Addressing human rights in business

Executive perspectives

Sustainable Insight

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KPMG International

December 2016
Introduction

In this issue of Sustainable Insight, KPMG aims to help executives understand and apply current good practice in identifying and managing human rights issues across the operations, supply chains and product portfolios of large multi-national corporations. It is intended primarily for senior executives and Board members, who may have oversight of the human rights process but are not responsible for day-to-day implementation, to help them shape their own company’s approach. Human rights professionals within corporations may also find this publication useful to inform colleagues and initiate conversations about their companies’ human rights impacts.

This paper shares the learning and experience of experts at 11 major corporations that are leaders in this field (see page 3), who were interviewed between August and October 2016, as well as the views of KPMG’s business and human rights experts.

KPMG member firms have seen growing client demand for advisory support in this space. In 2015, Banarra (now KPMG Banarra), a world-leading human rights consultancy based in Australia, joined KPMG’s global network to enhance existing member firm capabilities.

The growth in client demand has followed the 2011 UN Guiding Principles on Business and Human Rights which formalized the responsibility of businesses to respect human rights. Since then, pressure has increased on companies to identify and address human rights issues across their businesses.

In many ways, ‘human rights’ is simply a new, holistic lens through which to view the impacts that companies have on people in the course of doing business. It encompasses well-known business issues such as worker health and safety, product safety and data privacy.

Yet the introduction of the UN Guiding Principles has heightened worldwide awareness both of the risks that corporate activity brings to people, and of the resulting risks to business.

Failing to address human rights issues can risk damaging brand value and reputation, and can also bring an increasing risk of litigation and of non-compliance with a growing body of legislation in the area.

Legal actions against businesses over human rights issues are increasing worldwide: the Business and Human Rights Resource Centre lists more than 100 cases on its website.¹

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What are ‘human rights issues’?
Throughout this publication the term ‘human rights issues’ is used to cover a wide range of impacts that a company, its contractors, its suppliers or business partners may have on people and their human rights. They include, but are not limited to:

- Damage to people’s health through pollution, environmental accidents and health and safety failures
- Use of forced labor or child labor, or underpayment of workers
- Provision of unsafe or unhealthy working conditions
- Forced or involuntary displacement of communities, including indigenous communities
- Use of excessive force by security guards protecting assets
- Discrimination against employees, for example by race, gender or sexuality
- Depletion or contamination of water sources that local communities depend upon.

While there is significant potential for companies to have positive impacts on human rights, for example by contributing to local community development, the use of the term ‘issues’ throughout this paper is largely focused on negative impacts.
Methodology

KPMG professionals interviewed executives with responsibility for human rights at 11 major corporations worldwide.

The interviews covered five key topic areas:

1. What has driven the company’s action on human rights issues?
2. How does the company assess human rights risks?
3. What governance structure has the company put in place to manage these issues?
4. What goals and reporting processes are in place to measure and report performance?
5. What are the key challenges the company has faced in addressing human rights issues?

Contributors

The following executives contributed to this paper:

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Part 1: Why take action to address human rights issues?
Why take action to address human rights issues?

Companies were asked why they take action to address human rights issues. Interviewees identified four key drivers, listed here in order of those most commonly mentioned.

1. Regulatory pressure
   - Regulations and standards

2. Pressure to conform to international guidelines and standards
   - Media & NGOs
   - Customers
   - Labor unions

3. Company purpose
   - Employees
   - Suppliers

4. Investor and lender scrutiny
   - Risk exposure

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Regulations and standards

Regulatory pressure
Increasing regulation is a key driver for companies to address human rights issues and report on their activities. For example, the UK Modern Slavery Act (2015) requires companies operating partly or wholly in the UK (with a turnover above £36 million) to report what they do to ensure slavery and human trafficking do not take place in their businesses or supply chains.²

Pressure to conform to international guidelines and standards
The increasing number of international guidelines and standards, such as the UN Guiding Principles on Business and Human Rights (UNGPs) and the GRI sustainability reporting standards, is also a powerful catalyst for change. The companies interviewed do not want to be perceived as falling below internationally agreed expectations, even though there is - for the most part - no legal requirement for them to respond. For details of the key international standards and frameworks, see Appendix, page 29.

Regulators are increasingly mandating companies to report on how they address challenges in the human rights space including forced labor, land rights and environmental justice issues.  

Tony West  
Executive VP, Government Affairs, General Counsel and Corporate Secretary, PepsiCo

The official United Nations Guiding Principles expectation that businesses have a responsibility for human rights was a turning point for business, as it consolidated a lot of diverse stakeholder opinions and clarified the role of businesses in supporting human rights.

Val Smith, Director and Head of Corporate Sustainability, Citigroup

² KPMG UK (2016), ‘Business risk briefing: modern slavery’  
Customer expectations and policies

Customers increasingly expect their suppliers to comply with human rights policies and demonstrate how they are proactively addressing human rights issues. Good human rights performance is seen as an opportunity to gain competitive advantage and strengthen relationships with key customers.

Increasing NGO scrutiny is coming together with mobile technology and social media, meaning that if something happens in a community, people know about it in seconds.

Jan Klawitter, Principal, International Relations, Anglo American

Employees

Several interviewees said that bad publicity over human rights issues would seriously damage the company’s relationship with existing employees and discourage potential employees from joining.

Media and NGOs

Increasing scrutiny from NGOs, campaigners and the media is an important driver, particularly for consumer-facing companies that are arguably most exposed to brand damage and loss of market share. However, business-to-business companies also said that negative attention can damage critical relationships with workforces and local communities.

International labor unions are becoming more active in the area of human rights through monitoring on the ground with the help of local labour unions.

