

What does effective human rights due diligence look like for SMEs?

5 insights from practice

INSIGHTS SERIES –
Keys to effective human rights due diligence



Global Compact
Network Germany



HUMAN RIGHTS &
LABOUR



Background

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

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

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

The insights shared in the series are based on the experience of Global Compact Network Germany in supporting business practitioners to implement human rights due diligence. They include knowledge gathered through engaging with businesses, and the know-how of our partners, and experts over the years, as well as international good practice.¹

WHAT THIS INSIGHTS SERIES IS ...

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

... AND WHAT IT'S NOT

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

¹ See [Annex 2](#) for a selection of useful resources.

The corporate responsibility to respect human rights

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

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

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

These three frameworks share an underlying idea: business respect for human rights can only be achieved by putting people at the centre of a risk-based approach, changing the perspective from risk to business, to risk to people. This fundamental shift of perspective is what defines **human rights due diligence** – and also constitutes a crucial contribution business can make to the **sustainable development** agenda more broadly.²

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

² The UN Global Compact describes the principles-based approach to the Sustainable Development Goals (SDGs), including the ways in which the Ten Principles and the UNGPs interact with the SDGs, in its 2016 White Paper [The UN Global Compact Ten Principles and the Sustainable Development Goals](#).

Effective human rights due diligence in small and medium-sized enterprises (SMEs)

There are 25 million SMEs in the EU, comprising 99% of all companies and providing two out of three jobs.³ SMEs are indeed the backbone of the European economy. Therefore, **responsible business conduct at scale is only possible with SMEs onboard.**

Regarding human rights due diligence, the spotlight sometimes tends to be on large multinational enterprises. New mandatory human rights due diligence legislation, like the German Supply Chain Due Diligence Act or the forthcoming EU Corporate Sustainability Due Diligence Directive, set high expectations for large companies to know their human rights risks and show how they address and mitigate them.

Even if SMEs may not be directly in scope of these new regulations,⁴ they are indirectly affected through their business-to-business relationships with larger clients. Aside from the ethical imperative for human rights, SMEs therefore need to understand human rights due diligence expectations to stay competitive in the future.

Many assume that the smaller size of SMEs is an obstacle to effective human rights due diligence. Experience challenges this view. On many occasions, their smaller size, shorter decision-making pathways, and less complex supply chains can give them a **leading edge when implementing human rights due diligence** in line with the spirit of the UNGPs.

This publication highlights selected success factors for SMEs in implementing effective human rights due diligence. Effectiveness here is understood as achieving two goals:

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

³ EU Commission "Entrepreneurship and small and medium-sized enterprises": https://single-market-economy.ec.europa.eu/smes_en. The EU defines SMEs as having less than 250 employees and a turnover of less than €50 million or a balance sheet total of less than €43 million.

⁴ The German Supply Chain Act applies to companies with over 3,000 employees in 2023, and from 2024 to companies with over 1000 employees. In its proposal for an EU Corporate Sustainability Due Diligence Directive (which was published in February 2022), the EU Commission combines thresholds related to company size and company turnover.

See [Annex 1](#) for a summary of key human rights due diligence legislation.

SMEs have a responsibility to respect human rights

It is true that compared to large multinational enterprises, SMEs have less capacity and resources. However, this does not absolve them of their responsibility to respect human rights. The UNGPs specify that all businesses, regardless of their size, have a responsibility to respect human rights (principle 14). Equally, the Ten Principles of the UN Global Compact expect the same commitment to respecting rights from every business that joins the initiative, whether large or small. What varies is the **means through which a company will meet that responsibility**.

'In order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances (...)'

Principle 15, UNGPs

When SMEs' business activities cause severe adverse human rights risks or impacts, they have a particular responsibility to act. The actions they take can vary in form and complexity, depending on the size and nature of the business. Typically, they will be more informal and less complex than human rights due diligence in large multinational enterprises. What matters is that they are effective in **reducing human rights risks and mitigating negative impacts**.

Five insights on effective human rights due diligence in SMEs

The following, selected insights highlight how the particularities of SMEs' structure, ways of working and supply chains can prove an asset in establishing effective human rights due diligence. Accordingly, human rights due diligence in SMEs is effective when it is **embedded in company culture, action-oriented and collaborative, leverages trusted relationships and adopts bespoke approaches**.

