

# FNET GUIDANCE ON LOW LEVERAGE AND COMPLEX SUPPLY CHAINS

## 1. DEFINITIONS

**Low Leverage:** " typically refers to a situation where a company or entity has limited influence or control over its suppliers, or other key components of its supply chain."

Low leverage in the supply chain can hinder a company's ability to manage risks and adapt to changing business environments effectively.

See Appendix A for examples

**Complex Supply Chain:** "A complex supply chain refers to a network of interconnected entities, processes, and activities involved in the production, distribution, and delivery of goods or services. Several factors contribute to the complexity of a supply chain."

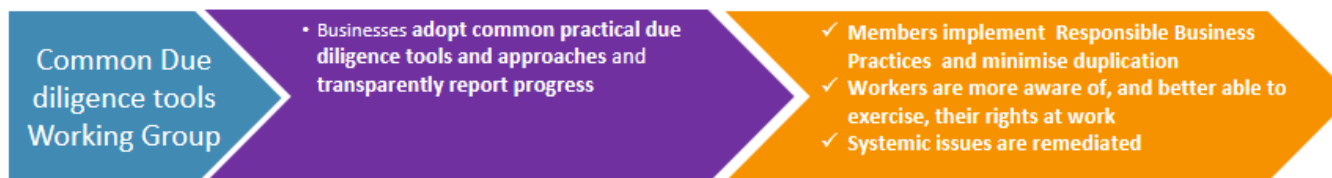
Managing a complex supply chain effectively requires coordination, collaboration, and transparency among all stakeholders, as well as the use of sophisticated tools and methodologies to optimize processes, mitigate risks, and ensure responsiveness to changing market conditions.

See Appendix B for examples

## 2. BACKGROUND AND ASSESSING RISK

### a. GETTING STARTED

The Food Network for Ethical Trade (FNET) was established by retailers and food manufacturers to **improve livelihoods and working conditions of people within, and communities affected by, our operations and supply chains**. Our network is seeking to accelerate improvements in human rights and labour standards for workers by improving supply chain due diligence through the **adoption of responsible business practices** and **facilitating collective action on systemic issues**. rights and labour standards are also a priority for the FNET and its member companies.



Conducting a human rights risk assessment should help your company understand how their activities and business relationships impact upon the human rights of people affected **impacted?** by your operations and supply chains. **Risk assessment is** embedded in the UNSDG, FNET Theory of Change and member commitment and could be covered by legislation depending on where your business is based and where it

trades. (Members are expected to understand the legal obligations current at the time of analysis (e.g. EU CSDDD and other relevant legislation).

How you assess your human rights risks and impacts and the level of information collected will depend on the size and nature of your company. Companies are expected to engage with external sources to understand their risk assessment and, where possible, to consult with those whose rights may be affected such as workers, farmers, fishers, seasonal labourers, women and children and communities affected by your business.

## b. UNDERSTANDING YOUR STAKEHOLDERS

The first step is to identify the total picture of **who your business interacts with** and what the risks are. Take a step-by-step approach to ensure you have good records to support your risk-based approach.

1. Identifying: Individuals or groups whose human rights have been or could be affected by a company's operations or sourcing decisions – for example workers in your own business, workers in your supply chain, communities where your operations are located or suppliers
2. Analysing: understanding stakeholder perspectives and interests – documenting what each of the group's interests are, how you know this and if you have any information gaps. Sources of information may be surveys to suppliers and workers or social audits
3. Mapping: visualizing relationships between stakeholders – drawing how the interests of diverse groups are linked into each other
4. Prioritizing: identify the stakeholder relevance and any identifying issues – determining which of your stakeholders are most important to your business and which of their issues you need to focus on.

