rights impacts, they are integrating human rights in their existing management systems in preference to creating new stand-alone systems. This has the evident benefit that human rights become part of a company's daily business, including with partners; at the same time it has clear challenges in ensuring that the sum of the parts translates into a coherent and comprehensive approach. This challenge is not specific to human rights: companies that are as large and dispersed as those that participated in the research find that similar problems of coherence and coordination arise whenever they bring important new policy initiatives into established management systems and procedures.

When **starting business relationships**, companies emphasised that corporate values and business principles are the foundation, for human rights as for other matters. Companies are far more often communicating with their business partners about their own policies, principles and codes than they are about human rights directly, relying on the incorporation of human rights, implicitly or explicitly, into those documents. This has a clear value, in that company policies are part of a company's DNA and will be defended vigorously in business relationships. At the same time, it often means that businesses may apply a selected list of human rights that they find relevant, and as a result may miss key issues. Consequently, companies increasingly recognise a need to adopt a variety of tools and methods to assess human rights risk in business relationships and their human rights performance, but due diligence is rarely about human rights alone. Involving stakeholders in initial or on-going assessments in the context of business relationships remains a work in progress – whether it should be done, which business partner leads, and how this feeds into assessments about the relationship, if at all.

When **formalising their business relationships**, the companies interviewed for this Report are increasingly integrating human rights concerns into their contracts with business partners, despite identified challenges, because they understand that this creates leverage with business partners, can instil positive behaviour and enables companies to address issues if “things go wrong”. Companies also use other methods to extend and entrench respect for human rights in documents governing the relationship, including operational procedures. This said, human rights are rarely deal breakers. Problems are instead addressed in various ways, by excluding certain partners, countries or products up front, by imposing contractual requirements, building capacity or managing problems as the business relationship unfolds.

Expertise in **managing human rights in relationships** is most advanced in supply chains, where human rights problems relating to business originally became prominent. The existing supply chain model for selecting, contracting and monitoring suppliers and service providers (which the Report does not review in detail because it is well-covered in the existing literature) appears to be the learning template for some other types of relationship, especially franchising and licensing. Despite its other limitations, the model does reinforce a core expectation of the Guiding Principles, that companies should continuously assess human rights issues and their relationships (rather than make a single initial assessment at the start).

Given the large number of business partners the companies involved in the research have (often running well into the tens of thousands), all draw on the principled pragmatism of the Guiding Principles, using a risk-based approach to select partners and relationships for more in-depth review. Some companies are clearly on a path of re-adjusting their risk lens to look at risk to people and not just the company, in line with the Guiding Principles. Others, by their own admission, are just starting to think about how they might integrate this perspective in their risk management systems. Many businesses are at the start of designing and implementing grievance mechanisms at operational level, as called for by the Guiding Principles.

When **ending or renewing their business relationships**, companies recognise (as do the Guiding Principles) that human rights considerations can come into play. Terminating relationships (on human rights grounds or for other reasons) is rarely the preferred outcome for companies. Often for good reasons, they prefer to try to address concerns that arise, using incentives and training to resolve weaknesses of performance, including with regard to human rights. The reputational risks that arise at divestment and closure are increasingly recognised. Human rights are starting to be a consideration when companies divest, particularly where an asset strongly associated with a company is acquired by an organisation that does not have the same practices or values.

The six relationship types explored in the Report are quite different from each other. Each presents challenges and opportunities to companies that wish to respect human rights in their business relationships. A company can exert leverage on an acquisition in a way that is not possible over a supplier that has many other clients. A partner of a joint venture can second staff to monitor its implementation of health and safety and social standards, in a manner that is simply not feasible in most supplier relationships.

Conclusions and the Road Ahead

The Report's first key message is that companies *are* increasingly considering human rights impacts with which they are involved through their business relationships, and taking note of the UN Guiding Principles on Business and Human Rights and the corporate responsibility to respect framework as they do so. More tangibly, there are signs that addressing such impacts can find a place in business management systems. This includes the management of business relationships. More and more companies are recognising there are solid business reasons to work with partners to ensure respect for human rights in the delivery of operations, products and services to which they are linked. None of the participating companies have fully integrated human rights concerns into their business relationships or into every stage of their life cycle. Work is developing – but more is needed – to reinforce human rights policy commitments, align incentives, embed human rights into management systems, and build capacity. Progress is being made.

