



INTEGRITY  
NEXT

Whitepaper

# **SUSTAINABILITY IN THE SUPPLY CHAIN:**

## PROCUREMENTS' DUTY TO ACT

The growing demand for sustainability puts companies under pressure to ensure responsible and transparent supply chains. This white paper delivers insights on what this means for procurement and how to meet the demands.

## Why procurement needs to act now

Companies today are confronted with a dramatically increasing awareness of all aspects of sustainability. Public pressure as well as international regulatory authorities make companies responsible not only for their own actions but also for the behaviour of their suppliers. Complying with sustainability requirements and protecting brand reputation is a daunting task for companies - especially given that their supply chains often comprise thousands if not ten thousands of suppliers.

When employees at Foxconn committed suicide because of unbearable working conditions, Apple, one of the company's major customers, was in the press for weeks. The textile industry experienced a similar fate when more than 1,000 workers died in the Rana Plaza accident in Bangladesh. Such disasters and increased news about environmental pollution, child labour, corruption or unworthy animal husbandry have significantly raised the awareness of many consumers in recent years. For companies, the practices of their suppliers entail the risk of damaging the reputation of their own brand and, as a result, a loss of revenue.

Regulators have formulated their demands as well, creating tough legal obligations for companies in order to drive social responsibility. A rising number of laws require companies to report on environmental, social and governance (ESG) issues as well as their measures to tackle issues such as human rights and corruption within their own company and, above all, within their supply chain. The latter is especially important, considering that in many industries an average of 65% of value added is provided by suppliers. Incomplete or false information can result in hefty fines or even prison sentences.

The obligations arising from such directives still mainly affect large capital market-oriented companies. However, the issue is also becoming more important for smaller companies, because responsible business practices are demanded by business partners with market power and can be decisive in competition with others. There is a clearly discernible trend towards ever stricter contractual compliance requirements on the part of companies with CSR obligations, which are increasingly forcing smaller companies within the supply chain to take action.

Because the supply chains of most companies are already international at first level, many (including small and medium-sized) companies are subject not only to their national laws but also to international CSR regulation such as the UK Modern Slavery Act, the US Foreign Corrupt Practices Act or the French Duty of Care Act.

However, assessing the sustainability and compliance of suppliers is a complex issue. Traditional monitoring, such as supplier audits, are extremely costly in terms of time and money and thus only feasible for a limited number of suppliers. Understandably, many companies therefore focus their monitoring efforts on a few, strategically important suppliers. Medium-sized and smaller companies often shy away from the effort completely. However, this is where compliance issues often go undetected – posing a great risk and target for unaware companies.

Companies will fare best by making a smart bet on tech and taking a standardized and automated approach for the collection and evaluation of supplier information related to sustainability and compliance. Not only does this save time and money, but a scalable process allows companies to monitor their entire supplier base rather than just a handful. Only by achieving this level of transparency can a company exercise its due diligence properly.

In the new decade, coined by the growing demand for sustainability, it is both the responsibility as well as a crucial imperative for procurement teams to find a way to ensure responsible supply chains. Only those who do will be able to meet the requirements, mitigate risk and secure the long-term success of their company.



## Sustainability issues in the supply chain

Sustainability encompasses more issues than the environment and therefore a lot for procurement teams to be mindful of:



### Human rights & labour issues

The result of an organization or their suppliers violating regulations like child labor laws, participating in modern slavery or not providing good working conditions.



### Child labour

Organizations or their suppliers purposely violating child labor laws, often to cut costs.



### Modern slavery

When suppliers participate in modern slavery by not offering employees fair wages or forcing them to work against their will.



### Occupational health & safety

Issues can stem from an organization or its suppliers not providing the proper health and safety protections in the work environment.



### Environmental protection

Ensuring your suppliers are taking steps to limit their fuel emissions, disposing of chemicals properly and using eco-friendly materials.



### Supply chain responsibility

Ensuring your suppliers are checking and monitoring their suppliers' own suppliers to mitigate risk coming from the sub-tiers.



### Conflict minerals

Issues stemming from suppliers leveraging vital natural resources from war-torn countries without taking into consideration the human rights of the people.



### REACH

Legislation from the European Union that deals with the registration, evaluation, authorization and restriction of chemical substances.