Rutger Goethart, Manager, International Labour Relations, Heineken

Labor unions

Labor and trade unions are increasing their attention on human rights issues and on labor rights in particular.

Suppliers

Working with suppliers on human rights issues can be an opportunity to develop closer relationships. Some companies report long-term benefits from helping their suppliers to improve their workplace and labor standards, such as improved communication and cooperation on innovation. Stricter client acceptance procedures on human rights can also be a driver.

We have looked at how we can use human rights topics to have a much more positive and intensive relationship with our suppliers. We’re working with key suppliers to see how we can develop products together that benefit society.

André Veneman, Director of Sustainability, Akzo Nobel

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Investor and lender scrutiny

Increasing scrutiny of human rights performance by investors and lenders is an important reason to take action. One company acknowledged it had lost a substantial investor due to allegations of child labor in the supply chain. Long-term investors such as pension funds are seen as the most activist shareholders on this topic.

Stock market indices (such as the Dow Jones Sustainability Index and FTSE4Good) are also demanding more detail and transparency on human rights and this is having an impact, interviewees said.

As a finance provider, we try to use our influence to encourage clients to take action to identify and address human rights issues within their businesses. Putting conditions on what we finance is the greatest leverage we have.

Caroline Princen, Managing Board Member, People Regulations and Identity, ABN Amro

Company purpose

Many companies said that addressing human rights issues is simply the right thing to do. Failure to do so would not be in line with the company’s purpose, culture and values.

Tata’s mission statement and values include the concept of ‘zero harm’ to all stakeholders and this has led us to look at human rights in a holistic manner.

Ramakrishnan Mukundan, Managing Director and CEO, Tata Chemicals
Part 2: Lessons from leading companies
Lessons from leading companies

What, and where, are the key risks?

Human rights risks vary according to the type of organization. For example, for companies interviewed that sell products - whether consumer or business-to-business - most of the risks are seen as ‘upstream’ in the supply chain. There are particular concerns around child labor, forced or bonded labor and migrant workers both at direct Tier 1 suppliers and deeper into the supply chain at Tier 2 and beyond.

Interviewees acknowledged that assessing human rights risk in the supply chain is a complex and ongoing process. It can take several years and significant investment of both human and financial resources to reach a position where the company is confident that it has satisfactory visibility of its supply chain and related human rights risks.

For businesses that market products to consumers, there can be further risks in the value chain such as the abuse of the consumer’s right to privacy or data protection.

In the extractives and industrial manufacturing sectors, the risks are seen as mostly on site and in local communities. Worker safety, the use of security personnel to protect company assets, land acquisition, environmental damage and the rights of indigenous people are particular concerns in these sectors.

For companies in the finance industry, the risks lie predominantly ‘downstream’ with the organizations to whom the organization lends or invests in. The financial institutions interviewed also suggested that this is where they have the greatest opportunity to positively influence human rights practices, namely through their client due diligence processes, lending terms and conditions and investment decisions.

Risks to people or risks to the business?

A key point that emerged from the interviews is that there are two interrelated perspectives on human rights risk: risks to people and risks to the business.

The UN Guiding Principles encourage companies to consider risks to the rights of people touched by the operations and activities of a company. They could be direct company employees, contracted service providers, workers in farms or factories in the supply chain, people living in local communities where companies operate or even the users of the company’s products or services.

It’s challenging to change mindsets internally and go from thinking about risks to the business to risks to the rights holder, but with ongoing training and awareness raising and improving integration into our systems we see good progress.

Jan Klawitter, Principal, International Relations, Anglo American
The language of corporate responsibility around human rights today focuses first on risks to people rather than risks to the business. This people-centric approach can present challenges because companies’ existing risk management systems and processes, such as Enterprise Risk Management (ERM), are geared towards identifying and managing risks to the business.

In reality, the two perspectives are inextricably linked.

“Risks to people lead to risks to the business. So companies need to have a clear view of both and to develop a common language and understanding that links human rights specialists with corporate risk managers.”

Adrian King, Global Head, Sustainability Services, KPMG International

Achieving this can be challenging. It requires corporate risk professionals to change their established mindsets and adapt existing risk identification and mitigation processes to include a focus on risks to people.

In practice, most of the companies interviewed acknowledged that they address both risks to people and risks to the business, and do not see it as a case of one approach or the other. In order to be effective, they need to work both with the risk systems and protocols that already exist at the business, as well as understanding and responding to the risks to people.

Integrating human rights into existing systems can be challenging

The companies interviewed are at different stages of maturity in embedding human rights into their businesses. However they are all working to build human rights risks into their established risk systems and processes rather than trying to create new approaches.

Most of these companies treat human rights risks in much the same way as other risks. They embed human rights into the Enterprise Risk Management (ERM) system and conduct quarterly assessments to identify, assess and prioritize risks. Human rights risks are included on the corporate risk register and reviewed at Board level.

“The real challenge is making human rights fit into the risk systems you already have. You want to keep existing risk and mitigation measures and consider how you enhance these systems to address human rights.”

William Anderson, Vice President, Social and Environmental Affairs, Adidas Group

Achieving this integration can be challenging, however. “Human rights risks are complex and often not widely understood throughout companies,” says Jerwin Tholen, Director of Human Rights Advisory at KPMG in the Netherlands. “That can lead to nervousness and an unwillingness to dig into what can be seen as potentially damaging issues. Integrating human rights risks into company ERM systems therefore requires an ongoing process of internal education and awareness-raising.”