## c. ASSESSING THE RISKS

When you understand the overall picture use a risk-based approach to identify which are your salient risks at the same time as working with Procurement, Technical and Commercial and other relevant stakeholders **to identify those** with low leverage and/ or complex supply chains. There are many tools to do this, The [FNET Risk assessment tool](#) \* current version (August 2022) is free to use for all FNET members. Other tools are [SEDEX Risk Assessment Tool](#),

The purpose of the risk assessment is to identify your company's most severe potential human rights impacts in your operations and your supply chain. Severity is determined by considering three factors, scale, impact and ability to remediate.

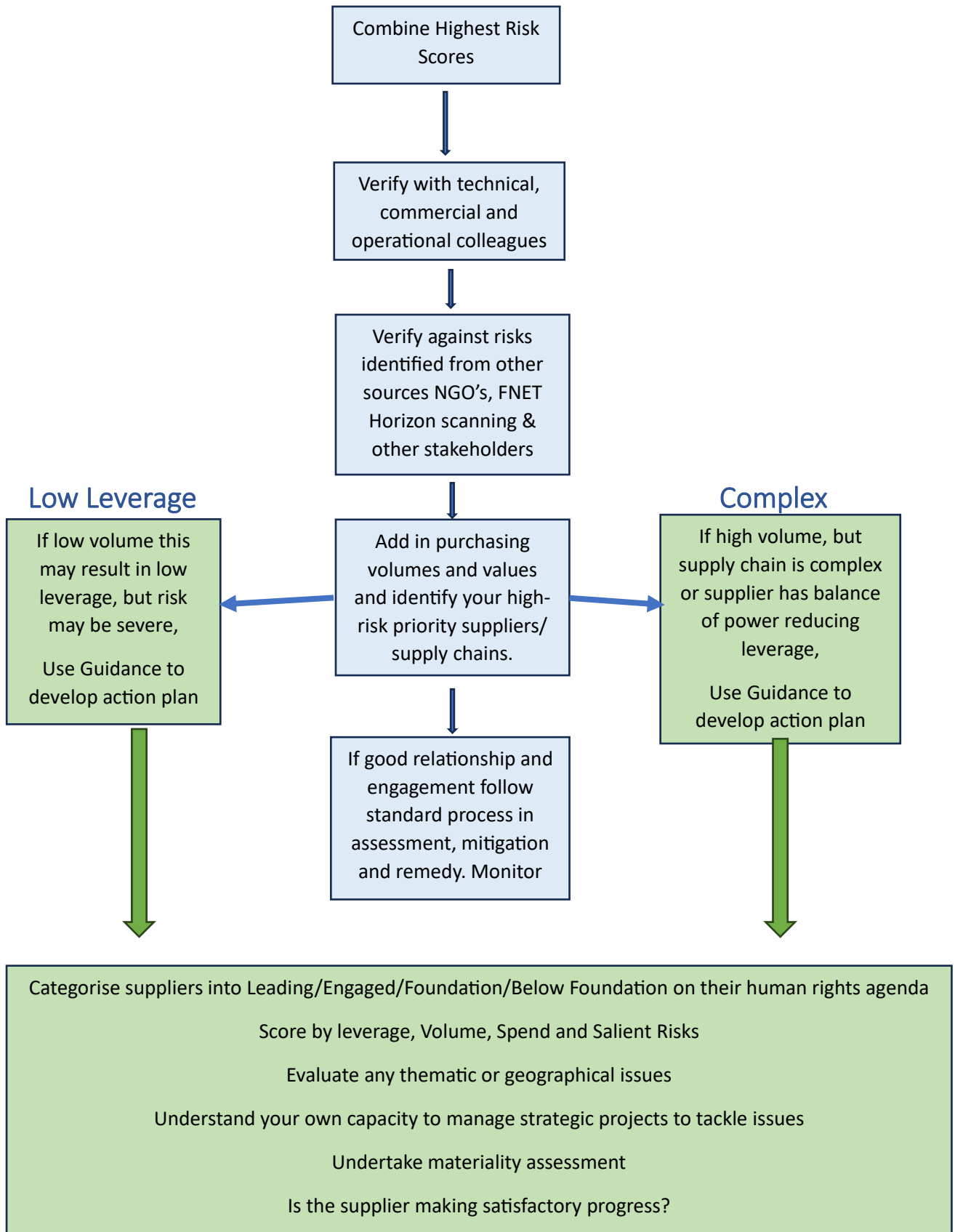
The purpose of prioritisation is for your company to identify the order in which you are going to take action to prevent, mitigate and remediate those risks. Businesses are unlikely to be able to tackle all risks at once and this method **provides logic use of resources** for business to share with key stakeholders both internally and externally.