INSIGHT
1

Human rights due diligence in SMEs is effective when it is embedded in company culture

Human rights due diligence comes to life when it is embedded in company culture through behaviour and mindsets. This often proves to be more important than formal policies and technical processes. SMEs have several advantages when embedding human rights due diligence in company culture.

First, SMEs may be **predisposed to a respectful working culture** through their original core values. SMEs founded on respect-based values and convictions, such as the image of the “Ehrbarer Kaufmann” or ‘honourable merchant’ in Germany, can connect human rights due diligence to these core values. Thanks to their smaller size, there is a more authentic link between founding values and daily business practice. Employees are more likely to be directly in touch with the leadership and founding team representing these beliefs.

Second, SMEs have a more obvious **business case for respectful behaviour in their daily business**. Due to their limited resources, SMEs rely more on building respectful and lasting relationships with their staff and suppliers to ensure employee motivation and resilient supply chains. Human rights due diligence supports this business case.

Third, a smaller company size is advantageous when **aligning with a human rights vision**. Fewer staff can be more easily onboarded onto a new programme, and a flatter governance structure makes it easier to influence the leadership team. In practice, a motivated founder or leadership team often spearhead the initiative for human rights due diligence in SMEs.

Finally, many SMEs have a **more straightforward ownership structure** than larger companies, meaning fewer potentially conflicting influences exist. Typically, in SMEs, employees are primarily accountable to the expectations of their leadership team. They do not have to (or to a lesser extent) reconcile value-based goals like human rights expectations with potentially conflicting profit-based interests of investors and shareholders.

BRINGING IT TO LIFE

Many human rights due diligence implementation guides describe relatively formal corporate strategies and use technical terminology more suitable for larger corporations. They might feel unnatural for the way many SMEs do business. In practice, SMEs do not even need to use technical human rights language to get started on human rights due diligence. Instead, **using language that is authentic in the company's culture** is more important, for example, saying, ‘doing what is right’ or ‘treating people with respect’ instead of ‘respecting human rights.’ Similarly, if a formal policy statement does not match the company culture, the human rights commitment can be incorporated into the company values. Overall, it is much more important to **stay authentic to how the SME does business** than to tick formal human rights due diligence boxes.

INSIGHT
2

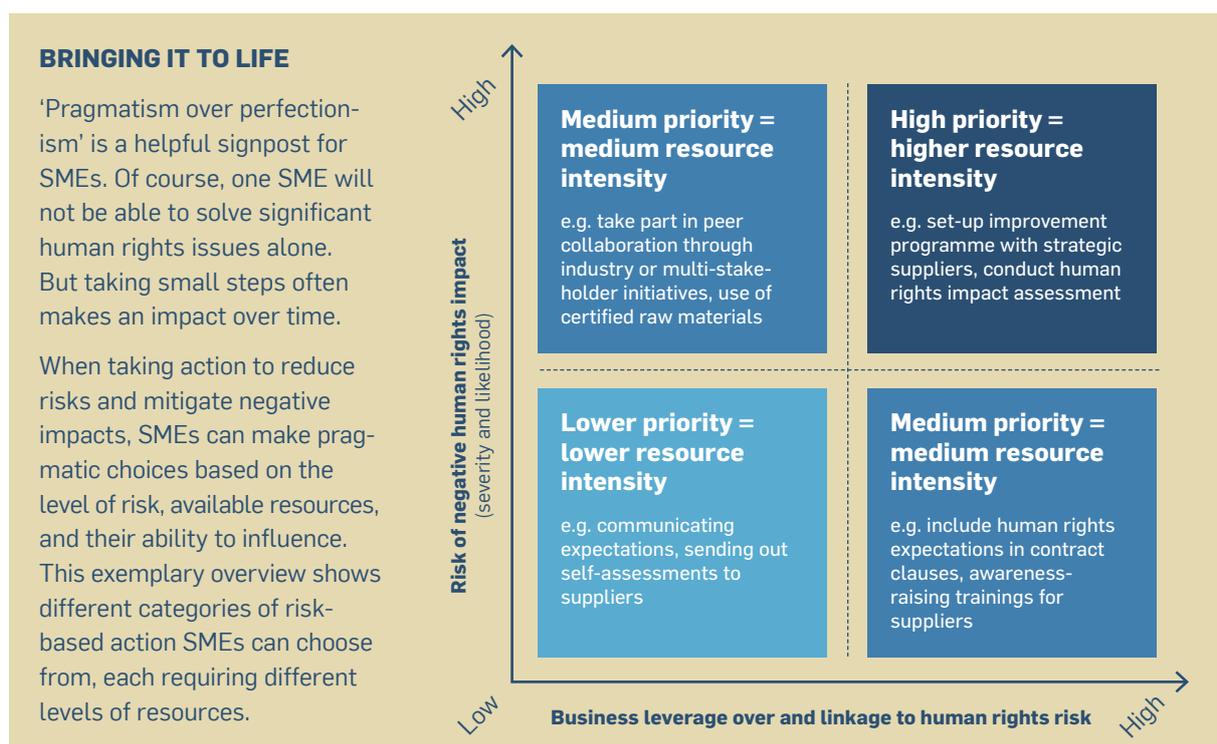
Human rights due diligence in SMEs is effective when it is action-oriented

