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Supply chain management and CSRD

Corporate Sustainability Reporting Directive is shining a light on supply chain transparency. What does your business need to know about sustainability in its supply chain now?

Introduction

It has become increasingly important for companies to understand their supply chain and the sustainability implications at each stage of the journey. Conducting effective supply chain due diligence is critical and enables companies to understand and address the risks associated with the different stages of a product's journey from the supplier to the end customer.

Supply chain due diligence is essentially a systematic risk management process that involves a comprehensive assessment of the social, environmental and ethical practices of suppliers, contractors and other partners. The process can help minimise the negative impacts of a company's operations on people and the environment. It can also ensure legal compliance and, significantly, protect your company's reputation.

For many companies, supply chain due diligence has become one of the most important ways to mitigate risk, ensure regulatory compliance and prevent reputational damage from customers and activists.

Supply chain management is about to take on additional significance with Corporate Sustainability Reporting Directive (CSRD), EU legislation that requires, elevates and standardises ESG (environmental, social, governance) reporting like never before. CSRD places increased emphasis on supply chain transparency and due diligence. Organisations will be required to disclose information on their supply chains, including environmental and social risks and impacts.

CSRD broadens who must report, standardises what they report and expands the scope of reporting to include the full value chain. While it will reduce the noise of multiple reporting frameworks and help companies focus, it will also require companies to do things they haven't thought about and place pressure on them to have increased transparency and accountability.

Maintaining effective due diligence in a complex supply-chain is not easy or simple. It takes time, expertise and is an ongoing and evolving process. With the pressure to understand what is happening at every stage of the supply-chain greater than ever, we want to provide you with an understanding of the due diligence process, why it's important and what you need to know to make your company, and the world, a safer, more ethical and more humane place.

Why is CSRD a big deal for supply chain sustainability?

CSRD requires all large and listed companies to publish regular reports on the social and environmental risks they face, and on how their activities impact people and the environment. It aims to help investors, consumers, policymakers and other stakeholders evaluate non-financial performance and encourage a more responsible approach to business.

The EU sees CSRD as an important part of delivering its European Green Deal - an ambitious effort whose ultimate goal is a carbon-neutral Europe. Part of that effort involves putting sustainability reporting "on the map" so it becomes an issue of significance for companies. CSRD defines - for the first time - a common reporting framework for non-financial data, encompassing not just climate change but broader Environmental, Social and Governance (ESG) metrics.

One of CSRD's main innovations is placing a company's value chain at the centre. Unlike other sustainability legislation that focused on a company's own footprint, CSRD goes to the supply chain. This is not surprising, given that most of a company's impact and risk lies within its supply chain. But it means that organisations must now take responsibility for their suppliers.

CSRD's implications for the supply chain



Supply chain due diligence:

The CSRD places increased emphasis on supply chain transparency and due diligence. Organisations will be required to disclose information on their supply chains, including environmental and social risks and impacts.



Sustainable procurement practices:

Procurement groups will play a vital role in supporting compliance with the CSRD. They will need to align their sourcing strategies with sustainability objectives and collaborate with suppliers to ensure adherence to environmental and social standards.



Emission reporting:

Double materiality means all environmental matters that are affected by the supply chain or affect your business. This includes aspects such as; greenhouse gas emissions, energy efficiency and environmental footprint results. CSRD requires emissions reporting, which, depending on company size, will start sometime between 2024 and 2028.

Why should a company understand its supply chain?

CSRD's focus on the supply chain is a strong nod towards the fact that so much of a company's impact and risk is there. Conducting supply chain due diligence helps your company identify and mitigate any risks associated with their supply chain. It ensures that you are working with suppliers and that adhere to ethical standards and laws. This process serves a number of valuable purposes including:

Promoting your company's values



Supply chains could contribute as much as 90% of a company's environmental impact and carbon emissions. This means that monitoring supply chain sustainability is an important part of a company's overall sustainability efforts. There is also the possibility that actions along the supply chain may be tacitly providing aid to regimes that allow or support child labour or other human rights abuses.

Legal compliance



Countries are beginning to mandate supply chain due diligence as a legal requirement. The EU already has several sustainability reporting measures in place and has its upcoming Corporate Social Responsibility Directive (CSRD) includes regulations on monitoring a company's supply chain. Germany, France, Italy, Switzerland and Norway have laws in place relating to supply chain due diligence as does the United States, Canada, Brazil, Australia, and several other countries around the world.