Use the flowchart (Figure 1) to determine the risk profile and action required.

**Where severity occurs in low leverage and complex supply chains, this document will help businesses tackle these in a structured way. – KEY Statement!!**

*\*The FNET risk assessment tool is due for update and this link needs to be updated when this document is launched*

Figure 1 - Flowchart for assessing risk



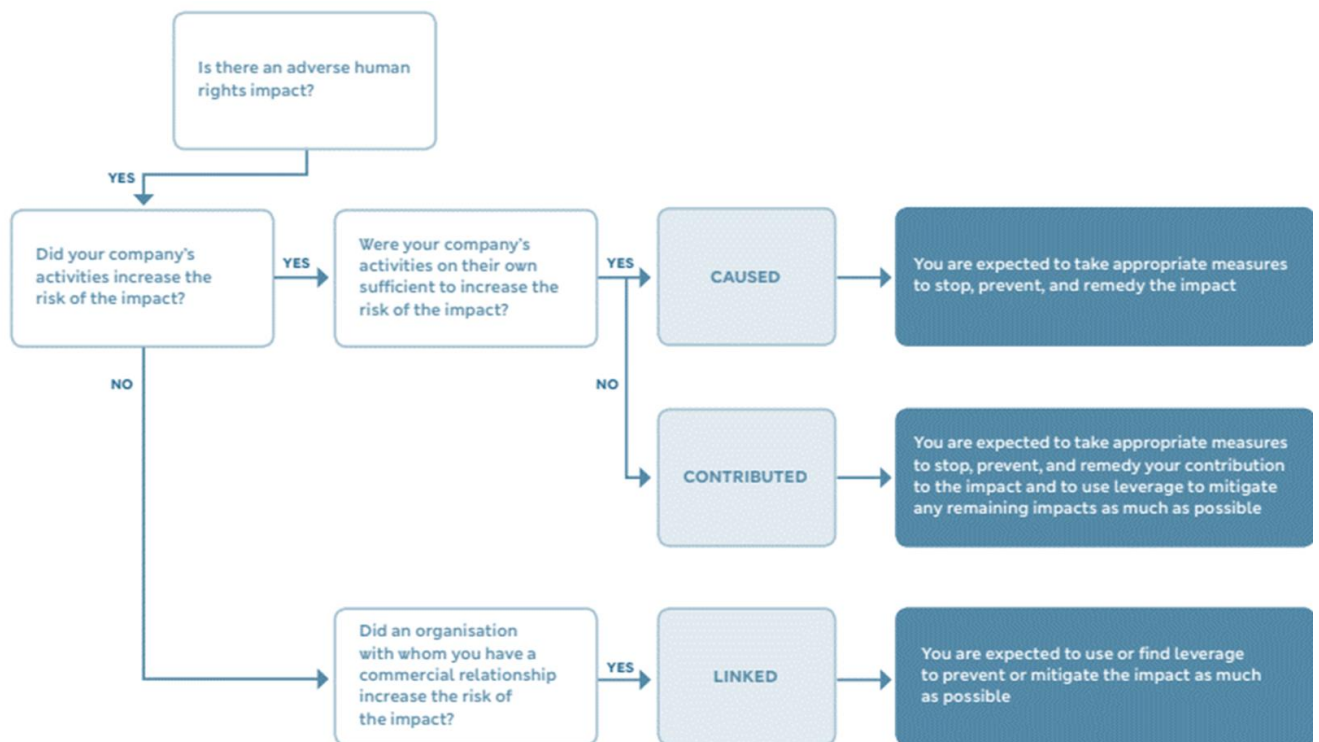
### 3. TACKLING LOW LEVERAGE AND COMPLEX SUPPLY CHAINS