### RoHS (Restriction of Hazardous Substances)

Legislation from the European Union restricting the use of specific hazardous materials found in electrical and electronic products.



### Bribery & corruption

Stemming from a supplier participating in or soliciting bribes, or acting in a corrupt manner.

## Rising national and international CSR Regulations

Many companies, including the UK, US, Germany and The Netherlands, have adopted National Action Plans in order to implement the UN Guiding Principles on Business and Human Rights. While these action plans entail guidelines rather than legal duties, more and more countries are now passing the guidelines into law.

The French **Duty of Vigilance Law** that was passed in 2017 is one such law. It requires companies to elaborate, disclose and effectively implement a vigilance plan that includes measures to adequately identify risks and prevent serious violations of human rights and fundamental freedoms and serious harms to health and safety and the environment, within the company and, above all, the supply chain. In the case of non-compliance, severe penalties can be the consequence.

The German **CSR Directive Implementation Act** is another example. It legally requires companies to include in their group management report information on environmental, social and governance issues as well as their measures to respect human rights and fight corruption – all the way down the supply chain. Incomplete or false information or no report at all can lead to fines of up to €10 million. If the situation of the company as a whole is portrayed in a concealed or distorted manner, the responsible parties may even face up to 3 years in prison.

Supply chains are usually international at the first tier. As a result, lots of companies are not only confronted with national CSR requirements, but also have to comply with international legislation.

An example: Companies that use gold, tantalum, tungsten or tin in their products are subject to a US law, the **Dodd-Frank Act**. **It requires companies to trace the minerals they are using right back to the smelter** in order to prove they don't originate from the conflict region around the Democratic Republic of Congo. This sounds like an absolute niche topic, but in fact it affects almost the entire electronics, high-tech and automotive industries and their suppliers. On 1 January 2021, the EU will follow suit and bring the **Conflict Minerals Regulation 2017/821** into force. This will apply throughout the EU and oblige companies that purchase the above-mentioned minerals to take compliance measures in the supply chain. Companies that have not been affected by the US law so far will be affected by the EU regulation at the latest and companies that process such minerals are advised to prepare in good time.

The **US Foreign Corrupt Practices Act (FCPA)** was passed as law in January 1977 and is aimed at stopping corruption practices, creating fair conditions for honest business and restoring public confidence in the integrity of the market. The FCPA also applies to subcontractors operating outside the U.S. and third parties such as joint venture partners or distributors and thus has extra-territorial reach. The UK followed suit in 2010 and enacted the **UK Bribery Act**, an even more stringent law with transnational scope.

The **UK Modern Slavery Act** requires companies to make an annual „Slavery and Human Trafficking“ declaration, which must explain how the company is combating forced labour, slavery and human trafficking in its supply chain. The Act also applies to companies outside the UK if they have a worldwide annual turnover in excess of £36 million and conduct any business in any part of the UK.

## In conclusion

The growing demand for sustainability poses new responsibilities and challenges for procurement. Only organizations that can keep up with the increasing pace of legal requirements, consumer expectations and public pressure will be able to ensure their success and competitiveness in this decade. Procurement can navigate these tricky waters by making a smart bet on tech to enable responsible and transparent sourcing, mitigate reputational risk and meet reporting requirements.

However, let us not be intimidated by the task ahead but view this as an opportunity to rise to the occasion and add value to the procurement function. Enabled by advanced technology, procurement can leverage its unique position to foster the company’s sustainability efforts and contribute to our global agenda – ultimately creating better outcomes for the people, the planet and the profit.

## About IntegrityNext

IntegrityNext enables companies to monitor 100% of their suppliers for sustainability and compliance in order to meet the regulatory requirements and reduce risk. The IntegrityNext platform automatically obtains the required supplier self-assessments and certificates while monitoring social media for malpractice and reputational risks. Among others, IntegrityNext covers Environmental Protection, Human Rights & Labor, Health & Safety, Diversity, Anti-Bribery & Anti-Corruption, Supply Chain Responsibility, Data Protection, Cyber Security, Quality Management, Financial Information, Blacklist & Sanctions, Conflict Minerals, REACH and RoHS. Companies in over 130 countries are using the IntegrityNext platform, including industry-leading companies such as Clariant, Fujitsu, Miele, OSRAM and Siemens.





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