Mitigating risk



Companies will identify and assess potential risks in their supply chain, such as labour violations, environmental impact, and corruption, and take necessary actions to address them. This helps to ensure compliance with legal and regulatory requirements and prevent any potential legal or reputational damage that could result from non-compliance.



Protecting your company's reputation

Consumers are increasingly demanding greater transparency and accountability from companies, and are more likely to support those that demonstrate responsible and sustainable practices. Similarly, many investors factor in sustainability information when making funding decisions. Conducting due diligence on suppliers and addressing any issues that arise can help to build trust and enhance a company's brand reputation, ultimately leading to increased customer loyalty and long-term success.

What could happen if I don't take a good look at my supply chain?

There are real consequences if you do not conduct thorough due diligence, or if you fail to mitigate any of the risks identified.

These could involve:

- ➔ Damage to your company's reputation that can have long-lasting effects. It can lead to lower consumer or investor confidence and/or a loss of opportunities
- ➔ Non-compliance with regulations that can result in significant fines, imprisonment, and other penalties.
- ➔ Failing to identify potential risks in the supply chain that can lead to business disruptions and potential breaches of contract with clients.
- ➔ Profiting from practices that harm the environment or violate human rights is not ethical, inhumane and contradicts company values.

Understanding risk factors

The environmental and human rights risks in the supply chain fall into a number of broad categories:

GHG emissions

Climate change is happening primarily because of excessive greenhouse gas (GHG) emissions.

Suppliers that aren't taking steps to curb their emissions may pose risks to the environment, alienate customers and investors and harm the company's bottom line.

Pollution

Are suppliers under heavy scrutiny for polluting the environment? If you see negative media reports about them, consider working with a different company that won't pose a risk of angering customers.

Forced labour

Screening for modern slavery in the supply chain is a legal requirement for many businesses operating in the UK and other European countries. This involves conducting due diligence on suppliers to identify and address any potential risks of modern slavery, such as forced labour or human trafficking.

★ More than 28 million people around the world work in forced labour, along with 160 million child workers. The EU, US and other regions prohibit using any product that was mined or produced using forced labour.

Conflict minerals

Many regions have laws requiring companies to report their uses of tantalum, tin, tungsten, and gold, which often come from regions where armed conflict and human rights abuses are prevalent. Similarly, diamonds mined in war-torn countries such as Angola, Ivory Coast and Sierra Leone are frequently used to finance insurgency efforts.

★ The Kimberley Process Certification Scheme (KPCS) is a global initiative that sets legal requirements for the import and export of rough diamonds to prevent the trade of conflict diamonds.

Timber laws

Timber used for construction or other manufacturing must be sourced legally and sustainably. Timber Regulations in many countries require businesses to conduct due diligence to prevent illegally harvested timber from entering the supply chain.

Sanctions

Trading with businesses, individuals or countries that are sanctioned is illegal. Sanctions may be imposed for reasons such as human rights abuses, terrorism or nuclear proliferation. Failure to comply with sanctions regulations can lead to significant legal trouble.

Did you know...?



The average company only has knowledge of about 7% of what goes on in their supply chains.

- That means 93% of most companies' supply chains **are invisible**.



More than 90% of the environmental damage caused by manufacturers comes from their supply chains.



Many of the raw materials we use are produced by the estimated 28 million people around the world working in forced labour.



Conflict minerals often come from regions of the world where armed conflict and human rights abuses are prevalent, particularly in the Democratic Republic of Congo and the surrounding countries.

- These minerals include tantalum, tin, tungsten, and gold, which are used in a variety of electronic devices such as smartphones, laptops, and tablets.
- The mining and trade of these minerals often fund armed groups and contribute to human rights abuses such as forced labour, sexual violence, and child labour.
- That's why the European Union, The United States, and other regions have laws requiring companies to report their uses of these materials and closely monitor their supply chains.



Supply chain due diligence: Best practices

The first step to getting started with supply chain due diligence is to develop a plan of action. A good supply chain due diligence plan should include the following steps:

1. Identify the supply chain

The first step is to map out the entire supply chain, identifying all the parties involved, including suppliers, manufacturers, distributors, and retailers.