#### a. PRIORITISATION

Having identified the highest risks for Human Rights Impacts with the highest severity business from the risk assessment tool, businesses should go through the prioritisation steps to develop and action plan

Accept that things will change and suppliers who were not initially high risk may become high risk. This does not mean you need to completely revise your risk assessment – you may just have to manage those new risks as exceptions until the time to review your risk assessment is due.

The actions taken by a company to prevent or mitigate human rights risks will vary depending on the risks that have been identified and the extent to which you are responsible for the risks identified. It may be unrealistic to think that you can resolve all the issues you identify. In order to avoid being overwhelmed, you should decide if you have **caused**, **contributed** or are **linked** to adverse human rights impacts. This will help you work out where you can and should act.



#### b. ENGAGEMENT

If the supplier is engaging and able to collaborate with you to prevent or mitigate the risk identified, then this forms the normal Due diligence.

FNET has a specialist register of consultants who have worked in many geographies and supply chains with specific skills in recruitment fees, gender-based violence, child labour, health & safety and other high-risk

issues, who might be able to expedite your work. Refer to [FNET 121 Consultants register](#) for expert support. Consultants on this register have either worked with FNET members or consulted with FNET technical team and are recommended by members. If this list does not provide the expertise you can reach out to members in the weekly news by e-mailing [admin@foodnetworkforethicaltrade.com](mailto:admin@foodnetworkforethicaltrade.com) in the first instance with the specifics of your needs.



- Mitigation is about **decreasing the saliency of identified human rights impacts**, by preventing/ reducing the negative impacts and addressing underlying causes
- **Key questions:**
  - What controls and internal systems do we have in place?
  - What is our leverage?
  - How can we enhance our controls, or increase our leverage?
  - What can be done to reduce the probability of this situation re-occurring in the future?
- Where adverse human rights impacts are **linked to** a business enterprise’s activities, it is **not required to provide remediation itself, but to use its leverage to the greatest extent possible to encourage the company to cease contribution and put right**

“Potential impacts should be **addressed through prevention or mitigation**, while actual impacts – those that have already occurred – should be a subject for **remediation**.”

### c. MUTUAL RECOGNITION

When the standard processes don’t work to address the issues, the business needs to look at other resources. What other standards could FNET identify to support or mitigate. Refer to [Mutual Recognition documentation conducted by CDDT WG \(add Link\)](#).

Audits are a snapshot and may not tell us the whole picture, are there other relevant assessments that can be utilised to deliver information for example:

- GRASP
- ASC/BAP
- SMETA/SAQ
- HRDD
- SIZA
- International Finance Corporation (IPC) assessment. (add description LB)

Are there others we discussed? Can members of the WG add others?

Worker voice tools such as Ulula, Just Good Work, & Wider, nGage, xxx, xxx and is prepared to share the results to show good practice in the operation. Refer to **FNET Worker Voice** and **FNET Effective Grievance Mechanisms** tools add resources.