Because the most significant risks typically occur at the operation, site or supplier level, it is essential that human rights risks are well understood and captured by business units. Senior management, supported by the human rights teams at the corporate center, are critical to this education process, creating top-down pressure and acting as a catalyst to encourage greater awareness of human rights risks across the organization and operating companies.
Few companies assess the financial impacts

Although human rights risks are acknowledged as having potentially serious consequences, few of the companies interviewed are calculating the potential financial impacts. There are some exceptions to this. For example, where there is a legal risk, the corporate risk and legal teams have an idea of the potential financial liability that the company could sustain. Such risks tend to be escalated and addressed rapidly.

Other risks such as brand damage, loss of reputation and interruptions to production – all of which can impact share prices - are well understood, but companies tend not to calculate the potential financial impacts. It is seen as highly complex and there are not yet widely established models for doing so. Despite this, several companies suggested that this is a route their organization might take in time.

“Quantifying the potential financial impact of human rights risks can be complex, but is achievable. KPMG member firms have, for example, piloted a methodology to put a financial value on reputational risks in the banking sector. It is not practical or necessary to value every potential human rights risk in this way, but it can be useful to enhance understanding and catalyze action at a senior level within the organization,” says Jerwin Tholen of KPMG in the Netherlands.

KPMG View: Going beyond standard risk management

“There are instances where standard risk management tools are not adequate. For example, additional in-depth human rights impact assessments are needed to thoroughly assess human rights issues in high-risk countries as part of due diligence for a joint venture or before opening sites in a new geography.

Further external stakeholder engagement is needed, for example, when companies are closing operations which could have significant consequences for host communities. By considering risks to people, the human rights lens can add significant value to the standard ERM process.”

Richard Boele, Partner, KPMG Banarra and Head of KPMG’s Global Business and Human Rights Network
What governance structures are in place?

Companies agreed that an effective human rights governance structure is critical. It helps them to identify and manage human rights risks, build awareness across the business, take effective action, and to communicate the action they are taking.

Get the foundations right

All the companies interviewed have put in place basic building blocks of human rights governance which are aligned to the framework set out by the UN Guiding Principles on Business and Human Rights. These include:

- A company-wide human rights policy or statement
- Board and executive level responsibility for human rights
- Due diligence procedures to identify, prevent, mitigate and account for adverse human rights impacts
- Stakeholder dialogue (as part of due diligence) to understand which people could be affected by the business and how
- Grievance mechanisms to help provide remedy for negative human rights impacts.

Although there are common elements to human rights governance, there is no standard approach. Each company is striving to embed human rights into its existing corporate governance structures and their approach is influenced by factors including the operational and management structure of the company; the business and national culture of the country where the company is headquartered; and the length of time that the company has been working on human rights.

There is no ‘one size fits all’ template that can be applied to every company. Integrating respect for human rights into existing governance structures requires some measure of trial-and-error as companies discover how best to do this.

“Jerwin Tholen, Director, Human Rights Advisory, KPMG in the Netherlands"
Human rights governance evolves over time

The starting point for developing a human rights governance structure is the company-wide human rights policy or statement. With this fundamental commitment in place, companies then go on to integrate human rights more thoroughly into governance structures and to develop a more strategic approach.

“Companies that have a longer history of addressing human rights tend to be more evolved in their approach,” says KPMG’s Adrian King. “They are more likely to have moved on to address strategic issues and to have a governance structure geared towards exploring business opportunities linked to human rights issues or towards the creation of societal value.”

However long their history in addressing human rights issues, all the companies interviewed said that the governance of their human rights activity is a process that develops continuously. Several referred to their governance structures as ‘an evolution’ or ‘a work in progress’, acknowledging that they are learning lessons along the way and expect to continue developing and refining their approaches year-on-year.

Responsibilities are split between oversight and implementation

Senior executive oversight of human rights within these firms tends to sit with legal, risk and compliance departments. This indicates that most of these companies, even those that are more evolved, start from a foundation of human rights as a legal and risk management issue.

It is often the sustainability department that takes the day-to-day lead in developing and implementing the human rights policy, but not always; in some of these firms it is the public affairs or human resources department that does so. Sustainability departments are also often responsible for ensuring that the company’s human rights performance aligns with the company’s purpose, values and corporate responsibility position.

Implementation of the human rights policy across the business is often done through a cross-functional working group that typically includes the sales, procurement, operations, legal, ethics, safety, and human resources functions.

Many of the companies interviewed acknowledged that business functions alone cannot ensure the policy is widely implemented and so accountability for implementation often sits with the heads of business units. Human rights issues and actions are often built in to business unit annual plans and risk registers and, for this reason, group level cross-functional working groups are often replicated at business unit level.

Following the discovery of child labor in the supply chain of a minority investment, top management took the decision, encouraged by stakeholders, to tighten governance and elevate the role of sustainability to executive level. This ensures the company’s leadership has regular and direct sight of sustainability and human rights issues.

The sustainability team acts as the catalyst for our human rights program, but we strive for the topic to be embedded within the business and run by other functions.

Noel Morrin, Executive Vice President, Sustainability, Stora Enso

Noel Morrin, Executive Vice President, Sustainability, Stora Enso

André Veneman, Director of Sustainability, Akzo Nobel

André Veneman, Director of Sustainability, Akzo Nobel
Senior executive involvement is critical

Interviewees said it is important for the ultimate oversight of corporate human rights activity to sit with executives that report directly to the CEO and/or Board and Chairperson. This not only ensures that any critical issues are escalated rapidly but also demonstrates clearly to stakeholders that the company takes human rights seriously at the highest level of management.

Companies that have been exposed for negative human rights impacts, for example those that have lost investors or had senior executives forced to resign due to a crisis, are more likely to start with Board level buy-in to the topic.

"The tone from the top is critical. We wouldn’t be on this journey without that, and it is reinforced at every level of the company."