The Report's second key message is that the spotlight is increasingly reaching a wider range of relationships and actors. Initially, the attention given to human rights and business relationships focused almost exclusively on supply chain relationships. It is likely that the next five years will involve a deepening of attention, knowledge and practice regarding the relationship types addressed in this Report (joint ventures, mergers and acquisitions, supply chain and service providers, licensing and franchising, direct customer and investor-state) and others. Advocacy, expertise and good practice will no doubt deepen further in the next five years. Contract farming, contract manufacturing, business process outsourcing, sponsorship and advertising (especially for major sporting events), and financial services (investment, insurance, export credit) are likely to follow soon.

Moreover, not only businesses involved in production will come under the spotlight. Professional legal, accounting, consulting, lobbying, and tax advisers also have a responsibility to respect human rights as businesses in their own right. As highlighted in this Report, the responsibility extends to their operations and business relationships – i.e. the advice they give clients about business relationships.

The Report's third key message is sobering. It is true that a handful of companies are seriously engaging with human rights and attempting to address the impacts with which they are involved. However, due to lack of awareness, lack of capacity, unclear incentives or reluctance to address human rights among many companies around the world, it is too often a one-way flow of communication emanating from large companies, well versed in international standards and committed to respect human rights. The Guiding Principles state clearly that all businesses everywhere, large and small, have a responsibility to respect human rights. Consequently, when two or more companies come together in a business relationship, they have overlapping responsibilities to respect human rights that should mutually reinforce their commitment. Urgency and innovation are required from business, government and civil society to address this challenge.

The Report concludes by looking ahead. It offers ten *Themes for the Next Five Years*.

1. Multiple actors, including businesses, governments, multistakeholder initiatives, industry initiatives and civil society organisations, will shape what are considered reasonable expectations about adequate and effective human rights due diligence.
2. Demands for transparency and traceability around human rights conditions in value chains will also drive expectations about human rights in business relationships.
3. Governments will play an increasingly important role in stimulating demand for human rights due diligence, in their role as business partners.
4. Corporate commitment to respect human rights in business relationships may be driven by clearer and more tangible business opportunities, not just risk avoidance.
5. Entering markets undergoing political and economic transition responsibly will be a major focus of government, business and civil society and will help define what is considered effective due diligence with business partners in challenging circumstances.
6. “Access to Remedy” and allocation of liability will continue to be a matter of concern with respect to business relationships.
7. Understanding of risk will continue to broaden and will increasingly include human rights risk as a routine consideration in business relationships.
8. In order to address a wider range of business relationships, companies will increasingly align their practice across corporate functions, business units and locations.
9. Companies and their stakeholders will be interested in examples of how business can create and exercise leverage with business partners.
10. Companies will continue to look for ways to access credible information and engage stakeholders as part of due diligence in business relationships.

Business relationships – and the daily interaction between companies of every size, in their many sectors and locations – are a key avenue for spreading awareness and uptake of the core concepts of the responsibility to respect human rights. Some large multinationals are taking steps to incorporate human rights issues into the enormous webs of business relationships they manage around the world, often applying a pragmatic, risk-based approach. Over time, they will reach and influence an increasing number of businesses. This is an important mechanism for implementing the Guiding Principles and contributing to a more level playing field based on respect for human rights.

The Institute for Human Rights and Business and the Global Business Initiative on Human Rights welcome feedback from businesses, governments, civil society organisations, trade unions and scholars. The task of developing guidance, methodologies, and tools, for respecting human rights in business relationships, as well as for applying them, is too important for any single player; we all have an interest in its success.

Compilation of Key Findings

Chapter Three: Orienting and Embedding – Internal Company Management of Business Relationships

- Human rights are firmly on the corporate agenda but compete for management attention in a crowded field of issues relevant to business relationships.
- The integration of human rights considerations into business relationships benefits from clear leadership and coordination of knowledge and expertise across relevant functions in the company.
- Companies prefer to bring human rights into business relationships by embedding them in existing management systems.
- There is a recognition that building capacity amongst business partners to manage human rights, rather than just to comply with codes of conduct, is a more sustainable approach.
- If companies send conflicting messages to their partners about their human rights expectations and requirements, this undermines the commitment of both parties.
- Faced by vast and complex value chains, companies constantly need to prioritise their investments of time and resources. Some are developing internal processes to ensure they give appropriate attention to human rights.
- Companies that start by addressing human rights in their own operations can address the human rights performance of their business partners with greater clarity.
- Companies are actively learning from their efforts to integrate environment, health and safety, and anti-bribery and corruption concerns in their management systems and business relationships.