#### d. INCREASING LEVERAGE

A business may also need to use **influence** and **leverage** to mitigate impacts that you have contributed to or are linked to through your business relationships. Steps that your company can take to exert leverage include: -

**Commercial influence** – using terms of tenders, contracts or joint venture agreements to set human rights standards, using audits and other assessments to ensure standards are implemented and using purchasing decisions to encourage suppliers to meet human rights standards

**Business influence** – improving standards and business practices of suppliers through training, integrating international or industry standards into negotiations and ensuring a consistent message about human rights to supply chain partners from everyone in the company. Steps that your company can take with others to exert leverage include: -

**Leverage together with business partners** – working with industry peers to establish common requirements for suppliers, engaging with industry peers who may face similar supply chain issues to share lessons learned and identify viable solutions –

**Leverage through working with government, NGOs, civil society and trade unions** – working with civil society to gather information on human rights risks, working with government, NGOs, civil society and trade unions to resolve human rights impacts –

**Leverage through multistakeholder collaboration** – developing shared standards for suppliers through multi-stakeholder initiatives, collaborating with multiple stakeholders to address systemic issues

#### e. SUPPORT

Third party support to advise or assess

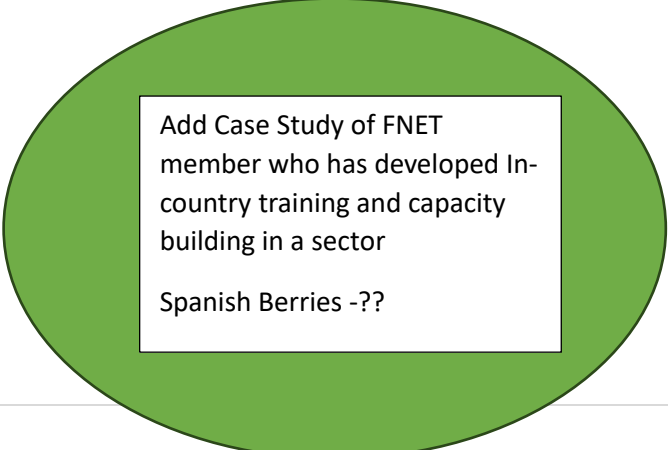
[Use the register to find FNET specialists](#) (need to add to FNET drive when updated)

**This really refers to collaboration:** You may find another FNET member who has the same issue and working together to understand how they may have resolved an issue may help.

#### f. CAPACITY BUILDING

Determine if the lack of progress or engagement is a skills issue or a behavioural issue? If there is a will to improve but a lack of knowledge, the FNET member can arrange in country supplier workshops using the FNET tools for supplier capacity building, working with others who might be operating in the same geography to share the cost.

Give examples of the materials available and a link to the documents library?



Add Case Study of FNET member who has developed In-country training and capacity building in a sector  
Spanish Berries -??

## 4. COLLABORATION

### BOX 6. ADDRESSING SYSTEMIC ISSUES

Systemic issues refer to problems or challenges that are prevalent within a context and are driven by root causes outside of the enterprise's immediate control, but that nonetheless increase the risk of adverse impacts within the enterprise's own operations or supply chain. Systemic risks may arise from governance failures and the failure of governments to fulfil their duty to enforce the laws and protect human rights. Example systemic issues include poor access to schools and high rates of poverty which can increase the risk of child labour, extensive bribery and corruption within the government, systematic discrimination of minority groups and the widespread harassment and abuse of women and girls within society. Although enterprises are not responsible for the failure of governments, the decision to conduct activities in contexts where systemic risks exist will increase the nature and extent of due diligence.

There are a number of ways that enterprises can seek to address risks linked to systemic issues. For example, enterprises may:

- **Collaborate across sectors** – Systemic risks often touch many sectors within a given context. Therefore, enterprises may choose to co-ordinate and collaborate across sectors to scale-up effective prevention and mitigation measures. In this way, the problem is not merely pushed from one industry to another.\*
- **Engage government** - Acknowledging that there are legal and practical limits, in contexts in which the government is not fulfilling its duty to protect, enterprises may use their leverage with government (local or national) to encourage the government to affect change, for example through better enforcement of laws and regulations, or facilitation of RBC. Engagement may include a number of measures, such as open letters to the government, engagement through multi-stakeholder initiatives, participation in dialogues, etc. Enterprises may also engage with home governments to encourage them to advocate for RBC.
- **Identify effective existing initiatives** – For common sectoral risks, enterprises may be able to draw on recommended prevention and mitigation approaches developed by governments, industry associations, multi-stakeholder initiatives, or peers in the sector. Identifying existing initiatives and their objectives will help an enterprise understand how it can utilise existing strategies to prevent and mitigate systemic risks. For example, an enterprise may be able to rely on existing grievance mechanisms within the community.