Tony West, Executive VP, Government Affairs, General Counsel and Corporate Secretary, PepsiCo

Interviewees also said that internal ambassadors and human rights experts play an important part in supporting this awareness-raising.

As Adrian King of KPMG says, “Employees need to be reminded why the company is responding to human rights issues, how relevant this activity is to their role, and what the company is trying to achieve by doing it. A senior management voice is important to get this across.”

Growing role for responsible sourcing teams

Historically, many companies separated procurement and human rights responsibilities, recognizing that sourcing decisions motivated primarily by price, quality and efficiency could conflict with human rights considerations.

This is changing according to KPMG’s Jerwin Tholen. He says, “I see a growing number of businesses with dedicated responsible sourcing teams within the procurement function and Chief Procurement Officers increasingly take the lead on ethical sourcing. These companies accept that procurement professionals need to manage wider risks and to factor human rights performance into their sourcing decisions and navigate any potential tensions.”

KPMG View: Key ingredients for effective human rights governance

Senior executive involvement and cross-functional working groups are two of the key ingredients for effective human rights governance: both elements facilitate greater awareness of human rights issues and appropriate action across the firm.

When a company identifies important human rights issues and impacts, it can raise significant questions and tricky dilemmas. For example, how should the company report publicly on the results of its human rights impact assessments? What performance indicators should the company track? Should grievance and remedy mechanisms be independent from the company?

Senior managers need to be closely involved to debate the difficult questions and multiple business functions need to influence processes and relationships across the company’s full value chain to bring about meaningful change.
How do companies report on human rights performance?

When companies develop their approach towards human rights, they need to make decisions on how to report on their activity. For example, what information should they report? Which metrics should they use, if any? Which audiences should they aim their reporting at and what channels should they use to reach them?

There are some existing guidelines available to help companies report on their human rights performance:

- The GRI Sustainability Reporting Standards, for instance, encourage organizations to report on human rights processes implemented, incidents of human rights violations and impact on stakeholders.
- The UN Guiding Principles Reporting Framework, 2015, sets out a series of questions to guide companies in their approach to reporting against the UN Guiding Principles.
- In addition, sustainability indices such as the Dow Jones Sustainability Index now ask companies for human rights information such as the company’s policy commitment, due diligence processes and risk assessment practices.

Current reporting: largely qualitative with limited metrics

The companies interviewed mostly report on human rights activity in their sustainability reports, although a small number also publish stand-alone human rights reports. Stand-alone reports are focused on responding to specific stakeholder needs. For example, Stora Enso reports results of Human Rights Impacts Assessments in 22 countries in response to investor and NGO scrutiny. ABN Amro publishes a guide explaining why and how human rights is relevant to its business.

Including human rights-related information in financial reporting is less common. This is understandable since making human-rights information investor-relevant can be challenging for companies although specific metrics such as health and safety incidents or legal cases have a clear potential impact on the bottom line and therefore obvious investor relevance.

With this in mind, it is not surprising that the companies currently produce largely qualitative reporting that focuses on describing the processes they use to identify human rights issues and the actions they take to manage them. Their reports explain how they comply with relevant legislation and how their human rights approaches align with international standards and guidelines such as the UN Guiding Principles. Many of these companies support these reports with case studies of specific human rights-related projects.

The dominance of qualitative reporting is in large part due to the fact that most commitments and objectives for human rights are themselves largely qualitative. Some examples of the objectives reported by these 11 companies include:

- Continue to advance respect for human rights in our operations
- Ensure human rights issues are well understood and managed in all operations along the value chain
- Implement the UN Guiding Principles on Human Rights
- Do no harm to our workforce

References:

It’s important to find a balance between KPIs that really drive change in the organization, but that are also measurable on an ongoing basis and that get enough traction with managers that they take action.

Michael Cooke, Senior Vice President, Head of HSE and Sustainability, ABB

Reporting stays close to home

When these companies do report against human rights metrics and KPIs, metrics relate primarily to activities under the company’s direct operational control, such as health and safety, employee diversity and human rights training. Several companies also report on metrics related to contractors and direct suppliers such as the number of suppliers trained in human rights code-of-conduct or the number of suppliers audited for human rights performance.

However, gaining sufficient visibility of suppliers’ human rights performance beyond the immediate Tier 1 level of suppliers is a significant challenge highlighted by many of those interviewed, and this inevitably limits the scope and reach of reporting. This is a limitation that will need to be overcome rapidly, as companies will find themselves held to account for human rights abuses within their supply chain, no matter how far they occur from the company headquarters. It will always be the most visible brand in the value chain that will sustain the greatest reputational damage.

“The focus on qualitative reporting is understandable given the relative immaturity of business and human rights,” says KPMG’s Adrian King. “However, we expect to see a rise in stakeholder demand for more transparency on human rights performance. Reporting will need to develop and find new ways to measure that performance.”

Future directions: valuing the outcomes of human rights activity

Most of the interviewees acknowledged that they would like to do more to assess the outcomes of their human rights activity and its effects on people. The ability to quantify or evaluate this impact in some way could have several benefits. For example, communicating the positive effects of human rights activity in a more compelling way could enable the company to strengthen the case for such activity both internally and with shareholders. Impact data would also enrich the dialogue with stakeholders and lead to more constructive engagement. Furthermore, it could be helpful in assessing the relative success of different human rights activities and could provide guidance to the company in developing its future human rights strategy.

However, a major barrier is a perceived lack of established tools, frameworks and suitable methodologies for assessing the outcomes of human rights performance.

Another challenge is the length of time it can take for impacts to occur. For example, it could take years for the positive outcomes of investing in worker health initiatives to be realized.

“We need a new approach to profit and loss thinking as part of human rights and new ways of measuring how businesses generate human and societal capital. We need a new toolbox and new metrics.”