Chapter Four: Respecting Human Rights Throughout the Business Relationship Cycle

Selecting and Starting the Relationship

- Corporate values and business principles are the foundation of efforts to integrate human rights in business relationships.
- While their codes of conduct for suppliers commonly make explicit reference to human rights, only a few of the companies surveyed have explicit statements on human rights expectations with regard to other types of business relationships.
- Companies tend to focus on particular human rights that are relevant to their industry or business relationships. They are starting to adopt a wider perspective on human rights and business risks.
- Because not all business partners understand or value the language and content of human rights, companies adopt a variety of communication strategies to discuss human rights with their business partners.

- An increasing number of actors influence company expectations, including customers, multistakeholder initiatives, investors and governments.
- Few companies have internalised or operationalised the idea that they should consider all human rights, rather than a selected number, in their human rights assessments.
- Company checks on business partners touch on human rights, but rarely do so explicitly.
- Companies generally assess the human rights impacts of operations, products or services with which they are involved through their business relationships, and the track record of business partners.
- Country assessments of human rights risk are frequent in only a few kinds of business relationships (suppliers, customers, joint ventures). Large transactions tend to receive more attention.
- Companies undertake a range of actions to prevent and mitigate human rights impacts that are associated with their business relationships.
- How often and under what circumstances companies involve outside stakeholders to assess the human rights impacts of their business relationships varies by industry and type of relationship.
- There is an emerging practice of calculating the costs and benefits of addressing human rights in business relationships.

Formalising the Relationship

- Despite the challenges, companies increasingly see advantages in including human rights concepts and language (in some form) in contracts with business partners.
- “Well-known” human rights concerns (notably forced and child labour, and security issues) are often referenced in contracts, directly or via references to company policies or codes of conduct.
- When human rights are included in contracts, companies use different reference points and different legal techniques.
- Companies are using various techniques inside and outside contracts to make human rights more specific.
- Seeking “ways to honour the principles of internationally recognised human rights” when faced with conflicting national requirements are rarely dealt with in contracting.
- Companies are creating leverage with business partners to address human rights issues but it is often not through the contract alone that they create meaningful commitment to change.
- Companies are using contractual provisions to address human rights issues in the value chain beyond their immediate business partner.

Managing the Relationship

- Building the capacity of business partners to manage human rights issues can be an important mitigation strategy.
- For certain business relationships, companies have systems in place to track performance against company codes or contractual requirements.
- Companies appreciate that dynamic situations require dynamic and regular assessment and tracking, but this is not always widely embedded in actual practice.
- Companies often respond more urgently to severe human rights impacts, and expect business partners to prevent or mitigate severe impacts before addressing other issues.
- Communicating with external stakeholders about human rights in business relationships is not yet common practice.
- Establishing grievance mechanisms and providing access to remedies for negative human rights impacts in business relationships is a work in progress.

Ending or Renewing the Relationship

- Companies recognise that terminating relationships on human rights grounds is an option when things go wrong, but that it is not always the best option from a business or human rights perspective.
- Companies may suspend relations with partners, or take over their operations, on human rights grounds, but usually do so in the course of dealing with broader concerns.
- Renewing business relationships can be an incentive for business partners to improve their human rights performance.
- Companies increasingly review human rights at the end of their relationships, when they consider their reputational legacy.
- Communicating about termination of business relationships on human rights grounds can be complex in reality.

Chapter Five: Respect for Human Rights in Joint Venture Relationships

Selecting and Starting the Relationship

- Companies can help to manage human rights-related risks by choosing their JV partners with care, but their choices may be limited in some circumstances.
- Before forming a JV, companies use various avenues to convey their human rights expectations to business partners.
- Companies do serious due diligence for certain JVs, and often consider human rights.
- Due diligence appears to vary in scope, and is more extensive when a company operates or holds a majority stake in the JV.

- To understand country situations and challenges, companies may consult external stakeholders but more frequently speak to potential business partners.

