



# Grundfos Human Rights Impact Assessments

Executive Summary

August 2024

**GRUNDFOS** 

Possibility in every drop

## Introduction

We conduct human rights impact assessments (HRIAs) to identify potential risks and impacts across the value chain. Since 2017, we have conducted HRIAs in China, India, Serbia, Mexico, Ghana and the Philippines, along with spot checks across various geographies and operation types. The selection of countries was based on their human rights risk level (based on publicly available reputable sources) and the size of our operation, also ensuring regional representation and different types of business activities (manufacturing, new business model, assembly, etc.). We evaluate industry-specific human rights and labour issues, including forced labour, child labour, working hours and discriminatory practices.

These assessments may be conducted by internal and external experts such as BSR and twentyfifty. These two organisations' combined levels of expertise throughout the different impact assessments provided us with important learnings that we continue to use for our work. Following these assessments, we develop a time-bound corrective action plan which is shared with local leadership and management to assign clear responsibilities and drive progress at the local level.

Built on the understanding of the impact assessments, policies and processes are evaluated and updated to ensure the effectiveness of our measures. For example, through these assessments, we learnt that excessive working hours is a systematic issue that can only be mitigated through global policies. As a result, we implemented a global monitoring system through the Grundfos Production System, which represents the way we want to operate our factories in all regions. Similarly, regional issues such as living wages also go beyond country level. We are taking steps to initiate a living wage assessment to evaluate the disparity in our current wage approach and work towards bridging the gaps.

## China

We conducted our first HRIA focused at one of our manufacturing facilities in China in 2017, followed by a revisit in 2023. During the first HRIA, we identified working hours as a significant challenge, common among many companies. While some employees see working overtime for extra income as harmless, research indicates that prolonged overtime can lead to negative psychological and physical effects. In China, the law prescribes a 40-hour regular work week, with a maximum of 36 hours' overtime per month.

Recognising this issue, our team in China implemented a flexible working hour arrangement and a system to monitor overtime. This system allows each employee a maximum of 432 overtime hours a year, distributed flexibly throughout the year. Before implementing this arrangement, we sought approval from the government and the works council, then consulted with employees on the details, which are influenced by seasonal production flows. The company monitors each staff member's monthly overtime and reports this to managers.

The assessment also identified opportunities to enhance our work with product suppliers, particularly by increasing awareness among the procurement team about the challenges suppliers face. Consequently, our global procurement staff received training on the Grundfos Supplier Code of Conduct and guidance for practical implementation. Additionally, we recognised the need to expand the scope of our supplier audit program, especially in regard to service providers.

This HRIA also helped us understand that, even though the concept of human rights is well known, people will often have different ideas of what it means in practice in a business context and its relevance to their area of work. To ensure effective communication, we learned that we need to continue to develop that understanding on a regular basis, and keep stakeholders informed throughout all stages of the due diligence process.

## India

In 2018, we conducted our second HRIA at our Chennai facility in India, followed by a visit in 2023. This is the oldest and most established of our operations in the country. Incorporated in 1998, this facility combines production and a sales office. In 2018, 69 production workers and 103 office workers were employed, with the headcount growing since.

We identified areas for improvement from the trends observed in our first HRIA, such as working hours and the scope of our Supplier Code of Conduct programme. The team in India has trained leaders on managing working hours and is enhancing its approach to supplier management. We also conducted sessions for internal colleagues as well as local suppliers to increase knowledge, and engaged in dialogues on human rights.

## Serbia

In 2018, we conducted the HRIA at our production facility in Serbia. This assessment helped us confirm some clear trends, such as the need to redefine the scope of our Supplier Code of Conduct programme. Additionally, we identified stakeholder engagement as an area for further development by the local team. While not an area of potential impact in itself, the absence of a robust network could impede our ability to involve stakeholders who are crucial for understanding existing and potential impacts, which is an area we are continuously working on improving.

## Mexico

In 2019, we conducted an internal assessment of our manufacturing facility in Mexico, which revealed that the company had taken exemplary steps to include individuals with limited access to the labour market in their workforce. Notably, Grundfos Mexico collaborated with a local NGO to provide job opportunities to people coming out of prison. Additionally, Grundfos Mexico has established a strong health and safety culture and implemented best practices, such as industry

salary benchmarking, which positively contribute to employment opportunities, equal opportunities and maintaining a safe and healthy work environment.

During the assessment, we also identified adverse impacts in areas such as working hours, which occasionally exceeded ILO standards. Additionally, recruiting processes showed opportunities for improvement, as some elements could be perceived as conducive to discriminatory practices. We also recognised the need to develop mechanisms to monitor the practices of local service providers. In collaboration with our team in Mexico, we defined and implemented an action plan to address these issues.

## Ghana

In 2021, we conducted a human rights and social impact assessment in Ghana to evaluate potential negative impacts on human rights within a new business model, with a follow-up visit in 2022. The assessment revealed impacts related to contracts, health and safety standards, wages and benefits, and gender accommodations for outsourced workers. Concurrently, we recognised the opportunity to advocate for living wages for these workers. Areas for improvement also include mechanisms for access to water, safeguarding users' privacy, clarifying land ownership processes, and addressing community grievances effectively.

Furthermore, the assessment prompted us to consider the potential impacts of our future exit strategy and the importance of conducting due diligence before entering partnerships with local franchisees, entrepreneurs or business partners. These issues and opportunities were addressed and resolved with the project management team.

## The Philippines

In 2023, we conducted an HRIA of our activities in the Philippines, where we maintain a sales office and have recently expanded our IT shared services team. This assessment underscored the need to broaden the scope of our Sustainable Supplier Management programme to include monitoring of local service providers. An opportunity to advocate for a living wage for these outsourced workers was identified. We also received concerns regarding safety, particularly for employees working in high-risk conflict locations. We are working with the local team to address these findings, which includes ongoing engagement with the contracted workers by local management to monitor their working conditions.