



Business Model Red Flags



BETA

IS YOUR BUSINESS WIRED IN WAYS THAT PUT PEOPLE AT RISK?

DEVELOPED BY SHIFT AS PART OF THE VALUING RESPECT PROJECT



ABOUT

This resource is a work in progress as part of **Shift's Valuing Respect project**. It provides a non-exhaustive menu of business model features that carry inherent human rights risks. It aims to help companies, investors and others foster sustainable business models that can be economically successful without exacerbating inequalities.

Analysis of human rights risks is often tied to characteristics of a particular sector or assessments of a particular company. Both approaches are important. But where risks are embedded in decisions about how a business will create value, including profits, they need to be identified and addressed at that level.

It is not possible to mitigate risks to people at the operational level if they are designed into the core of how the business is intended to operate.

The primary intended users of the resource are:

a. **Investors and civil society organizations** seeking to strengthen their analysis, strategies and engagement with companies in order to advance respect for human rights and thereby reduce inequalities;

b. **Financial institutions** scrutinizing their portfolios for human rights risk and diagnosing whether significant human rights incidents are likely to be replicated by the company concerned or in other parts of the portfolio; and

c. **Business leaders** seeking to identify and address risks to people that may be embedded in the business model, in order to ensure the resilience of value propositions and strategic decisions.

The Red Flag indicators are grounded in three features of a business model:

- **the value proposition** (what the company offers and to whom);
- **the value chain** (how the company delivers value); and
- **the revenue model** (how the business model is profitable).

They are not intended to be an exhaustive list, but may help spark reflection and enable the identification of additional red flags.

For each red flag, we are developing supporting resources, including 3-4 questions for top managers or investors to ask when they identify a red flag in their company/ investment. Specifically, these resources will identify:

- Higher risk sectors/industries
- Key Questions to Ask
- Risks to People
- Risks to the Company
- Implications of the UN Guiding Principles
- Nexus with the SDGs
- Due Diligence Lines of Inquiry
- Mitigation Examples
- Alternative Model Examples
- Tools/Further Information

BUSINESS MODEL RED FLAGS

THE VALUE PROPOSITION

The business's commercial success substantially depends on

- 1 | Lowest cost goods or services
- 2 | High-speed delivery
- 3 | Projects with short or fixed timelines
- 4 | Privatized access to public goods or services
- 5 | Processing personal data
- 6 | Online platforms
- 7 | Financial or advisory services to higher risk clients
- 8 | Products that harm when overused
- 9 | Products that harm when misused
- 10 | Products that harm when used as intended

THE VALUE CHAIN

The business's commercial success substantially depends on

- 11 | Speed in developing products or services
- 12 | Land use where ownership may be contested
- 13 | Depleting natural resources or public goods
- 14 | Commodities with unclear provenance
- 15 | Low priced agricultural commodities
- 16 | Sourcing low-paid labor from labor providers
- 17 | Gig workers or other precarious labor
- 18 | Business relationships with limited influence
- 19 | Collecting or holding sensitive personal data
- 20 | Shifting inventory risk to the supply chain
- 21 | Large scale or rapid automation

THE REVENUE MODEL

The business's commercial success substantially depends on

- 22 | Sales-maximizing incentives that put consumers at risk
- 23 | Markets where regulations fall below human right standards
- 24 | Aggressive strategies to minimize taxation

Red flags in this section relate, for example, to the **nature of the product or service**, or the way in which the company **differentiates its offering**.

The business's commercial success substantially depends upon...

For example...

1

...offering **lowest cost goods or services** such that it becomes economically challenging for the company and/or suppliers to **respect labor rights**.

- Selling apparel and other consumer goods premised on cheapest prices for customers, such that increases in production costs are absorbed through the wages of already low-paid workers
- Locating (and relocating) production to countries with lowest wages

2

...offering **high-speed delivery** such that it places pressure on warehouse workers and logistics workers in the **"last mile"**.

- Retailers offering free or low-priced express delivery to consumers in ways that place unreasonable time or wage pressure on logistics workers
- Logistics providers that rely on low wages and precarious labor

3

...commencement of projects with **short or fixed timelines** that do not allow sufficient time for consultation with groups affected by the projects.

Working to such timelines in the context of

- oil and gas projects
- agricultural land use
- construction projects

that impact local communities

4

...offering **privatized access to public goods**, such as water, health and security, where profit-maximization affects access or quality of service.

- Offering private water or sanitation services where profit-maximization affects access or quality of service
- Offering nursing home services and engaging in cost cutting activities at the expense of quality of service
- Providing private prisons or detention centres and reducing qualified staff or cutting maintenance or essential programs to achieve cost savings

5

...processing **personal data** to profile or predict individual behavior, as a service to third parties.

- Targeted advertising on social media platforms that restricts who can see housing or job adverts based on gender, family status or race
- Third-party data brokers running credit ratings and checks that affect access to products and services
- AI solutions designed to help the criminal justice system assess chances of recidivism but with discriminatory outcomes
- Facial recognition technologies where false positives lead to arbitrary intimidation or arrest

Red flags in this section relate, for example, to the **nature of the product or service**, or the way in which the company **differentiates its offering**.