Formalising the Relationship

- JV agreements can be designed to consider human rights explicitly.
- Contractual language on human rights is considered mandatory by some companies, whereas others include it where possible.
- JV agreements may stipulate operating procedures that explicitly or implicitly address human rights.
- Companies create long-term leverage by their choice of roles and procedures in the JV.
- Internal coherence and alignment may affect the human rights content of the agreement.
- Some companies treat regulatory and reputational risks as conditions precedent.
- Referring to third party standards, including MSIs, builds further leverage to address key issues.
- Seeking finance for the JV from financial institutions that have a clear set of social and environmental standards is often a sensible way to establish leverage over JV partners.

Managing the Relationship

- When companies are not operators of a JV, they usually involve themselves less in its regular social and environmental assessments, rarely build capacity in human rights, and do not consistently report on its human rights practices.
- Some companies receive consistent reporting on their JVs' human rights performance.
- Grievance mechanisms for employees and affected communities are variable.

Ending or Renewing the Relationship

- JV agreements rarely consider human rights-related problems to be material breaches.
- Legacy issues (including human rights) can affect the reputation of former owners.

Chapter Six: Respect for Human Rights in Merger, Acquisition and Disposal Relationships

Orienting and Embedding

- M&A teams may need guidance on when, how and why to consider human rights.

Selecting and Starting the Relationship

- Initial due diligence processes and interactions can uncover what is required for alignment and provide a framework for dialogue with a target company.
- The extent of human rights inquiries during initial assessments may depend on the importance of the deal.

- Existing M&A checklists are unlikely to expressly reference human rights, but checklists are evolving.
- Information gathering, including with stakeholders, may be constrained by the need to maintain commercial confidentiality.
- Country risk analysis is important to understanding broader human rights risks. Processes to take account of sanctions seem to be in place.
- When companies obtain human rights information on a target company they tend to rely on self-disclosure. They increasingly request information on financing conditions and their participation in MSIs.
- Companies are starting to scrutinise the business relationships of potential target companies.
- It can be difficult to price reputational and other liabilities related to human rights impacts. A company may find it easier to estimate the cost of bringing M&A targets into compliance with its standards.
- Human rights issues alone are unlikely to delay a merger, acquisition or disposal unless they are accompanied by other serious (reputational, legal, operational) risks. Companies may have good reasons to become more selective.
- Inquiries on human rights are more common during mergers and acquisitions than disposals.

Formalising the Relationship

- In acquisitions, leverage should not be an issue in theory but in practice may be more difficult to exercise.
- Companies tend not to include explicit references to human rights in contracts relating to mergers, acquisitions and disposals.
- Closing conditions may incorporate human rights elements even if they are not included in the contract.

Managing the Relationship

- If human rights issues are addressed, they are generally integrated in broader action plans that raise the target enterprise's practices to the company's standards. Few companies have stand-alone human rights action plans.
- Target companies may need continued guidance on raising standards.

Ending or Renewing the Relationship

- Assets can remain associated with a company after disposal.
- Disinvestment due to human rights challenges can pose difficult dilemmas.

Chapter Seven: Respect for Human Rights in Franchising and Licensing Relationships

Selecting and Starting the Relationship

- It is important to communicate expectations and establish standards early, especially in long-term franchise agreements.
- Consumer expectations can stimulate consideration of human rights in these business relationships.
- Company assessments are often more detailed when the company name is associated with the business relationship.
- A partner's capacity to manage human rights issues is an important dimension of assessment.

Formalising the Relationship

- The duration of many franchise agreements makes it necessary to manage human rights issues throughout the relationship, rather than relying on the contract.

Managing the Relationship

- Companies use many forms of leverage to focus franchisees' attention on human rights issues.
- Companies routinely track the human rights performance of franchisees.
- Grievance mechanisms are a work in progress.

Ending or Renewing the Relationship

- Terminating a relationship usually requires several steps.

Chapter Eight: Respect for Human Rights in Supplier and Service Provider Relationships

Orienting and Embedding

- Creating coherence between human rights policy commitments and procurement is a well-recognised challenge.

Selecting and Starting the Relationship

- Companies most frequently set and communicate their expectations for suppliers and service providers by developing company codes or policies.
- Understanding the supplier or service provider is a key part of understanding potential human rights risks.
- Assessing country risks often depends on where the supplier or service provider is located and the types of services provided.