André Veneman, Director of Sustainability, Akzo Nobel

“It can be really challenging to quantify the outcomes of human rights projects and initiatives. It takes many years for the impacts to unfold.”

William Anderson, Vice President, Social and Environmental Affairs, Adidas Group
Future directions: increasing focus on the UN Global Goals

Several interviewees said that they are working to align their human rights programs with the UN Global Goals for Sustainable Development, also known as the Sustainable Development Goals (SDGs).8

These 17 goals were launched by the UN in 2015 and agreed by 193 countries. They set ambitious social and environmental targets for the world with a target date of 2030 and include several goals that relate to human rights: from achieving good health and wellbeing for all to delivering universal access to education and gender equality. According to analysis by the Danish Institute of Human Rights, 92 percent of the 169 SDG targets link directly with human rights instruments and labor standards.9

Several of the companies interviewed strive to take their human rights reporting beyond a ‘box-ticking’ exercise and to find ways to communicate how they are contributing to the SDGs.

Akzo Nobel, for example, reports on how its business activities and product portfolio contribute to a number of SDGs such as Goal 1 ‘No poverty’ and Goal 2 ‘Zero hunger’.10 Heineken reports on how its strategy aligns with 7 SDGs, for example by protecting water resources, investing in communities and promoting health and safety.11

As corporate approaches to measuring progress on human rights continue to evolve, it is likely that more companies will draw strategic links between their efforts to positively impact human rights and their contributions to the SDGs.

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9 sgd.humanrights.dk/ Retrieved 28 November 2016
KPMG View: How quantification data can help

The practice of valuing corporate social impacts in financial terms is still in its pioneering stages but is rapidly becoming more established. The World Business Council for Sustainable Development (WBCSD), for example, is leading work on a Social Capital Protocol and a variety of tools are now available, including KPMG’s own True Value methodology.12

KPMG professionals believe these types of tools have great potential to help companies assess their human rights programs. Indeed, they have worked with several clients to evaluate negative social impacts such as the health effects of pollution, violence towards workers, and deaths and injuries in health and safety incidents. They have also used quantitative techniques to assess the effect of initiatives clients have put in place to address these types of problems.

There is some sensitivity around putting financial values on aspects of humanity such as health, fitness and even life itself. KPMG professionals fully understand this and agree that great care needs to be taken. However, they argue that the focus should not be on the number itself but on how the data can be used to inform companies and help maximize the positive effects of their human rights activity.

From the conversations with companies for this paper, it is clear that the sheer number, range and complexity of human rights issues faced by many can be almost overwhelming. In this context, some way of comparatively assessing the (potential) severity of human rights problems and the success or failure of the solutions has to be useful. KPMG firms are actively working with clients in this developing field and look forward to sharing learnings and continuing the debate.

Jerwin Tholen, Director, Human Rights Advisory, KPMG in the Netherlands

12 KPMG International (2014), ‘A New Vision of Value: Connecting corporate and societal value creation’
Interviewees were asked what advice they would give to companies that are taking their first steps to address human rights issues. This what they said:

**Adidas Group**
“Stakeholder dialogue is critical. Don’t develop your human rights policy until you have a clear map of all the human rights issues of concern to all your stakeholders.”
*William Anderson, Vice President, Social and Environmental Affairs*

**BP International**
“You can put human rights into policies, processes and management systems but making sure all aspects are embedded into company culture takes a lot of time and effort. Much of this is around education and raising awareness internally.”
*Nili Safavi, Human Rights Specialist, Safety and Operational Risk*

**Heineken**
“You need external partners/experts to understand the human rights challenges of the business, otherwise you risk blind spots.”
*Rutger Goethart, Manager, International Labour Relations*

**ABN Amro**
“You have to have ambassadors who think and talk about human rights every day, who embrace the subject and never give up.”
*Caroline Princen, Managing Board Member, People Regulations and Identity*

**Akzo Nobel**
“Make sure you have your own operations in order and strong standards in place for your employees, otherwise you cannot expect contractors and suppliers to get it right.”
*André Veneman, Director of Sustainability*
“Make sure you consider the full value chain of your company. There could be human rights issues that are not directly in your line of sight at the top or tail end of your value chain.”

*Michael Cooke, Senior Vice President, Head of HSE and Sustainability, ABB*

“You need to have the tone set at the top, which in our case means our Chairman and the Board. They are absolutely clear in their commitment to zero tolerance of human rights infringements.”

*Ramakrishnan Mukundan, Managing Director and CEO, Tata Chemicals*

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“Speak to internal and external stakeholders, including investors, to find out what human rights topics are relevant from their perspective. Use this to inform your human rights approach.”

*Val Smith, Director and Head of Corporate Sustainability, Citigroup*

“Identify a human rights topic that everyone in the company understands and can relate to. An example in the mining sector can be safety. Use this to hook people’s interest.”

*Jan Klawitter, Principal, International Relations, Anglo American*

“Work with other organizations to share best practice and learnings. Some challenges in the human rights sphere are so big, you can’t tackle them alone – partnerships with customers and industry peers are key.”

*Michele Thatcher, Senior Vice President, Chief Counsel, Global Human Resources and Chief Human Rights Officer, PepsiCo*

“Understand the subject before you start making commitments and only make commitments you can deliver.”

*Noel Morrin, Executive Vice President, Sustainability, Stora Enso*
Part 3: Challenges and KPMG’s recommendations
Challenges and KPMG’s recommendations

From the interviews conducted for this paper and the experience of KPMG professionals, some challenges have emerged that businesses typically face when addressing human rights. They include:

Analysis

Challenges with identifying and assessing human rights issues

**Challenge 1: Lack of supply chain visibility**

Human rights issues and risks typically become more acute deeper in the supply chain. Yet it can be difficult for large multi-national organizations to gain visibility of their supply chains beyond direct Tier 1 suppliers, especially in the developing world. Tier 1 suppliers can be unwilling to disclose who their own suppliers are.

