How to Build a Business That Lasts: A Primer on Environmental, Social, and Governance Responsibilities

By Bill Brown

The world is watching as supply chain compliance becomes more regulated. Forward-thinking organizations are preparing by implementing compliance programs now.

Social norms are always in flux — what was socially acceptable 40 years ago is, in many cases, not the norm today. Watch a sitcom from the 1980s, and you'll see plenty of examples of language and mindsets (not to mention hairstyles and attire) out of sync with today. As social norms evolve and change many times during a lifetime, business norms similarly undergo rapid change. One example is the change in the publicly accepted view of an enterprise's responsibility in protecting the environment: yesterday, laissez-faire; today, under regulatory and social scrutiny with large fines and public condemnation for non-compliance.

Consider now, as a harbinger of things to come, Europe's environmental, social, and governance (ESG) initiatives. Europeans endured multiple heatwaves this summer while floods ravaged Pakistani towns. Governing bodies, representing an ever-more concerned citizenry, are holding organizations accountable for their ESG efforts in hopes of addressing the often-devastating effect that commerce is wreaking on the planet. While regulations demand ESG compliance, organizations must act for reasons beyond the simple avoidance of fines, including the need to remain competitive as buyers consider ESG in purchasing processes and the need to do what is right as a responsible member of a global society.

ESG isn't new; organizations have been implementing ESG initiatives for years. For example, Unisys announced in 2006 its intention to reduce its carbon footprint by 75% by 2026. The company achieved that target five years ahead of plan and has since set a new target to achieve net zero greenhouse gas emissions by 2030. A new wrinkle in the ESG legislation is that organizations will now be held accountable for their external partners' ESG efforts. However, the **really big and important** news is that the global norm is quickly shifting, too.

This article explores how and why organizations must care about their environmental and societal responsibilities.

Holding Entire Operations Accountable

Regulations are emerging to expand an organization's ESG responsibilities. The next wave starts in January 2023 with the German Supply Chain Due Diligence Act, which requires organizations to prove they are operating within a supply chain that conforms to a set of defined environmental and social norms. Similar legislation is expected to be adopted throughout the rest of Europe and the world.

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The challenge of the Supply Chain Act is that not only will organizations have to pay attention to ESG within their organization, but they will also have to demonstrate how their entire supply chain is equally socially auditable and environmentally responsible — end to end. For example, a company could have a hardline stance against child labor at its Munich location. But if a link in their supply chain reveals a supplier anywhere in the world that employs child laborers, the company would not be operating according to ESG regulations.

Organizations can no longer easily absolve themselves of social and environmental responsibilities by maintaining a "clean island." The proverbial buck can no longer be passed to others in the supply chain since regulatory compliance imposes shared responsibility for reducing the energy footprint across the entire chain as well.

The Importance of Being Genuine

Organizations standing on the sidelines of the ESG playing field will soon be paying fines and suffering reputational damage. Naturally, these organizations will implement programs to avoid these formal consequences. However, there is more at stake. Gen Z (those born between 1997 and 2012) is the first generation to focus on purpose over pay, according to a WeSpire study. As Baby Boomers (those born between 1946 and 1964) continue to retire, the available talent pool skews younger and younger consumers are paying attention to a different set of values than their predecessors. This means that producing and selling to a market, which is increasingly discerning in its willingness to purchase from organizations with an outdated value system, will become increasingly difficult given the new business norm. Only businesses embracing that new norm will survive.

Putting Theory Into Practice

The rest of the world is watching as Germany's ESG compliance becomes more regulated. Since more ESG legislation breeds more regulations, you'll have an easier time complying in the future if you begin to align your organization with these tasks:

- Deeply familiarize yourself with your entire supply chain—research your suppliers' and partners' stances on ESG-related topics, such as labor protection laws.
- Take note of existing ESG initiatives within your organization, including diversity, equity and inclusion (DEI) programs and carbon neutrality goals.

Formal ESG compliance will require implementation tools that document ESG processes in an auditable way. There are multiple tools available. However, a records management system with functionality that demonstrates ESG compliance and allows organizations to maintain an audit trail is a necessity.

Most importantly, examine who you are as an organization and what you want to be. Then, examine what and potentially who must change or be exchanged to create an organization that is genuinely a global citizen and genuine in enforcing its accountability.

To learn how to become compliant with rising ESG initiatives and regulations, contact us.

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