- Faced by complex supply chains, companies prioritise certain risks. Some are developing approaches to risk that explicitly consider human rights.
- Stakeholder consultations in supply chains often focus only on workers once the relationship has started.
- When supply chains consolidate, it is an opportunity to align shared values.
- Companies do not yet know how to calculate the efficiency of their spending on supply chain compliance.

Formalising the Relationship

- Contractual references to human rights issues serve several purposes.
- Given the wide range of their relationships, companies use an array of tools to generate leverage.
- It is common to specify the consequences of non-compliance.
- Graduated contractual provisions can provide flexibility.
- Companies are asking partners to communicate the company's requirements to their business partners.
- Reflecting MSI and industry initiative requirements in contracts, is an approach to note.

Managing the Relationship

- Monitoring (some) suppliers has become a routine part of supply chain relationships.
- Companies are reducing the audit burden and identify key concerns.
- Non-compliance measures are often viewed by suppliers as punitive. Some companies find proactive and incentive-based systems more effective.
- Some reporting by suppliers and of audit results is occurring in select sectors.
- "Whistle-blower lines" are the most common form of grievance mechanism, but practices vary.
- MSIs can assist companies to resolve disputes and prompt development of effective dispute mitigation.

Ending or Renewing the Relationship

- Termination clauses are common in supplier contracts, but rarely applied in practice, in favour of corrective action.

Chapter Nine: Respect for Human Rights in Direct Customer Relationships

Orienting and Embedding

- Consumer expectations about human rights can focus a company's attention.

- Staff need appropriate incentives and disincentives (embedded in a company culture supportive of human rights) to take on difficult discussions with customers.
- Regulatory and MSI requirements can be a source of leverage.

Selecting and Starting the Relationship

- Business customers and partners are expressing their expectations on human rights. This can lead to a “battle of standards” that companies are starting to address and avoid.
- Consumer expectations on human rights can be a source of leverage that assists companies to raise human rights issues with their business partners.
- “Know Your Customer” processes may address certain human rights issues but do not yet do so systematically.
- Including human rights considerations in standard bidding documents could improve outcomes and level the playing field.
- Knowing how customers will use products or services is a key challenge.

Formalising the Relationship

- Company contracts are excluding certain uses of products or services.
- Some companies require compliance by customers as a contractual requirement.
- A company may need to take a big picture approach regarding product misuse associated with its name or brands.
- Instalment sales contracts and after sales service agreements can provide a measure of leverage over customers’ use of products.
- Customers may use contracts to shift liability to business partners in a manner out of line with the Guiding Principles.

Managing the Relationship

- Risk management approaches can identify which customers require additional attention.

Ending or Renewing the Relationship

- Legacy issues can be a key challenge.

Chapter Ten: Respect for Human Rights in Investor-State Relationships

Selecting and Starting the Relationship

- Investor-state contracts provide opportunities for private partners to proactively improve uptake of the Guiding Principles by their state business partners and level the playing field amongst public and private businesses.

- Business relationships with governments can magnify real or perceived involvement with states' human rights abuses.
- State-owned enterprises (SOEs) inexperienced in human rights management can bring risks and challenges for their private partners.
- Assessing country risk is a standard consideration.
- Developing processes to assess governments as business partners is still a work in progress.
- National authorities or international financial agencies may require stakeholders to be consulted on large projects and respondents often feel well placed to lead this process.

Formalising the Relationship

- Host states are not always equipped or willing to accommodate international and public expectations on human rights when negotiating agreements.
- Companies and external stakeholders often have different perceptions about the extent to which companies exert leverage with governments.
- Projects covered by investor-state contracts often require provision of public security. This raises challenges around state sovereignty and the duty to protect.
- Referring to multistakeholder initiatives can provide an avenue to reinforce human rights in investor-state agreements.

Managing the Relationship

- Perceptions of the benefits from (and motives for) local content requirements are mixed.
- "Additional goods and services" provisions can be seen to contribute positively to local development or inappropriately displace government's responsibility.
- Contractual transparency expectations increase when working with governments.
- Demands for public reporting of revenue are also increasing.
- Company's operational-level grievance mechanisms can provide a competitive advantage when working with government.

Ending or Renewing the Relationship

- After a change of government, companies may have to build their relationships all over again.
- Legacy, and its reputational consequences, are highly correlated to country context.