

MANAGING ESG RISKS IN THE SUPPLY CHAIN

The rise of environmental, social and governance (ESG) considerations in business has transformed how companies approach their operations, particularly

within supply chains. Supply chains are responsible for a significant portion of a company's environmental and social impact, often accounting for 80 to 90 per cent of emissions and other critical ESG metrics.

Focusing on supply chain sustainability allows companies to make meaningful strides in their ESG performance, driving compliance and value creation.

For instance, reducing carbon emissions across various tiers of suppliers can dramatically decrease a company's overall carbon footprint. The same applies to social metrics such as labour practices, where enforcing fair wages and safe working conditions can significantly enhance a company's social impact.

This article explores how businesses can effectively manage and mitigate supply chain ESG risks by:

- Leveraging frameworks and standards
- Securing top management commitment
- Performing thorough risk assessments
- Engaging stakeholders.

UTILISE FRAMEWORKS AND STANDARDS

A critical component of effective ESG management in the supply chain is the adoption of internationally recognised frameworks and standards. These provide a structured approach to integrating ESG considerations into business operations and ensure efforts align with global best practices.

Key frameworks include the United Nations Global Compact, which provides principles on human rights, labour, environment and anti-corruption, and the Global Reporting Initiative (GRI), which offers guidelines for reporting ESG performance. ISO standards, such as ISO 14001 for environmental management and ISO 45001 for occupational health and safety, also offer robust tools for managing specific ESG risks.

Additionally, industry-specific codes of practice, such as the Ethical Trade Initiative (ETI) Base Code, can provide tailored guidance for businesses operating in particular sectors.

Katie Martin



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Katie Martin, ESG and Sustainability Lead Principal at Avetta, explores how to improve sustainability, reduce risks and drive long-term value for your business

By aligning their ESG strategies with these frameworks, companies can meet regulatory requirements and enhance their credibility with investors, customers and other stakeholders.

Successful ESG integration starts with strong leadership commitment. Senior management must prioritise ESG initiatives and allocate adequate resources to ensure their success. This involves more than just setting policies; it requires embedding ESG principles into the company culture and ensuring these principles guide decision-making at every level and every tier of the supply chain.

Cultural integration is vital. Organisations must foster a culture that values sustainability and safety, encouraging proactive approaches to ESG challenges throughout the company. This can be achieved by ensuring all employees feel incentivised and empowered to contribute to the company's ESG goals. Additionally, setting realistic, data-driven goals for ESG compliance and improvement is crucial. Companies should avoid greenwashing – making false or exaggerated claims about their environmental practices – and instead focus on establishing practical targets based on a thorough understanding of current capabilities and practices.

ASSESSING ESG RISKS IN THE SUPPLY CHAIN

Effective ESG management in the supply chain requires a comprehensive risk assessment and due diligence process. Companies must utilise risk models to evaluate suppliers, identify high-risk vendors and address issues systematically. This includes tailoring assessments and due diligence processes to account for regional laws, cultural differences and the specific challenges of the business sector.

When getting started with ESG initiatives, especially measuring and monitoring within the supply chain, many companies benefit from starting small and building in maturity. There are a few reasons this can be advantageous:

1. Undertaking a new ESG initiative takes time. Any successful ESG programme within an organisation must touch multiple departments and operational processes, and trying to take on too much too quickly can cause friction and overwhelm.
2. Culture change also doesn't happen overnight. To get employees, customers, investors and other stakeholders onboard, you need to set reasonable targets, communicate clearly, build trust and create lasting change.



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3. Implementing an aggressive ESG measurement programme for suppliers and contractors can be overwhelming and met with pushback. The smarter move is to start gathering data and implementing new processes slowly.

Before you start integrating ESG criteria into procurement processes and supplier contracts, you may want to simply start by gathering data. This will help ease contractors and suppliers into your new programme and give you a baseline of current performance and red flags. Later, you can begin phasing in more stringent requirements and contractual obligations and set realistic company goals.

Supplier engagement and buy-in is essential to measuring, monitoring and managing ESG within the supply chain. Companies should work closely with suppliers to improve ESG performance through training, monitoring and continuous support. This goes beyond mere data collection; it involves contextualising the information gathered and taking proactive steps to address any identified risks.

FOCUS ON CONTINUOUS IMPROVEMENT

ESG is not a one-time initiative but an ongoing process of continuous improvement.

Companies must stay updated on the latest ESG best practices and regulations and adjust their programmes accordingly. This requires utilising both internal and external resources, such as industry reports, regulatory updates and expert consultations, to ensure that the company remains at the forefront of ESG strategies.

Establishing a roadmap for continuous improvement is also essential. Companies should regularly update their practices and policies based on new information, changing conditions and stakeholder feedback. Transparency and communication, both within the organisation and with external stakeholders, are vital to maintaining trust and demonstrating the company's commitment to ESG.

Engaging stakeholders is a critical aspect of ESG management. This includes providing training and education on ESG principles for employees and suppliers, raising awareness about the importance of sustainability and highlighting how individual actions contribute to broader ESG goals.

Building partnerships with non-governmental organisations (NGOs) and other organisations can also enhance ESG efforts. These partnerships provide access to external expertise and resources, helping companies address complex ESG challenges more effectively and creating economies of scale on ESG programmes within region and industry.

Moreover, companies should actively engage with stakeholders, including investors, customers and local communities, to gather feedback and foster collaboration on ESG initiatives. This not only strengthens relationships but also ensures that the company's ESG efforts align with its stakeholders' expectations and needs, building legitimacy and enhancing brand reputation.

Mitigating and managing ESG risks in the supply chain is a complex but essential task for modern businesses. By adopting recognised frameworks and standards, securing top management commitment, conducting thorough risk assessments and engaging stakeholders, companies can effectively manage ESG risks and create long-term value. In an increasingly ESG-conscious world, companies that prioritise these efforts will be better positioned to succeed and thrive. ♥

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