The UNGPs state that all internationally recognised human rights should be considered in the due diligence process. This sometimes creates the false impression that human rights due diligence must be complex and overwhelming. Instead, a company’s ability to prioritise pragmatically is paramount for effective risk mitigation.

Despite having fewer resources than larger businesses, SMEs are **well-positioned to move quickly into pragmatic action**. In large multinational enterprises, for instance, it can take a significant amount of time to identify points of contact in relevant departments and functions that need to be engaged on human rights. In contrast, human rights leads in SMEs can take advantage of their flatter hierarchy, shorter communication lines and decision-making paths to connect dynamically with different departments and the leadership team. This type of engagement is essential to build momentum for a swift progress from initial risk mapping towards action (see [Insight 3](#) for more detail).

Pragmatic action also implies working with existing and perhaps imperfect data to get started instead of overanalysing supply chain risks up to the lowest tiers. SMEs can focus on what they know based on internal data, combined with open-source tools and common sense, to understand their human rights risks and identify the first possibilities for action.⁵

In doing so, they often find that **identifying human rights risks is less complex than expected**. Many SMEs have fewer suppliers and customers than complex, multinational enterprises and potentially deeper relationships with those business partners partners, as well as with stakeholders. Stronger relationships with business partners make it easier to have open discussions about potential human rights risks as well as mitigating actions (more about this in [Insight 4](#)).



⁵ See [Annex 2](#) for an overview of selected tools and guidance materials for SMEs.

INSIGHT 3

Human rights due diligence in SMEs is effective when it is collaborative

How companies implement human rights due diligence will vary according to the nature of the business. SMEs do not necessarily need a dedicated sustainability department to steer their due diligence process from the start. A **collaborative dialogue across different departments** often proves more effective for SMEs than specialised expertise concentrated in one part of the business.

Human rights due diligence relates to different parts of the business and requires integration into various systems and processes such as human resources, health and safety, supplier management, compliance processes or anti-corruption. The more collaboratively the respective departments can be involved in identifying and addressing human rights risks and impacts, the more effective the results are.

What has proven to work well for SMEs are **cross-functional working groups** (whose composition may change at different times and depending on different needs) that pool practical knowledge from across the business. Even though any department can steer the process, it is typically functions such as procurement, compliance, HR or quality management that take on a leading role.

For the process lead, the art is to **facilitate a dialogue-based collaboration**, which pools internal knowledge and builds capability, ownership and buy-in for the process itself. The process lead will have to invest additional time and resources to do this well. It is important to acknowledge that even in a small business, human rights due diligence adds workstreams to the agenda.

Setting up such collaborative processes may be easier in SMEs than in larger businesses, given their more informal processes and lower staff numbers. Similarly, it is easier to regularly involve senior decision-makers in the conversation and keep them updated on the implementation, findings and effectiveness of the human rights due diligence process.