2. Assess the risks

Once you have identified the parties involved, you need to assess the risks associated with each party, including environmental, social, and governance risks. This can include evaluating labour conditions, environmental impact, and compliance with applicable laws and regulations.

3. Conduct audits

Conduct audits of suppliers and manufacturers to assess their compliance with ethical, social, and environmental standards, as well as quality and safety standards.

4. Verify compliance

Verify compliance with relevant laws and regulations, including labour laws, environmental regulations, and anti-corruption laws. This can be done by reviewing documentation, conducting interviews, and conducting site visits.

5. Develop a risk mitigation plan

Develop a risk mitigation plan to address any identified risks and opportunities. This may include working with suppliers to improve their social and environmental practices, developing new policies and procedures, or diversifying the supply chain. Suppliers may need to be discontinued if there are too many problems.

6. Monitor and review

Once the risk mitigation plan is in place, it is important to regularly monitor and review the supply chain to ensure that the plan is effective and that new risks are identified and addressed in a timely manner.

What info do I need?

Auditors should have a checklist of information that must be gathered for every supplier. The research will include data provided by the supplier itself, as well as insights provided by external sources, including online searches.

For every supplier you work with, you should have:

- General company information

- Any news about the company that may pose a reputational risk, including lawsuits, complaints, and social media chatter

- Financial and insurance information

- Information about hiring practices

- ESG credentials

- A list of any stakeholders that are politically exposed persons (PEPs)

- Cybersecurity and information security policies

Gathering data

There are a variety of effective methods to gather data on your suppliers. These include:

✓ Forms

Using different types of forms helps collect information directly from a supplier in a structured way.

This could include:

- Questionnaires
- An online portal where documents can also be submitted
- Other vetting or onboarding documents

✓ Document requests

You can request different types of documents from the supplier,

such as:

- Environmental policies
- Modern slavery transparency statements
- Supplier onboarding policies
- Evidence of accreditation for relevant standards

✓ Online searches

Searching for information online can help to uncover red flags, such as complaints and prosecutions. It can also help uncover positive information, such as recognition for outstanding employment conditions or meeting high environmental standards.

✓ In-person checks

In some circumstances, organisations may conduct an in-person check of a supplier. This may include a site visit, interviews with managers or union representatives and facility inspections. Such visits provide insights into a company's situation in ways that other forms of research cannot.

✓ Other sources

Depending on the sector, you may also be able to find relevant information from other sources such as a regulatory body, government agency, or standards register.

Red flags: How to spot them

A red flag is anything that calls into question whether the supplier meets due diligence requirements. These are the signs to look out for:

Negative press regarding environmental or human rights violations

This may include anything from reports of air or water pollution and false emissions claims to tragedies resulting from unsafe working conditions or improper industrial waste storage.

Enquiries, investigations, prosecutions, or convictions for crimes around environmental or human rights law

A conviction does not need to have been made for any of these to be red flags.

Lacking emissions targets

Suppliers should have carbon reduction strategies in line with achieving the 1.5°C climate change target set in the Paris Agreement.

Poor or incomplete reporting, including unsatisfactory completion of questionnaires

Any requested documentation should be robust and complete. If reporting is absent, incomplete, piecemeal, or rudimentary, this is a red flag.

Refusal to comply with supply chain due diligence checks

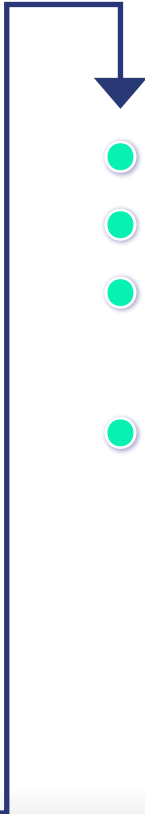
If a supplier does not comply with a request, or if their response is not satisfactory, a positive way to follow up is to ask why they have concerns about providing the information. If they still refuse to disclose the relevant information, this is a red flag.

Reporting red flags

Whether you are conducting supply chain due diligence as part of your job role or you spot something suspicious in the course of your work, you must report red flags and other environmental or human rights concerns as soon as possible.