**KPMG’s view**

Tier 1 suppliers cannot be expected to solve human rights problems on their own. That is why leading companies are evolving from a supplier audit focus to a supplier support approach. They have recognized that issuing codes-of-conduct and self-assessment audit questionnaires is not enough to drive meaningful and lasting change. Instead, they invest in developing long-term, trust-based partnerships with their Tier 1 suppliers. By setting joint commitments to improve and by working alongside their Tier 1 suppliers, companies can understand the deeper levels of the supply chain and identify and address issues.

This means not only spending time in the boardroom to agree the company’s human rights policy but also spending time on the ground with suppliers and with NGOs, unions and labor organizations. These are all important partners that can help build understanding of local supply chain structures and practices.

**Challenge 2: Market entry in emerging economies**

Companies conduct thorough due diligence in order to anticipate risks before entering new markets. Despite this, it is common for unforeseen human rights issues to become apparent after operations commence, especially in markets that are newly emerging.

**KPMG’s view**

Due diligence is essential but companies should enter new markets with eyes open and assume they will encounter unexpected human rights issues. It is essential to be prepared by ensuring access to advisors with in-depth socio-political and cultural knowledge of the countries in question. The market entry strategy should include persistence and preparedness to invest in addressing unforeseen human rights issues. Disengagement should be seen as the last resort. Pre-competitive collaboration with other businesses as well as governments, NGOs and labor organizations can help to ensure that systemic change is achieved. Otherwise remedial action risks simply passing the problem on to others to deal with.

**Challenge 3: Risks in corporate growth strategy**

While companies may be managing human rights risk effectively within their own operations and supply chains, it can be difficult to identify latent risks in business partners or merger and acquisition targets.

**KPMG’s view**

Mishandled human rights issues can wreck brands, stall operations and push away investors and customers. Companies need to be as sure as possible that they are not bringing serious human rights risks on board along with new partners or acquisitions. One of the best approaches is to ensure that the deal team includes specialists with the capability to identify and manage human rights risks at the right points in the acquisition and partnership cycles. Specialists not only need to know about human rights issues but also need an understanding of deal strategy and process. The deal leaders including CFOs, chief risk officers and senior deal advisors need to ensure that the necessary skills are on the team and that recommendations are taken on board.
Engagement and communication

Challenges with internal and external engagement and communication on human rights

**Challenge 4: Overcoming language barriers**

The UN Guiding Principles and the growth of human rights as a business issue have given birth to a technical vocabulary that is well understood by human rights specialists, but can be unfamiliar to others. Terms such as ‘rights holders’, ‘salience’, ‘remedy’ and ‘grievance’ are not universally known. Even the term ‘human rights’ itself can have perceived political overtones that make some people uncomfortable. This language barrier can create challenges when trying to raise understanding of human rights issues within companies.

**KPMG’s view**

Successful human rights programs seem to rely heavily on effective internal communication. Companies should tailor communication so it speaks to the employee audiences in question. It can be helpful to supplement the language of human rights with familiar terminology and concepts that people easily understand and can relate to, such as worker safety, living wages, product safety, and working hours.

**Challenge 5: Overcoming cultural barriers**

There can be clashes between the company’s values and commitment to respect human rights and the prevailing cultural values of society in some countries in which it operates. Societal views are frequently based on long-standing religious or cultural traditions and values in relation to race, gender roles and sexuality for example. This can create dilemmas for companies. They have the responsibility to ensure universal respect for human rights wherever they operate and may be held to account if they do not. Yet at the same time they need to maintain positive relationships not only in order to operate successfully as a business but also to implement their human rights programs.

**KPMG’s view**

This is a difficult dilemma that faces multi-national companies. It is one that many companies have already tackled in terms of global approaches to health and safety. There are skilful ways to promote respect for human rights in operating contexts where there are systemic violations. The first step is to build awareness within the firm to identify and understand the issues and cultural norms of the market. Engagement with local experts to understand the extent to which the company can assert its own values and challenge those norms is essential. It is advisable to view such activity through a medium to long-term lens. As noted above in Challenge 2, disengagement is not only a last resort from a human rights perspective, but also from a commercial perspective given that many companies’ growth strategies also rely on expansion in new markets where there are significant human rights challenges.

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Integration

Challenges with integrating and embedding human rights issues in the business

Challenge 6: Lack of in-depth subject expertise

Human rights is an emerging and highly complex corporate issue that requires specific subject matter expertise. This can lead to a lack of confidence within companies when it comes to dealing with human rights issues.

KPMG’s view

Almost all the firms interviewed for this paper used a range of external experts to assist them with elements of their human rights programs. Given the specialist nature of the subject matter, it is important to have a clear understanding of what particular external experts can and cannot provide. For example, many human rights issues occur within specific countries and markets. Addressing them requires in-depth understanding of the socio-economic landscape and cultural norms within those countries. It also requires understanding of human rights and knowledge of how large complex multi-national businesses work.

Challenge 7: Integrating human rights responsibility into business units

It can be challenging to ensure that human rights risks are properly considered in commercial operations across the group, for example in conversations with potential clients or suppliers.

KPMG’s view

Building human rights into incentive structures for business unit leads is an effective means to catalyze firm-wide adoption. It is now common to include targets for other sustainability impacts – such as carbon emissions – into job descriptions and performance score cards. Targets for human rights activities can also be included.
Conclusion

There is no doubt in my mind that business approaches to human rights are maturing rapidly. Only a few years ago, many of my conversations with companies were focused on why they should address human rights at all. Those conversations are far less frequent now. These days I spend much more time talking about the specifics of what action companies should take and how they can solve particular dilemmas and challenges.