BRINGING IT TO LIFE

Teamwork is important throughout the human rights due diligence process: early on when assessing human rights risks, when mapping existing processes and gaps and later when identifying the actions needed to reduce risks and mitigate impacts. The following illustration summarises the key milestones of a collaboration process in an SME (please note process can differ from company to company).



INSIGHT
4

Human rights due diligence in SMEs is effective when it leverages trusted relationships

Many are concerned that human rights due diligence places a disproportionate burden on SMEs, as supply chains are too complex and intransparent for SMEs to have an impact. This perspective overlooks that SMEs often have a much smaller supplier base than large multinational enterprises and tend to maintain closer relationships with their direct suppliers.

Compared to large multinational enterprises, it is more costly and resource-intensive for SMEs to replace an existing supplier. What may look like a disadvantage constitutes a strong business case to build resilient supply chains by establishing **trusted and long-term relationships with their suppliers**. These are a significant advantage when implementing human rights due diligence in line with the UNGPs.

From a human rights due diligence point of view, supplier management works best **based on partnership, trust, and mutuality**. Commercial power and top-down enforcement are not mandatory prerequisites for effective human rights due diligence. In fact, a top-down approach can also stand in the way of meaningful progress when it is motivated by fear instead of a shared interest. Therefore, quality relationships with suppliers increase the ability of SMEs to work on challenging issues like human rights.

What proves to work well for SMEs is to include human rights topics in their conversations from the start of the supplier selection process. They may then consider the supplier's openness to dialogue in their selection decision. Also, collaborating with suppliers of a similar size helps to maintain an eye-to-eye relationship later.

The additional upfront investment into building quality supplier relationships can later help to overcome suppliers' potential reservations about human rights due diligence interventions, to be open about challenges instead of hiding problems and to achieve a **willingness to work together on systemic issues**.

BRINGING IT TO LIFE

A German retailer with 150 employees produces its garments in countries with known human rights risks, such as India, Turkey and Egypt. **Building long-term partnerships with its suppliers** is a core element of its human rights strategy. Some of its supplier relationships have existed for more than 25 years. The retailer makes sure to place its orders well in advance throughout the year to prevent high-stress peak production times and to enable plannability in the factories. This fosters mutual trust and cooperation. The retailer also collaborates with a peer in co-creating a participatory audit programme which will **provide meaningful insights into the working conditions** from the workers' perspectives and help build supplier capabilities to respect social standards.

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Human rights due diligence in SMEs is effective when it adopts bespoke approaches

Leverage is crucial for impactful human rights due diligence. However, commercial leverage is only one of the ways to drive change. Leading SMEs have demonstrated that they can use their smaller size as an advantage to act more experimentally and more courageously thereby making up for what they might lack in leverage through bespoke approaches.

Trial and error, collaboration and openness can help SMEs find bespoke solutions to challenging human rights issues. SMEs often **push the boundaries of what is considered possible in their respective industry**. There are many examples of SMEs radically redesigning purchasing practices, breaking through known limits of supply chain transparency or re-imagining product design from a human rights point of view. Their more informal governance and shorter decision-making paths make it easier to test new ideas and achieve leadership buy-in for experimental approaches.

Human rights arguments can also be a powerful lever for SMEs when re-shaping existing business relationships. Explaining the impacts of commercial agreements in human rights terms can help to influence a resistant and/or more powerful business partner, for example when re-negotiating contracts to pay higher staff wages.

When reaching the limits of what they can achieve alone, SMEs can increase their leverage by seeking finance and support from government development or development finance agencies, partnering with NGOs, joining multi-stakeholder initiatives, or reaching out to industry peers to set up discussions on how they could **collectively commit to higher standards across the industry**.

BRINGING IT TO LIFE

A small IT producer from Germany has its leading production site in China. Following the founder's motivation to do what feels right, one of the company's goals was to establish a production site where employees have similar working conditions to the company's employees in Germany. At their production site in China, they abstain from using temporary labour, all fixed employees work 40 hours a week and have weekends off at a pay three times higher than the average in the region. Some employees can work from home to spend more time with family. These arrangements differ drastically from the other factories in the sector in this region and help the company maintain **high levels of employee motivation and very low staff turnover**.

