



International Organisation of Employers
Organisation Internationale des Employeurs
Organización Internacional de Empleadores
The Global Voice of Business



SMEs and Human Rights

What is the current state of play, what are the opportunities and challenges, what kind of support is needed?



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I. Introduction

Small and Medium-sized Enterprises (SMEs) are the backbone of economies around the world. As stressed in the conclusions of the discussion on small and medium-sized enterprises and decent and productive employment creation in the International Labour Conference in 2015, they account for two-thirds of all jobs and also create the majority of new jobs. They contribute to economic growth, spur innovation and economic diversification, and provide livelihoods. Moreover, SMEs are also part of Global Supply Chains, as buyers and as suppliers.

However, in the debate on business and human rights, the importance of SMEs has been largely neglected. Moreover, SMEs themselves encounter much greater difficulties when participating in the debate. In order to better understand their challenges, concerns and opportunities with regards to business and human rights, as well as their need for support, the IOE jointly with the ILO and co-sponsored by the UN Working Group on Business and Human Rights, launched a global SME survey.

Overall 250 companies responded to the survey from 32 countries (Africa, Asia, Europe, the Americas). These companies are predominantly members of IOE member federations or have participated in the ILO SCORE programme. 52% of respondents employed fewer than 50 employees, 17% between 50 and 100 employees, 15% more than 100 but fewer than 250 employees and the remaining 16% employed more than 250 employees. Most companies (32%) were active in the manufacturing sector, followed by other service activities (31%), accommodation and food services (9%) and construction (8%). 58% of respondents took the survey in English, 35% in Spanish and 7% in French. The vast majority of respondent companies (65%) were not part of a cross-border supply chain, while 35% were.

This report summarizes the main findings from this survey. The report is intended as input to the discussions at the 5th UN Forum on Business and Human Rights on 14-16 November 2016 in Geneva.

II. Summary of the preliminary findings

Are the United Nations Guiding Principles on Business and Human Rights well known?

The vast majority of respondent companies (65%) were aware of the United Nations Guiding Principles on Business and Human Rights, while 35% were not. It is worth mentioning, however, that 107 respondents skipped this question (potentially implying that they are not aware of the United Nations Guiding Principles on Business and Human Rights, but were too embarrassed to admit this and thus skipped the question). If we follow this assumption than the correct percentage of companies who were aware of the United Nations Guiding Principles on Business and Human Rights would be closer to 37% (93 out of 250 companies).

The Global Compact is the instrument most well-known to SMEs

Amongst the respondents who did answer this question (125 skipped the question), the instrument which is the most well-known is the UN Global Compact (54%), followed by the ILO's Fundamental Principles and Rights at Work (FPRW) (36%), ISO 26000 and the Global Reporting Initiative (GRI) both with 26%, and the ILO tripartite declaration of principles concerning multinational enterprises and social policy (23%). The OECD Guidelines for

Multinational Enterprises and the EU CSR Communication (2011) both received less than 20%. It could, of course, be assumed that this percentage is higher if we only consider the countries to which these latter two guidelines relate (OECD countries and EU member states).

Does participation in Global Supply Chains make a difference?

Of the 50 respondents that are part of cross-border chains, 35 (70%) were aware of the United Nations Guiding Principles on Business and Human Rights, while 15 (30%) were not. On the other hand, of the 93 respondents that are not part of cross-border chains, 59 (63%) were aware of the United Nations Guiding Principles on Business and Human Rights, while 34 (37%) were not. Thus, respondents participating in cross-border supply chains are only slightly more likely to be aware of the United Nations Guiding Principles on Business and Human Rights. If we also look at the difference with regards to the knowledge of the other instruments on responsible business conduct, it seems that other variables apart from participation in cross-border trade, such as participation in the SCORE programme or in other training activities, might correlate to better knowledge about human rights instruments.