Whereas my meetings used to be almost exclusively with sustainability professionals at corporations, today I spend much of my time talking to C-suite executives, investors and pension fund analysts. Attitudes are less defensive and more open. People are asking more questions in a genuine effort to understand and progress. Human rights management has become a corporate career path supported by academic courses and professional education. Much has been achieved in a relatively short time and that should be celebrated.

There are many reasons for these developments. The UN Guiding Principles have clearly articulated society’s expectation that business has a responsibility to respect human rights. High profile publicity around tragedies such as the Rana Plaza factory collapse in Bangladesh has helped to raise public awareness. Social media has given people a channel to make their voices heard more loudly and clearly than ever before. Changing demographics and the increasing influence of the Millennial generation also play a part.

So the question must be, where next? After all, we have not yet solved the problems. We have just reached a point where many more people in the business world recognize that the problems exist and accept that business has a responsibility to address them. There is still much work to be done.

If there is one message I would like to leave with the readers of this paper, it is that you should not misinterpret the UN Guiding Principles as putting the responsibility for human rights issues solely onto businesses. Business is just one of the actors that needs to play a part. It is important to be clear about which issues your organization can address itself and which issues require collaboration with others. It is a question of where you have control, and where you may not have control but you do have influence. Many human rights problems are too big and too systemically pervasive for single organizations to solve. What is needed to drive real change is constructive collaboration between all relevant stakeholders including companies, regulators, NGOs and investors.

For many companies, this requires a shift in perceptions to see NGOs and labor organizations as partners on the same team, aiming for the same objectives.

A good example is a project I was recently involved with in Australia where ruthless competition and rate cutting in the commercial cleaning industry has led to exploitation of vulnerable workers through unfair wage levels and oppressive working conditions. The project brought the service providers (cleaning companies) and clients (building owners and managers) together with the regulator (the Australian Government’s Fair Work Ombudsman), unions, and industry associations. The result is a pilot certification scheme for cleaning companies that promises to improve working conditions and pay levels for cleaning staff and protect their rights.

It is just one example of potentially game-changing outcomes that emerge when business works with others to tackle a human rights issue. I think we’ll be seeing many more of these in years to come.
KPMG’s human rights services

KPMG’s global Business and Human Rights network brings together multi-disciplinary international teams to support clients with every element of their human rights programs: from developing a human rights policy and strategy, to embedding it across the business and tracking and reporting on progress. KPMG professionals also have a deep knowledge of supply chain programs, helping clients manage issues such as child labor, fair pay and working conditions, women’s empowerment and the right to collective bargaining.

KPMG’s network consists of human rights professionals on six continents with an in-depth understanding of the economic, political, environmental and social landscapes wherever your organization may operate. KPMG member firms have experience of addressing human rights issues across a wide range of sectors including: agriculture, apparel, electronics, extractives, finance and food and beverage. Member firms have also worked with a number of governments and public sector organizations.

KPMG Banarra

In 2015, one of the world’s leading specialist consultancies on business and human rights – Banarra (now KPMG Banarra) – joined the KPMG network. KPMG Banarra’s deep experience combined with existing subject matter expertise within our network brings a new dimension to KPMG’s global capabilities on business and human rights.

KPMG Banarra
Design policy and build internal commitment

- Develop the business case to take action on human rights issues
- Review your existing policies and systems to assess how well they align with the UN Guiding Principles and other international, national and sector frameworks
- Develop a human rights policy statement outlining your company’s commitment to human rights
- Help raise internal awareness across your organization of how human rights issues affect both people and your business
- Support you with securing senior executive commitment to respect human rights.

Assess risks

- Map human rights risks across your operations and along the value chain
- Identify all rights holders potentially at risk
- Assess human rights risks and prioritize according to potential impacts
- Conduct human rights impact assessments.

Address impacts

- Review or develop management approaches to prevent and mitigate risks
- Implement strengthened management approach and mitigation strategy
- Train, educate and build internal capacity to mitigate risks, and externally for suppliers, contractors, clients or business partners.

Engage and remediate

- Identify the local stakeholders with potential to impact your ability to operate and develop effective stakeholder engagement strategies e.g. community dialogue
- Review and implement grievance and complaint mechanisms to ensure affected stakeholders can raise concerns
- Review and design remediation processes in case of adverse human rights impacts.

Track performance

- Develop monitoring and review processes to aid continuous improvement of human rights performance
- Develop targets and key performance indicators
- Review data collection platforms
- Align monitoring and tracking procedures with internal reporting processes.

Communicate and demonstrate accountability

- Review human rights performance and provide independent assurance of human rights reporting
- Review and design external stakeholder communications, e.g. with local communities or investors.

How we can help

Whether your organization is in the early stages of developing its approach to human rights or is more experienced, KPMG professionals can help.
Appendix: A closer look at regulations and standards

Internationally-recognized laws and guidelines

- **The International Bill of Human Rights (1966)** provides an authoritative list of the core internationally recognized human rights.

UN Guiding Principles on Business and Human Rights (2011) state that businesses have a responsibility to respect human rights, should avoid infringing them and should remedy any negative human rights impacts they are involved with.

- **International Covenant on Economic, Social and Cultural Rights (1966)** is a multilateral treaty that commits its (164) parties to respecting economic, social and cultural rights.

- **International Covenant on Civil and Political Rights (1966)** is a multilateral treaty that commits its (168) parties to respect the civil and political rights of individuals.