The business's commercial success substantially depends upon...

For example...

6

...providing **online platforms** for individuals to interact where use of the platform can lead to **harm to human rights**.

- Online platforms through which individuals may post content or form groups with the purpose of inciting hatred or violence
- Real estate rental or job search platforms on which vendors may include discriminatory criteria in advertisements
- Online platforms that enable commercial users to refuse to sell to consumers of a certain ethnic group or sexual orientation etc.

7

...providing **financial or advisory services** that may enable higher risk clients to harm human rights.

- Providing finance to projects or borrowers where adverse impacts on communities are foreseeable
- Providing legal advice premised on operating in legal gray areas or exploiting the lack of laws that are relevant to the protection of human rights
- Selling management consultancy services to clients where advice may be used to undermine human rights
- Selling tax advice that supports the aggressive minimization of tax payments (See also red flag 24)

8

...offering products or services that when **overused**, can affect people's health, particularly when targeted at vulnerable populations.

- Marketing high salt/sugar foods to children or disproportionately targeting minority communities with such options
- High interest pay-day lenders clustering in minority communities or targeting minorities through online platforms
- Selling alcoholic beverages, including when engaging in sponsorship activities in geographies without laws on exposure of children to alcohol-related marketing (see also red flag 23)
- Offering social media platforms with features designed to maximize usage

9

...offering products or services that, when **misused** can have adverse impacts on human rights.

- Selling "dual use" products, services or technology (i.e. those normally used for civilian purposes, but which may also have military applications)
- Providing tracking or facial recognition technologies that may be misused to profile, intimidate or arbitrarily imprison human rights defenders or activists
- Providing pharmaceuticals, that may be misused for the death penalty
- Providing heavy machinery or equipment to governments for use in locations recognized under international law as occupied territories
- Selling ultrasound technology to health facilities that may misuse it for sex selective abortions
- Providing social media platforms, that may be misused for harassment or to incite hatred (see also red flag 6)

10

...manufacturing or selling products that, **when used as intended**, are likely to have severe adverse impacts on human rights.

- Selling tobacco products
- Selling products, e.g. or toys or building materials, containing dangerous levels of toxic substances, e.g. asbestos or lead
- Selling weapons or surveillance technology, particularly when associated with sale to higher risk customers

Red flags in this section relate to different **stages in the value chain**, including, for example, natural and human resources and their sourcing as well as risks relating to relationships with business partners.

The business's commercial success substantially depends upon...

For example...

11

...**speed in developing products** or services in response to client / customer wishes or to be first to market, such that excessive pressures are placed on workers or consumer safety is compromised.

- Requiring excessive speeds for the manufacture or processing of goods such as meat & poultry or other fast-moving consumer goods, impacting the safety or other working conditions of workers
- Undertaking rapid product development in the tech sector leading to workers working excessive hours
- Providing round-the-clock responsiveness to client requests in legal advice, management consultancy or other client services affecting the family life of workers
- Providing or changing orders to suppliers with insufficient lead time for capacity planning, impacting the health, safety and wages of supply chain workers
- Expediting R&D for new or updated products/services to market, leaving insufficient time to test for potential impacts on users/customers

12

...**land use** in countries in which ownership is often contested or records are unreliable or land users such indigenous groups are unrecognized.

- Relying on land use, including for extractive projects; the provision of commodities; or construction (e.g. of phone and transmission lines), in locations where:
- indigenous peoples have traditional ownership or use of land
 - ethnic/minority groups are denied/ dispossessed of formal land ownership rights
 - women may not have access to legal ownership
 - owners of land may have been otherwise dispossessed or moved without consultation or adequate compensation

13

...activities that **deplete** the quantity or quality of **natural resources** or **public goods** available to local populations, such that it undermines their access or health.

- Water extraction by food and beverage companies leading to water stress in a given catchment
- Harvesting of wild flora by agricultural or pharmaceutical companies depleting traditional food sources for indigenous communities
- Extractive projects leading to an influx of people that places stress on local services, such as in communities near mine sites
- Tech companies establishing large corporate headquarters in urban areas and reducing access to affordable housing
- Manufacturing activities that lead to pollution of the water, soil or air at levels that have an impact on people's health

14

...trading or using **commodities** for which there is little or no visibility into their **provenance**.

- Commodities traded on spot markets
- Using resources such as the following in circumstances of limited traceability:
 - Energy (e.g. oil and petroleum and gas)
 - Metals and minerals (e.g. iron ore, copper, aluminum, gold) and
 - Agricultural and other "soft" commodity products (e.g. coffee, cocoa, wheat, soybeans, cattle) (See also red flag 15)

15

...trading or sourcing **agricultural commodities** that are priced independently of production costs, such that farmers are unlikely to be able to sustain a living income.

