

VinciWorks

Supply chain due diligence

What does your business need to know about
sustainability in its supply chain?



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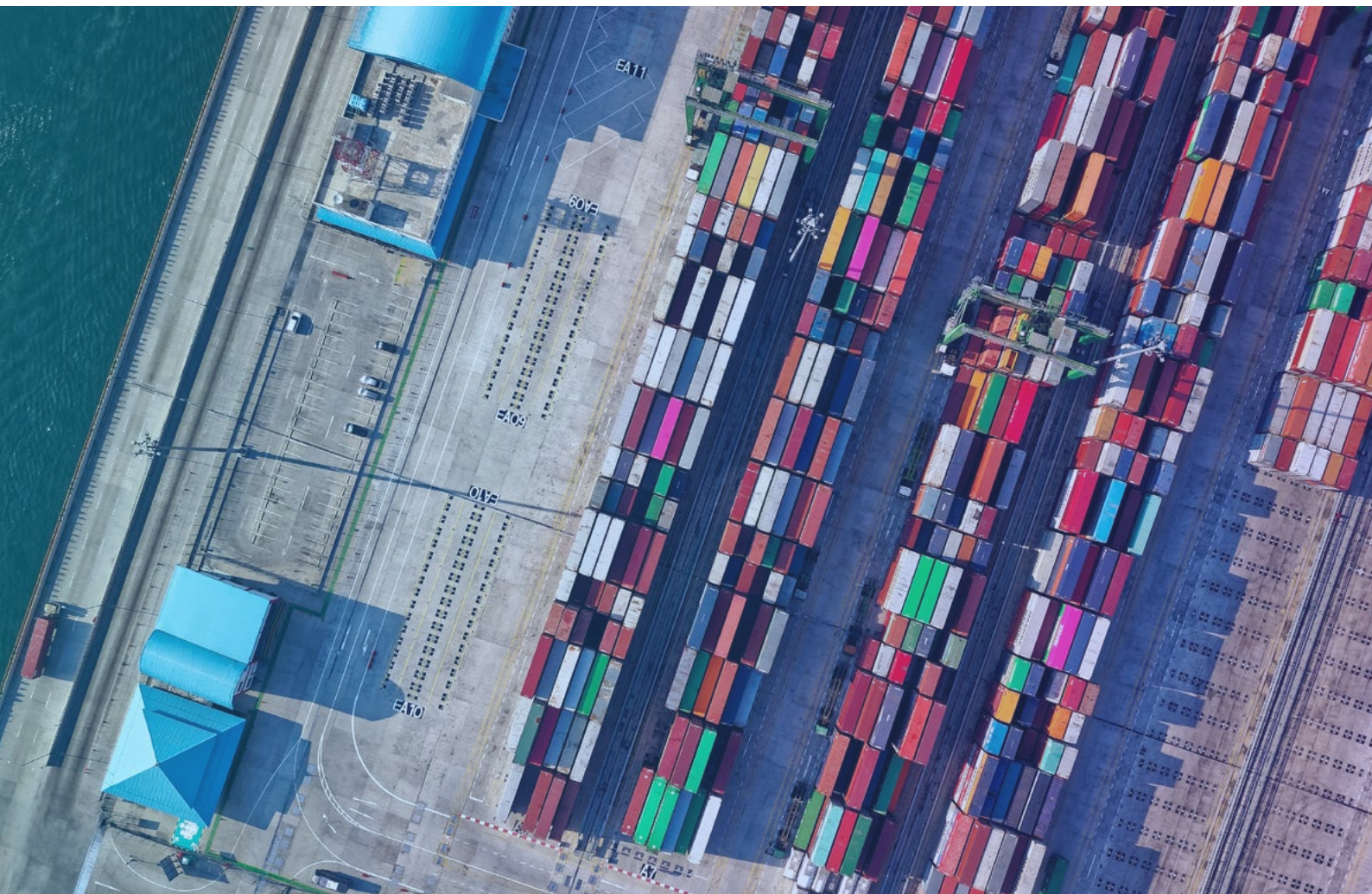
Introduction

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.

We are well aware that 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. But the pressure to understand what is happening at every stage of the supply-chain is greater than ever. In this guide, we will 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 should a company understand its supply chain?



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 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.