- **Universal Declaration of Human Rights (1948)** is a non-legally binding declaration adopted by the United Nations General Assembly, representing the first global articulation of the rights to which all human beings are inherently entitled.

- **International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work (1998)** commits the (187) member states of the ILO to respect and promote principles and rights of workers.

- **OECD Guidelines for Multinational Enterprises (1976, updated 2011)** are a set of voluntary principles on responsible business conduct including human rights and are aligned with the UN Guiding Principles.

- **UN Guiding Principles on Business and Human Rights (2011)** state that businesses have a responsibility to respect human rights, should avoid infringing them and should remedy any negative human rights impacts they are involved with.

- **UN Sustainable Development Goals (SDGs) (2015)** are a set of 17 goals to guide global development up to 2030. The SDGs cover all internationally recognized human rights.

- **The Voluntary Principles on Security and Human Rights (2000)** are a set of principles designed to help companies maintain the safety and security of their operations within a framework that encourages respect for the human rights of their people and their host communities.

- **OECD Guidelines for Multinational Enterprises (1976, updated 2011)** are a set of voluntary principles on responsible business conduct including human rights and are aligned with the UN Guiding Principles.

- **UN Global Compact’s Ten Principles (2000, revised 2004)** are principles that member companies of the UN Global Compact (UNGC) agree to adhere to. The principles are derived from established international declarations and conventions including the Universal Declaration of Human Rights.

- **International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability (1998, revised 2012)** are standards that define company responsibilities for managing environmental and social risks (including human rights). The standards apply to all investment projects that go through IFC’s credit review process.

Further international frameworks and standards

- **Global Reporting Initiative (GRI) Sustainability Reporting Standards (2016)** are standards that represent global best practice for corporate reporting on economic, environmental and social impacts. They include reporting standards related to human rights including child labor, forced labor, rights of indigenous people and non-discrimination.

- **UN Sustainable Development Goals (SDGs) (2015)** are a set of 17 goals to guide global development up to 2030. The SDGs cover all internationally recognized human rights.

- **The Voluntary Principles on Security and Human Rights (2000)** are a set of principles designed to help companies maintain the safety and security of their operations within a framework that encourages respect for the human rights of their people and their host communities.

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National and sub-national legislation

Examples include:

**UK Modern Slavery Act (2015)**\(^{25}\) requires large companies doing business in the UK to produce an annual statement disclosing action taken to ensure that slavery and human trafficking is not happening in the company’s operations or supply chain.

**France Private Bill 501 (2015)**\(^{26}\) requires French companies to report on mechanisms in place to identify and mitigate human rights risks and impacts. It applies to companies’ own operations, subsidiaries, sub-contractors and suppliers.

**EU Non-Financial Reporting Directive (2014)**\(^{27}\) requires large public-interest entities (with more than 500 employees) to disclose information in the annual management report on policies, risks and outcomes relating to social and employee aspects and respect for human rights.

**California Supply Chain Transparency Act (2011)**\(^{28}\) requires certain retailers and manufacturers that do business in California to disclose their efforts to eradicate slavery and human trafficking from their direct supply chains.

**United States Dodd-Frank Act, section 1502 on Conflict Minerals (2010)**\(^{29}\) requires US-listed companies that report to the US Security and Exchange Commission (SEC) to trace ‘conflict minerals’ in their products and disclose the source.

**US Alien Tort Claims Act (1789)**\(^{30}\) a number of civil rights groups and human rights defenders have attempted to use this Act to sue multinational corporations for violations of international law in countries outside the US.

Sector standards

Examples include:

**Mining**

**International Council on Mining & Metals**\(^{31}\) requires members to commit to ten principles for sustainable development, including Principle 3 – ‘respect human rights’ and report publicly against the GRI sector standards.

**Oil and Gas**

**IPIECA**\(^{32}\) has published guidance documents and training tools for oil & gas companies including on the human rights due diligence process, impact assessment and grievance mechanisms.

**Retail**

**Consumer Goods Forum**\(^{33}\) brings together members to harmonize industry supply chain standards and systems to prevent and address human rights violations and promote decent working conditions.

**Agriculture**

**Better Cotton Initiative**\(^{34}\) includes human rights issues within its Better Cotton Standard System which requires farmers to produce cotton under decent working conditions.

**Finance**

**The Equator Principles**\(^{35}\) are a risk management framework for financial institutions to assess and manage environmental and social risk, including human rights risks, in the projects they finance.

**ICT**

**EICC Responsible Raw Materials Initiative**\(^{36}\) provides training, guidance and tools to support electronic industry members to ensure raw materials are produced responsibly.
Addressing human rights in business: executive perspectives
Appendix: A closer look at regulations and standards

Footnotes for Appendix:

**International laws and guidelines**

17 International Covenant on Economic, Social and Cultural Rights (1966) www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx
18 International Covenant on Civil and Political Rights (1966) www.ohchr.org/EN/ProfessionalInterest/Pages/CCPR.aspx
19 Universal Declaration of Human Rights (1948) www.ohchr.org/EN/UDHR/Pages/UDHRIndex.aspx

**Human rights**

21 UN Sustainable Development Goals (SDGs) (2015) sustainabledevelopment.un.org/sdg
23 The UN Global Compact’s Ten Principles (2000), revised 2004 www.unglobalcompact.org/what-is- gc/mission/principles

**National and sub-national legislation**

28 California Supply Chain Transparency Act (2011) oag.ca.gov/SCSA57

**Sector standards**

32 IPECC www.ipleca.org/our-work/social/human-rights/
34 Better Cotton Initiative bettercotton.org/about-better-cotton/better-cotton-standard-system/
36 EICC Responsible Raw Materials Initiative www.eiccoalition.org/initiatives/rmm/
Acknowledgments

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KPMG would also like to thank

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