Your organisation may have a formal process for reporting red flags in the supply chain. This may include a compliance portal, online or paper form, or contacting a designated person. If you're unsure, speak with your manager or compliance team.

Even if there's no formal process, you still need to report red flags as quickly as possible. Contact your manager, compliance, or legal either verbally or in writing. Include relevant details, **such as:**

- 
- The supplier name
 - Details of the incident or information
 - When you found the information or when the incident occurred
 - Why you are concerned about it



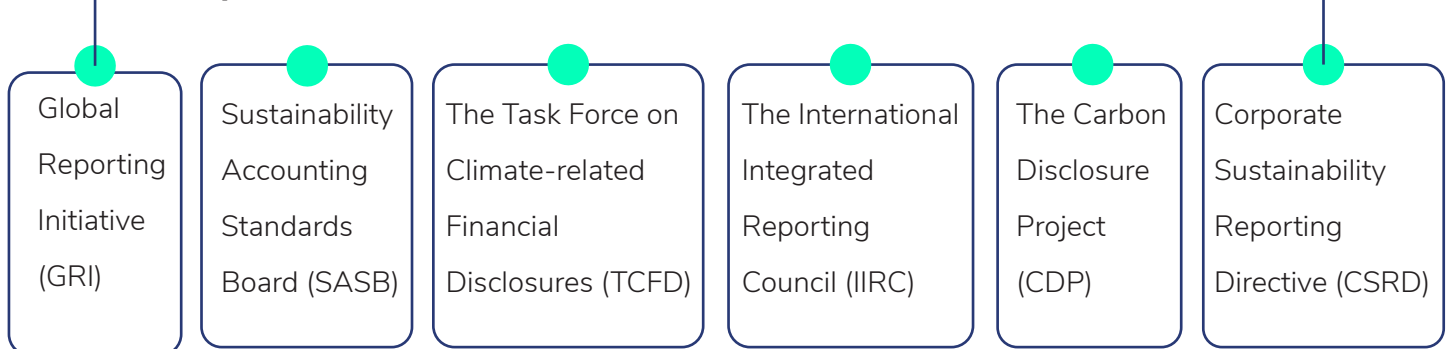
Gold stars: The positive side of due diligence

In addition to looking for warning signs, you should also look for marks of high environmental and human rights standards in your supply chain.

Check if your suppliers garner high-quality reporting and good scores using reputable sustainability frameworks.

→ An ESG (environmental, social governance) framework is a standardised method for collecting and scoring the environmental, social, and governance performance of an organisation.

Reputable frameworks include:



Also look for compliance with international environmental standards, such as the ISO 14000 family on environmental management systems. Robust reporting on how an organisation complies is also a strong positive sign.

Other positive signs include membership in a leading environmental and ethical due diligence organisation. Examples include being a UN Global Company (UNGC) or a B Corp (B Corp Certification). Additionally, look for detailed and independently verified sustainability reporting. This may be compiled as standalone reports, a section in the organisation's annual report, and/or as an integral part of ESG reporting.



Supply chain due diligence: Help your company help the world

Many countries now require that companies publish annual reports detailing their supply chain due diligence efforts. Even in locations where it is not mandated, more and more organisations are choosing to be transparent about the steps they are taking.

And with CSRD's focus on the supply chain, transparency and accountability in your supply chain is going to quickly become something you need.

But there are reasons beyond the increased legislative and stakeholder pressure to be aware of what's happening in your supply chain. Supply chain due diligence is a critical component of your company's responsible and sustainable business practices, ensuring that operations are ethical, environmentally friendly, and socially responsible. It will help ensure not only that you comply with your legal responsibilities but also that you are helping make the world a better place.

VinciWorks' sustainability and ESG training suite



By providing your team with comprehensive sustainability training, you empower them to become change agents within your organisation. Our sustainability courses go beyond mere theoretical knowledge; they delve into practical strategies and actionable insights that can be implemented across departments and levels. From understanding the principles of sustainable development to integrating sustainability into daily operations, our training equips your staff to identify opportunities for positive change, drive efficiency, and foster innovation.

Our courses

- [ESG: The Basics](#)
- [ESG: Fundamentals](#)
- [Climate Change](#)
- [ESG: Practical Applications](#)
- [What is Sustainability?](#)
- [Eco-driving](#)
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- [Working Towards Zero Waste](#)
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