Strong commitment to human rights

In terms of positive examples from the respondents' work in relation to the implementation of human rights, the most widely cited positive example was complying with all applicable laws and respecting internationally recognized human rights, wherever they operate (77%), having a clear policy commitment to meet their responsibility to respect human rights (51%) and being accountable for how they address their human rights impacts and being prepared to communicate this externally (40%).

SMEs face a lack of resources

In terms of the challenges companies face in relation to the implementation of human rights, the most cited challenges were the lack of resources (46%), not being sure about their obligations in light of government duties (36%), national law not being enforced in practice (36%) and it being difficult to operate in situations where fundamental economic, ecological and social standards are not part of national law (31%) as well as it being difficult to translate policy commitments into relevant operational procedures (29%).

Significance of human rights will increase in the future

Not a single respondent thought that the significance of human rights for their company would decrease. The vast majority (72%) thought that the significance of human rights for their company will increase in the future, while 28% thought it would remain unchanged.

Company culture is most important for engagement on human rights

Companies engage in this domain mostly because of the culture of the company (79%), as a means of attracting and motivating employees (55%), because of the attitude of their CEO (50%), due to reputational risk concerns (43%) and as a means of attracting clients (37%).

Companies are looking for guidance from governments

Respondents have clear expectation in terms of what support they expect from government. They expect government to provide effective guidance to business enterprises (76%), draft and enforce clear laws (75%) and to deny access to public support services to firms abusing human rights (49%).

SMEs expect employer organisations to provide training for SMEs

Equally, respondents have clear expectation in terms of what support they expect from employer organisations. They expect employer organisations to provide training for SMEs on how to apply the United Nations Guiding Principles on Business and Human Rights (79%), to share information about challenges and best practices in the country (72%), to raise awareness on the United Nations Guiding Principles on Business and Human Rights (70%) and to provide training for SMEs on how to apply the ILO's Fundamental Principles and Rights at Work (66%).

SMEs are looking for information about challenges and best practices globally and regionally from international organisations

Respondents also clearly voiced their expectations in terms of what support they expect from international organisations. They mostly expect international organisations to share information about challenges and best practices globally and regionally (79%), to promote business respect for human rights and, where requested, to help States meet their duty to protect against human rights abuses by business enterprises (67%), developing the capacity and raising the awareness of their member states (54%) and to provide opportunities to participate in the activities of international organisations (49%).

The greatest business constraints for SMEs are bureaucracy and corruption

The five most critical constraints and barriers faced by SMEs remain bureaucracy (weighted average of 3.9 out of 5), corruption (3.87), taxes (3.84), the complexity of laws and regulations (3.74) and access to finance (3.61).

SMEs had a positive outlook until the end of the year

Companies had a positive outlook in terms of the development of their business until the end of 2016. 83% of the Companies believed their business would either improve (43%) or at least remain stable (40%).

Companies also had a relatively positive outlook for the longer term

Companies also had a relatively positive outlook for the longer term (over the next five years) as 80% believed the economy in which they operated, as a whole, would either grow (47%) or remain stable (33%).

III. Conclusions

SMEs take human rights seriously. There was not one company, which indicated that they believed that the importance of human rights will decrease in the future. As with so many other studies, this survey also underlined the importance of the culture of the company and the attitude of the CEO as well as the objective of retaining employees as drivers for responsible business conduct.

However, the survey also showed that companies have challenges with regards to their responsibility to respect human rights. As expected, a lack of resources is a huge challenge for SMEs. Yet, the fact that companies struggle if national law is not enforced in practice and that companies find it difficult to operate in situations where fundamental economic, ecological and social standards are not part of national law underlines the need for governments to better fulfil their duty to protect, implement and enforce human rights.

It is also clear that more awareness raising is necessary with regards to the UN Guiding Principles. On that subject, SMEs have clear expectations of governments as well as employers' organisations with regards to guidance, advice and capacity building. There are also clear expectations of international organisations with regards to sharing of best practice, supporting governments to fulfil their duty to protect human rights as well as capacity building of governments.

The International Labour Organisation has a programme to support the capacities of SMEs, called SCORE. Below are some of the key lessons learnt from the SCORE Programme.

