

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 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 and its typical activities, of locations where it operates, or of business partners it works with. It may also look at the routine processes a company has in place to identify and manage risks to people. These can all offer valuable insight.

But where risks are embedded in leadership and board decisions about how a business will generate profits – it's business model – they need to be understood and addressed at that level. It is not possible to mitigate risks to people at the operational level if there is no attention given to how they are designed into the core of how the business is intended to operate.

The primary intended users of the resource are:

- a. **Business leaders** seeking to identify and address risks to people that may be embedded in their business model, in order to ensure the resilience of their value propositions and strategic decisions.
- b. **Investors** aiming to strengthen their analysis, strategies and engagement with companies in support of responsible investing and robust social – or 'S' – performance in their 'ESG' offerings;

- c. **Financial institutions** scrutinizing current and potential clients to diagnose the risk of significant human rights incidents occurring and recurring in their lending portfolios; and
- d. **Civil society organizations** building strategies and engagement with companies in order to advance business respect for human rights and thereby help reduce inequalities.

The Red Flag indicators are grounded in three key dimensions of any 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).

These red flags are not intended to be an exhaustive list, but may help spark reflection and enable the identification of additional red flags. Each one is supported by a short overview for leaders to quickly understand the risk, where it can arise, and some key questions to evaluate how real the risk is in the context of their company.

The resource then offers additional insight into the nature of the risks to people and to the company; how they relate to the expectations of the UN Guiding Principles on Business and Human Rights and to the SDGs; some due diligence lines of inquiry and strategies to address the risk; and additional tools and resources.

BUSINESS MODEL RED FLAGS

THE VALUE PROPOSITION

The business's commercial success substantially depends on

- 1 | Lowest cost goods or services in ways that put pressure on labor rights
- 2 | High-speed that places pressure on warehouse workers and logistics workers in the "last mile"
- 3 | Project timelines that undermine consultation with communities
- 4 | Privatized access to public goods with risks to quality of service
- 5 | Algorithmic decision-making that can result in discrimination
- 6 | Providing online platforms with potential for online and offline harm
- 7 | Financial or advisory services that enable high-risk clients to cause harm
- 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, or delivering projects removing time to avoid harms
- 12 | Land use where ownership may be contested
- 13 | Depleting natural resources or public goods with increasing pressures on health
- 14 | Commodities with unclear provenance and visibility to at-risk workers
- 15 | Sourcing commodities that are priced independent of farmer income
- 16 | Sourcing low-paid labor from labor providers
- 17 | Using gig workers or other precarious labor
- 18 | Business relationships with limited influence to address risk to people
- 19 | Using data such that privacy and other rights are undermined
- 20 | Shifting inventory risk to suppliers with knock-on effects to workers
- 21 | Automation at speed or scale that leaves workers little chance to adapt

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 tax-minimization strategies