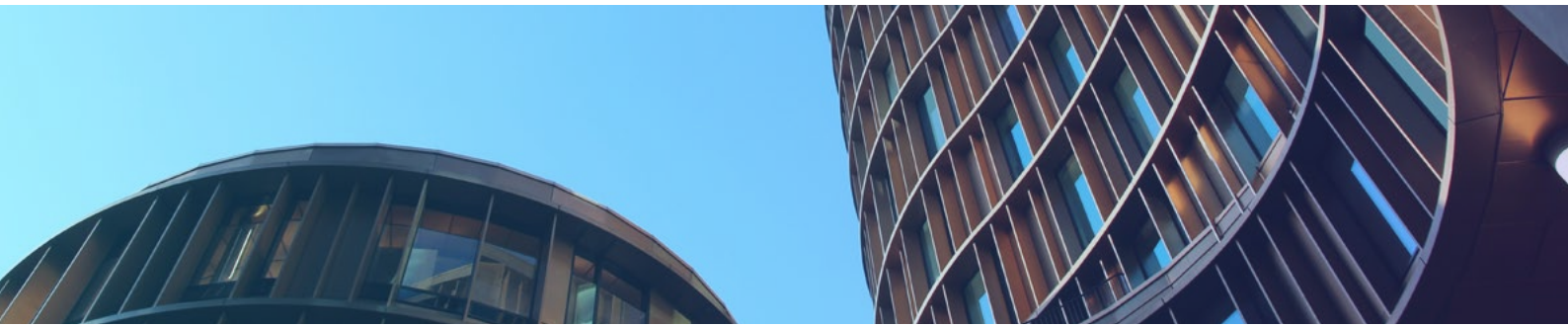
- The Kimberley Process Certification Scheme (KPCS) is a global initiative that sets legal requirements for the import and export of rough diamonds to prevent the trade of conflict diamonds.

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 supply 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.

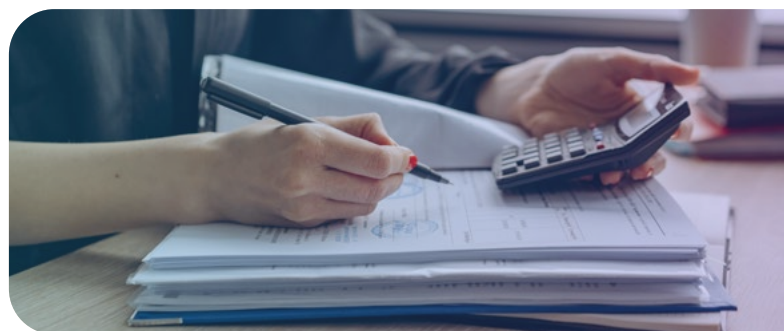
Reporting red flags

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 ESG frameworks.

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

Reputable frameworks include:

- Global Reporting Initiative (GRI)
- Sustainability Accounting Standards Board (SASB)
- The Task Force on Climate-related Financial Disclosures (TCFD)
- The International Integrated Reporting Council (IIRC)
- The Carbon Disclosure Project (CDP)
- Corporate Sustainability Reporting Directive (CSRD)

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.

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.

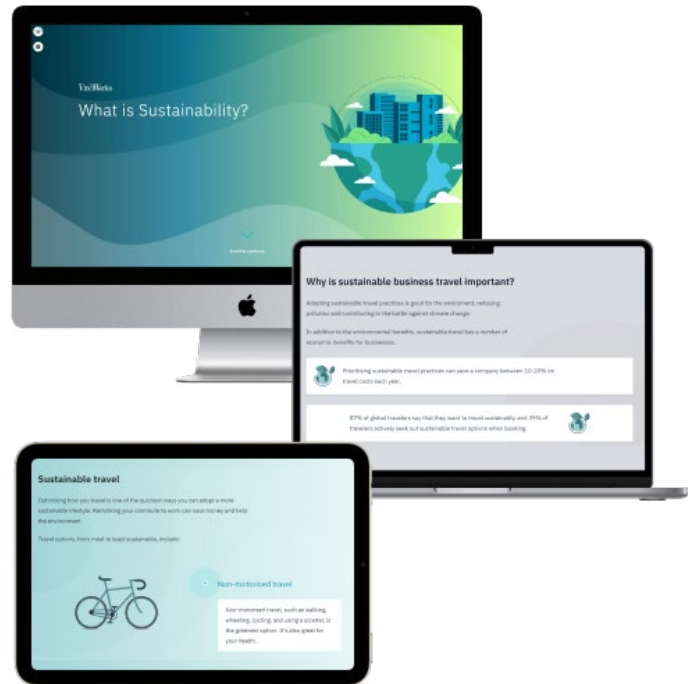


VinciWorks' environmental sustainability training suite

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](#)
- [Saving Energy and Water](#)
- [Pollution](#)
- [Working Towards Zero Waste](#)
- [Non-Recyclable Waste](#)
- [Supply Chain Due Diligence](#)
- [Business Sustainability Management](#)
- [Sustainable Travel](#)



Our centralised supplier onboarding solution

New suppliers carry with them a unique set of challenges and risks. Increased suppliers mean more people with access to your employees, premises, systems and data. Managing this process requires diligence and efficiency. Risks of not putting in place a compliant system include both financial and reputational damage, something all organisations want to avoid.

Our software solution can be accessed from anywhere and at any time. Omnitrack provides a streamlined solution for supplier onboarding. Onboarding questions are tailor-made to fit all types of suppliers. The automated system generates reminder emails to ensure completion, saving you from chasing suppliers. Internal review can take place by different admins allowing real-time collaboration from different internal parties.



[Download brochure](#)

A man in a light-colored suit is standing in a high-rise office, talking on a mobile phone. He is looking out a large window at a cityscape. The image has a blue tint and is used as a background for the contact information.

VinciWorks

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