IV. Experience from the ILO's SCORE capacity-building programme

SCORE is a practical training and in-factory consulting programme that improves productivity and working conditions in SMEs. SCORE Training demonstrates best international practice in the manufacturing and service sectors and helps SMEs to participate in global supply chains. It addresses potential contributing factors to human rights violations such as lack of information and knowledge, limited management capacity and harmful business practices.

The ILO is assisting government agencies and employer organizations to offer SCORE Training to enterprises in key economic sectors as shown in the graph below. The International Labour Conference (ILC) endorsed SCORE as an effective tool for improving SME productivity and working conditions during the 2015 ILC discussion on SMEs and the 2016 ILC discussions on decent work in global supply chains.¹

¹ ILC (2016): Conclusion concerning decent work in global supply chains.

Map of SCORE Programme activities



SCORE Training improves productivity and working conditions in SMEs

Since 2010, the ILO has partnered with 28 institutions in nine countries to deliver SCORE Training to SMEs in 44 industry clusters and sectors. 950 SMEs² (15% women-owned) have participated in SCORE Training since 2010, representing a total workforce of more than 200,000 workers. 7500 managers and workers (31% women) have jointly participated in classroom training events and consultants have conducted more than 5000 enterprise visits. Several independent evaluations and impact assessments have confirmed that SCORE Training improves management practices, business operations and working conditions in SMEs. They find significant changes in the knowledge, attitudes and behaviours of managers and workers of firms that participate in SCORE Training, including on work practices related to human rights. Operational indicators from enterprises that participated in training and reported more than six months of data show improvements in the area of quality, absenteeism, labour turnover and job creation. Evaluators further note effects on worker's safety and other occupational health and safety measures, in particular for women. An independent evaluation concluded in 2016 that "SCORE effectively helps enterprises to find a better road to productivity and growth, from which both workers and employers benefit."³

Lessons learnt on capacity building programmes for SMEs

The programme has learned many lessons through its operations, which have been in many cases confirmed by recent academic research. As a disclaimer, the spectrum of SMEs is very broad and not all the stylized facts presented below apply to all SMEs, although most of them apply to the SMEs from emerging economies with 30 to 300 employees that typically participate in SCORE Training.

² As indicated in the introduction, many of the SMEs that participated in SCORE Training have participated in the business and human rights survey.

³ ILO (2016): Independent final evaluation SCORE Phase II by *MDF Consulting*.

SMEs have limited management capacity, which is focused on running day-to-day business operations – capacity-building programmes need to take this into account.

The management capacity of most of the SMEs that have participated in SCORE Training consists of the owner (or a trusted CEO) and a handful of middle-managers that occupy multiple roles. Few SMEs employ dedicated HR, OSH or legal staff. Running the business on a day-to-day basis absorbs most of the management capacity. Little time remains to keep up with the latest developments in business and human resource management, changing legal, financial or OSH requirements, or on business and human rights matters, let alone for participation in off-site capacity building events and training events. Any offering targeting SMEs needs to thus be made available in small, easily digestible doses and be highly relevant and applicable to business needs.

Productivity and human rights are linked

SMEs score lower for most aspects of employment quality when compared to larger, more productive enterprises, including on social protection coverage.⁴ Low productivity, lack of information, knowledge, resources and the limited management capacity of SMEs can be contributing factors to violations of “just and favourable conditions of work” as per Article 23 of the Universal Human Rights Declaration. From a macro-economic perspective, low productivity hampers firm growth, job creation and industrialization. It excludes large segments of the population from raising standards of living and contributes to the growth of the informal economy where there is the least respect for human rights. Without increases in productivity, the first goal in the Sustainable Development Goals (SDGs), to end poverty in all its forms everywhere cannot be achieved. Millions of people’s economic and social human rights, as stated in the Human Rights Declaration, will remain unfulfilled.

The majority of SMEs begin from an entrepreneur’s personal passion without a good management system. As the business starts to grow it falls apart. SCORE was introduced at the right moment for me when we moved to the new premises and improved workflows, organization, and working conditions of our workplace.”