Efforts to address systemic issues may take much time before tangible results are seen, however, this should not undermine or discourage action to try to respond to systemic issues. Nonetheless, enterprises operating in contexts with systemic issues driving adverse impacts in their own operations and supply chain should be prepared to be transparent in their decision and rationale for remaining and consider whether they are able to responsibly continue to operate in or source from such contexts during the course of any of the above efforts. In many cases, increased efforts will be necessary to monitor and prevent adverse impacts in their own operations or in their supply chains while seeking to address more systemic issues at the same time.

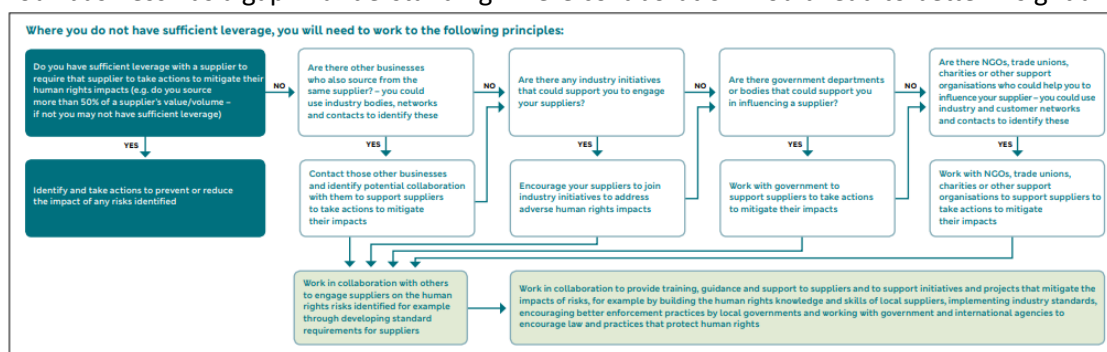
*\* For example, in contexts in which child labour is a systemic risk, eliminating child labour from one sector may simply push children into employment in another. Therefore, cross-sectoral approaches are encouraged.*

Taken from OECD [Guidance on Collaborative Action for systemic issues](#)

## a. WHEN

There are many occasions when it is right to collaborate with other organisations or stakeholders in order to effect a change. Some of the reasons are listed here:

- When there are systemic issues that a supplier cannot solve in isolation
- When there is supply chain disruption or crisis or an issue impacting many suppliers in a geographical or raw material sector
- Your volumes are lower than another organisation who has greater leverage due to volumes, who is prepared to collaborate for both to gain progress
- A business may be moving into a new market/business venture or country where others have existing experience (see Appendix C – link to FNET Expertise register on FNBET learning Library)
- Your business has a gap in understanding where collaboration would lead to better insight and



## b. HOW

Members share the problem in a safe way through a member organisation or through peer contact or specialist expert to see if there is a consensus.

This will enable further knowledge gathering to understand what is known about the issue and on what scale. You can identify the other stakeholders and determine who is leading.

Find out if other sector initiative already exists and join the sector initiative.

Where no collaboration exists reach out to industry, member organisations, civil society, or government to establish a collaboration.