Key takeaways

Just like big corporations, SMEs have a responsibility to respect human rights. The way they put this responsibility into practice, however, can and will differ. It can be more informal and proportionate to their size and resources as long as it effectively reduces human rights risks and negative impacts.

SMEs' smaller size is often viewed as a disadvantage for human rights due diligence. However, in practice, it can actually turn out to be beneficial as it usually comes with shorter communication lines and decision-making pathways, more flexibility in trying innovative approaches and (due to typically more straightforward ownership structures) less pressure to fulfil potentially conflicting interests of investors and shareholders. Thus, SMEs are **well-positioned to move quickly into pragmatic action** as it is easier to engage dynamically with different departments and the leadership team.

In many cases, SMEs also tend to have a more direct business case for human rights due diligence. Due to their comparatively limited resources, it is more compelling for SMEs to invest in better relationships with their staff and suppliers. This proves advantageous when working on complex issues like human rights. Simultaneously, human rights due diligence helps to strengthen supply chain resilience and staff retention.

On many occasions, SMEs have pushed the boundaries of what is considered possible in their respective industry. For example, they have redesigned purchasing practices or broken through known limits of supply chain transparency – and thus taken on a **leading role in implementing human rights due diligence** in line with the UNGPs.

Annex 1

Legal frameworks

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

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

Annex 2

Selected sources of useful information and practice-oriented guidance

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

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

- The UN Global Compact's [Business & Human Rights Accelerator](#), a 6-month training programme supporting companies to get started with human rights due diligence
- The [Human Rights Capacity Diagnostic Tool](#) (in German), enabling companies to assess the level of maturity of their human rights due diligence and risk management systems, including a short version specifically for SMEs
- A [Five-Step Guide](#) on how to get started on human rights due diligence with lots of practical examples
- A [guidance note](#) containing answers to the most common questions around human rights and SMEs (in German)
- A selection of in-depth [case studies](#) from SMEs (in German)

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

- An [E-Learning Course on Operationalising the UNGPs](#), jointly developed with the Office of the UN High Commissioner for Human Rights and Shift
- A variety of on-demand webinars on business and human rights topics as part of the [UN Global Compact Academy](#)
- The [Business and Human Rights Navigator](#), jointly developed with the Helpdesk on Business and Human Rights and Verisk Maplecroft, containing practical information and case studies on a number of human rights issues

The German Federal Government's **Helpdesk on Business and Human Rights** provides advice and tools supporting SMEs that want to implement human rights due diligence processes, including

- [CSR Risk Check](#): CSR Risk Check, an online tool jointly offered with MVO Netherlands and UPJ that supports companies in assessing risks along their supply and value chain
- [SME Compass](#): SME Compass, a tool for SMEs that navigates companies through the different steps of human rights due diligence

Additional **useful resources** for SMEs on human rights due diligence include

- A [workshop report](#) on SMEs human rights due diligence by Shift and the International Organisation of Employers as well as an accompanying [blog post](#) highlighting key success factors
- A [comprehensive guide](#) on SMEs and human rights issued by the European Commission
- A [collection of in-depth case studies](#) on human rights due diligence, including from SMEs, by the German Federal Ministry for Economic Cooperation and Development, GIZ, Accenture and twentyfifty

IMPRINT

The UN Global Compact and UN Global Compact Network Germany

The UN Global Compact is the world's largest initiative for sustainable and responsible business. Based on the Ten Universal Principles and the Sustainable Development Goals (SDGs), the UN Global Compact pursues the vision of an inclusive and sustainable society. More than 20,000 participants at the UN Global Compact, among them 17,000 companies, contribute to the global vision. UN Global Compact Network Germany is one of the largest of the UN Global Compact's 70 Local Networks. It currently comprises more than 900 participants, including more than 850 companies – ranging from large multinationals to SMEs – as well as 60 representatives of civil society, academia and politics. Aiming to induce change processes within companies and support the strategic integration of sustainability, the Global Compact Network Germany focuses on the topics of human rights & labour standards, environment & climate, the prevention of corruption, reporting as well as on promoting the business contribution to the SDGs.



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