Maria Satiautri, Founder and CEO of SPA Factory, Indonesia

SMEs find it difficult to assess the value of capacity building programmes

Often SMEs do not access business advice that would help them increase their productivity and improve their human rights record. SMEs tend to underestimate the benefits of external advice because they are not regularly exposed to international best practices. Further, SMEs find it difficult to assess the quality and benefits of a particular service, and often prefer to invest in tangible assets instead.⁵ Capacity building programmes need to explain in clear and practical language what they are offering and the benefits that SMEs can derive from their services. Testimonials from fellow CEOs and managers work best to convince SMEs that it is worth investing their time and resources in a training programme.

⁴ ILO (2015): Small and medium-sized enterprise and decent and productive employment creation, p.23.

⁵ The Information Technology and Innovation Foundation (2011): International Benchmarking of Countries’ Policies and Programs Supporting SME Manufacturers.

SMEs experience large learning-by-exporting effects from exposure to international markets

The percentage of exporting SMEs that participate in SCORE Training varies depending on the country and sector. In India, only 5% of SMEs that participated in SCORE Training export as most sell their products to large Indian multinationals. In the Vietnamese wooden-furniture sector, 80% of SMEs that participate in SCORE Training export to international markets. Due to lower productivity and the inability to meet international product standards, SMEs that export initially struggle to deliver the required product quantities at a consistent quality level. Lower levels of compliance with national and international labour standards and private environmental and social codes of conduct is another reason why lead buyers are wary about contracting SME suppliers. However, by exporting, SMEs experience a steep learning curve through their exposure to international standards and the pressure to meet buyers' requirements. Programmes and reforms aimed at linking SMEs to international markets and global supply chains can positively impact on SME's productivity and their human rights record.⁶

Multinational companies can support capacity-building of SMEs

Multinational companies sourcing from SME suppliers can support SMEs seeking to upgrade productivity and improve working conditions. In the SCORE Programme, several large companies from different regions have supported the development of their suppliers using the ILO's SCORE Training programme. They have promoted the programme to suppliers and in some cases subsidized it or supported it through the provision of in-house expertise or facilities. Some buyers waived the required audits while SMEs were participating in training as an additional incentive and reward for serious efforts to modernize their business and management practices.

Recent research findings suggest that capacity-building of suppliers seems to be more effective than social compliance audits. An econometric study based on factory audits of over 800 suppliers to the global sports goods manufacturer Nike shows that technical advisory services on lean manufacturing and total quality management also improved working conditions. Purely monitoring compliance with labour standards was less effective. A key explanation given for this is that the introduction of these methods has positive spill over effects on working conditions, while audits lead to a catch-and-fix game between firms and auditors without addressing the root causes of non-compliance.⁷

For more information on the ILO's SCORE Programme please visit www.ilo.org/score

⁶ See Atkin (2015): Exporting and firm performance. Evidence from a randomized trial. Tanaka finds that exporting had positive effects in firms in Myanmar on fire safety and other measures of working conditions. See: Tanaka (2015): Impacts of Trade and FDI on Productivity, Management, and Workplace Conditions: Evidence from Myanmar

⁷ R. Locke, F. Qin and A. Brause: "Does monitoring improve labor standards? Lessons from Nike", in *Industrial and Labor Relations Review* (2007, Vol. 61, No. 1).

About the International Organisation of Employers

The IOE is the largest network of the private sector in the world, with more than 150 business and employer organisation members. In social and labour policy debate taking place in the International Labour Organization, across the UN and multilateral system, and in the G20 and other emerging processes, the IOE is the recognised voice of business

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About the Enterprises Department of the International Labour Organisation

Promoting sustainable enterprises is about strengthening the institutions and governance systems which nurture enterprises. The ILO's ENTERPRISES Department covers the whole range of enterprises from cooperatives, over small and medium size to multinational enterprises and in addition deals with related topics such as social finance and green jobs.

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