Add a Supplier case study of low leverage collaboration

SSCI & IDH Spice Project FNET – Naomi Kirkwood

Seafood Task Force for Thai fisher human rights –  
Carl Cooper

Banana – Living Wage – Sainsbury's



## c. WHAT TO LOOK FOR TO ENSURE GOOD GOVERNANCE OF COLLABORATIONS

[OECD Guidelines](#) to ensure good governance is a useful source of information

The following list includes examples of good governance that may help a member in determining whether the collaborative initiative that it is engaged with is credible. The initiative:

- has established an effective grievance mechanism that enables stakeholders to raise concerns relating to the activities of the initiative itself, without fear of retribution\*
- has a process for enabling stakeholder and expert consultation on the objectives and activities of the initiative.
- has an effective process for communication details of actual or potential adverse impacts to participating enterprises in a timely manner in order to support enterprises in performing their own due diligence activities.
- has a process for regular review, including monitoring and evaluating whether the initiative itself is meeting its own aims and objectives, including, as necessary, updating of its policies, activities and any guidance provided to participating enterprises.
- has given consideration to where there could be actual or potential conflicts of interest between the management personnel of the initiative and companies and has established processes to manage potential conflicts of interest.
- publicly provides details of its own internal governance structure, staffing, resources and oversight mechanisms.
- reports on its evaluations of whether it is meeting its own aims and objectives in relation to responsible sourcing practices.
- allows for mutual recognition, subject to appropriate quality control, of other due diligence initiatives.

*\*This refers to grievance mechanisms pertaining to the initiative's activities and not to grievance mechanisms that initiatives may establish to facilitate the provision of remedy between impacted stakeholders or rightsholders and the members of the initiative*

## 5. RESPONSIBLE EXIT

**Do we want to add a piece on this? – YES!**

**We need to write this piece**

## Appendix A – Low Leverage

| Example                                  | Description  |
|--|--|
| <b>Supplier Dominance or monopolies:</b> | When there are few suppliers for a particular product or component, reducing the options and therefore leverage of the buyer e.g. China  |
| <b>Scale of operations:</b>              | Co-operatives and/or operations with large groups of small growers can restrict both visibility and opportunity to communicate   |
| <b>Contingency purchases:</b>            | Either direct or through intermediaries this limits visibility and knowledge of the source   |
| <b>Geopolitical:</b>                     | Languages, cultural nuances and differing labour right standards. Different to broach some issues  |
| <b>Long Supply Chains:</b>               | Complex and lengthy supply chains can reduce leverage due to increased dependency on multiple intermediaries e.g. traded stock   |
| <b>High Switching Costs:</b>             | If it's difficult or expensive for a buyer to switch suppliers due to factors like specialized machinery, unique materials, or long-term contracts, they have less leverage in negotiations.   |
| <b>Limited Alternatives:</b>             | When there are few alternatives available for a specific product or component, buyers have less bargaining power. This might be due to geographic constraints, regulatory requirements, or the need for specific technical specifications. |

## Appendix B - Complex

| Example                        | Description   |
|--------------------------------|---|
| <b>Multiple stakeholders</b>   | Complex supply chains often involve numerous stakeholders, including suppliers, manufacturers, distributors, retailers, logistics providers, and customers, each with their own interests, priorities, and operational challenges.  |
| <b>Globalization:</b>          | In today's globalized economy, supply chains frequently span multiple countries and continents, leading to increased complexity due to factors such as varying regulations, cultural differences, time zones, and geopolitical risks.                                     |
| <b>Diverse product lines:</b>  | Companies with diverse product portfolios may have supply chains that are more complex, as different products may require unique sourcing, manufacturing, and distribution processes.   |
| <b>Demand variability:</b>     | Fluctuations in demand, seasonality, and market trends can add complexity to supply chains by requiring companies to adjust production schedules, inventory levels, and distribution strategies dynamically.  |
| <b>Technology integration:</b> | The adoption of advanced technologies such as artificial intelligence, Internet of Things (IoT), blockchain, and data analytics can introduce complexity but also enable greater visibility, efficiency, and agility within supply chains.                                |
| <b>Risk management:</b>        | Complex supply chains are often susceptible to numerous risks, including disruptions in transportation, natural phenomenon's such as adverse weather, geopolitical conflicts and supply shortages, necessitating robust risk management strategies and contingency plans. |