- Food and beverage, pharmaceutical and cosmetics companies sourcing, and traders trading,
- price volatile agricultural commodities supplied by small-holder farmers (cocoa, coffee, palm oil)
 - price volatile labor-intensive commodities (bananas, cotton)
 - capital-intensive commodities for which price does not reflect the cost of production and that require large agricultural land area (soy, wheat, corn)

Red flags in this section relate to different **stages in the value chain**, including, for example, natural and human resources and their sourcing as well as risks relating to relationships with business partners.

The business's commercial success substantially depends upon...

For example...

16

...sourcing **low-paid labor** from labor providers, where there is little visibility into or control over the protection of worker rights.

Sourcing labor for construction, manufacturing, hospitality, call centres, agriculture and horticulture, social care and domestic work and other areas, where there is a risk that:

- workers face low wages, salary delays, excessive deductions and uncompensated overtime
- workers suffer discrimination and physical, verbal and sexual abuse
- workers are unable to join trade unions
- workers are housed in poor quality accommodation or subject to curfews
- especially in the case of migrant workers, workers are charged fees for recruitment services or their identity documents are retained

17

...labor relationships that are structured to **avoid costs** that come with formal employment arrangements.

Inappropriate or exploitative use of the following:

- Online and offline gig workers
- Contingent labor
- Unpaid internships
- Incorrect categorization of workers as "independent contractors"
- Reliance on labor provided by third parties (see red flag 16)

18

...structuring business relationships in ways that **limit** the company's ability to **influence** decisions or actions that affect the rights of stakeholders.

- Structuring JV partnerships such that the company situates control over decisions on land, employment and/or responses to community concerns with the business partner
- Structuring client-advisor relationships such that the scope of advice excludes consideration of impacts on people
- Structuring multi-bank syndicated loans, e.g. for project finance, such that the bank relies on the due diligence of the lead bank
- Utilizing franchise models in which labor, land acquisition and other rights-relevant issues are not covered by franchise contracts

19

...collecting or holding sensitive **personal information** about customers or other individuals, such that it could be used by others in ways that harm human rights.

- ICT companies storing sensitive personal information – for example on political affiliations or memberships - that may lead to harassment or arbitrary arrest if obtained by certain governments
- Companies holding genetic or health information that could lead to discrimination or lack of access to employment if publicly exposed
- Dating applications storing information on individuals' identity or preferences, which, if exposed, may be used by third parties to discriminate or threaten such individuals

20

...minimizing inventory risk, including through **just-in-time** delivery, such that the risk from changes in demand is shifted to the supply chain and vulnerable workers.

Companies operating in various industries, including electronics, fast moving consumer goods and apparel:

- taking a position that the company will not warehouse goods
- withdrawing orders from suppliers with limited lead time when demand drops

21

...large scale or rapid **automation** of processes, such that there is insufficient time or capacity for workers to be upskilled or redeployed.

Automation in various sectors, including:

- Agriculture
- Logistics
- Maritime shipping; port logistics and transport
- Labor intensive manufacturing, such as electronics manufacturing
- Mining

Red flags in this section relate, for example, to **sales-maximization** and **cost-minimization** measures.

The business's commercial success substantially depends upon...

For example...

22

...incentive structures designed to **maximize sales** that create risk to the health and welfare of customers or patients.

- Excessive sales targets in banking leading to the sale of financial products that are not appropriate for, or requested by, customers
- Use of excessive sales targets or marketing strategies by the pharmaceutical sector, leading to over-prescription of potentially addictive medications
- Basing sales incentives on profits on essential medications, leading to higher prices and reducing access to medicines for vulnerable persons

23

...operating or expanding into **markets** where laws or regulations fall **below international human rights standards**.

- Tobacco companies with growth strategies for markets without laws requiring warnings on packaging
- F&B companies with growth strategies for high salt/sugar products for markets without laws requiring nutritional information on packaging
- Alcoholic beverage companies engaging in sponsorship activities in geographies without laws on exposure of children to alcohol-related marketing
- Collecting or holding sensitive personal information in geographies with underdeveloped privacy laws (see also red flag 19)
- Lobbying against laws that protect workers or communities from corporate human rights impacts (e.g. lobbying against minimum wage laws)

24

...aggressive strategies to minimize **taxation**, particularly with respect to operations in developing countries.

- Undue use of the following such that governments may be deprived of the resources needed to address poverty and to finance programs seeking to protect and fulfil human rights:
- transfer (mis-)pricing
 - negotiation of tax holidays
 - (non-)taxation of natural resources
 - offshore investment accounts



ABOUT VALUING RESPECT

Valuing Respect is a global collaborative platform, led by Shift, to research and co-create better ways of evaluating business respect for human rights. Our aim is to develop tools and insights that can help both companies and their stakeholders focus their resources on actions that effectively improve outcomes for people. Valuing Respect is generously funded by the Ministry of Foreign Affairs Finland, the Norwegian Ministry of Foreign Affairs, and Norges Bank Investment Management

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FEEDBACK?

This is a **BETA** version of the **Business Model Red Flags**. We welcome your feedback, suggestions and questions as we continue to fine-tune this and other tools and resources of the Valuing Respect project. Please direct your feedback and inquiries to info@shiftproject.org