From risk to resilience: Supply chain strategies for ESG success

Expert insights from a Unisys webinar: ESG isn’t just today’s problem — are you future-proof?

Envision a future where organizations unite to eradicate child labor, embrace greener energy sources, ensure responsible waste management and protect biodiversity. New regulations are poised to make this vision a reality.

On January 1, 2023, Germany introduced leading environment, social and governance (ESG) regulations related to supply chain transparency with the Act on Corporate Due Diligence Obligations in Supply Chains ("German Supply Chain Act"). And it's not the only one to make changes, as the European Union (EU) is also poised to enact regulations for all EU countries by 2024. But why is supply chain transparency important, and how can companies meaningfully pursue ESG compliance? These pressing questions took center stage during the "ESG isn't just today's problem — are you future-proof?" webinar, featuring solution experts from Unisys. This insightful event delved into the heart of the matter, equipping organizations with the knowledge to navigate this new business landscape.

ESG compliance overview: Understanding new regulations

ESG regulations are here, and companies are legally obligated to enact and monitor their processes to ensure compliance with these new green human rights initiatives. While there are sporadic movements worldwide, the new EU and German regulations are the first examples of what impact these new regulations may have on businesses.

Responding to these regulations is about more than simply caring about ESG, but rather thinking thoughtfully about integrating ESG criteria in various business decisions — including budgeting, investing, partnering and delivering — across your entire supply chain. To better understand the types of ESG concerns that may arise, let's look at a few examples of when a company or supplier may receive a negative ESG rating by being out of compliance:

- Environment: manufacturing company with a supplier using mercury (a toxic substance) as a raw material
- Social: clothing company with a supplier employing child labor in production
- Governance: travel company with no monitoring or tracking working with a supplier who takes bribes

Status of countries' compliance with ESG as of the end of 2022

Countries around the world are in various stages of ESG compliance implementation, with frameworks and approaches also varying widely from country to country. Although the EU is mandating new regulations, Figure 1 shows the current status of ESG compliance implementation in individual countries according to the European Coalition for Corporate Justice (ECCJ).

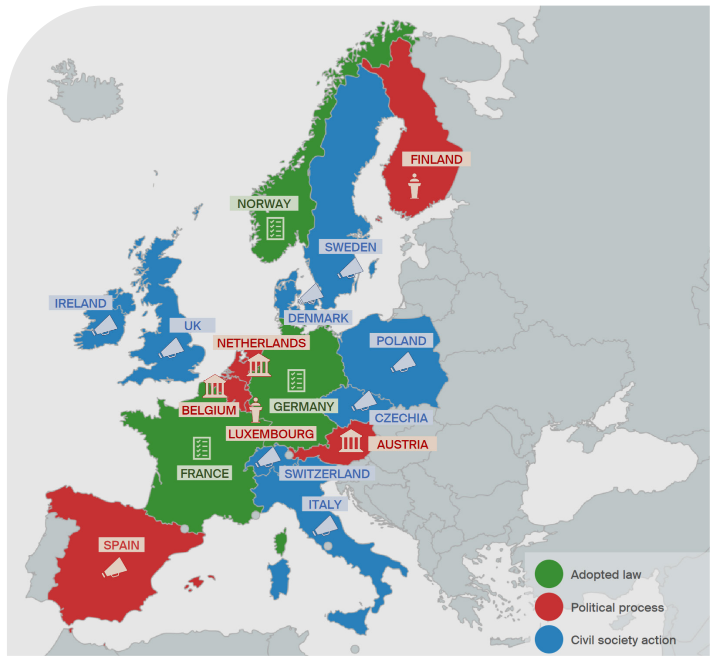

Figure 1: Countries by stage of ESG adoption, according to the ECCJ

Country legend explained:

- Green: countries that have some ESG requirements in place, such as Norway, which has long had laws on business transparency regarding human rights and decent working conditions
- Red: countries that just have a commitment to due diligence legislation, including Austria and Spain
- Blue: countries that do not have legal frameworks but do have active civil society action, such as Italy

Due to this disparate approach, the EU prepared new legal requirements to apply across all EU countries, including the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD), to go into effect by 2025.

Impacted companies

Under the EU's new regulations, organizations with more than 250 employees, a total annual revenue of more than €40 million or a total balance sheet of more than €20 million in revenue will have to meet ESG compliance requirements when at least two of these criteria are met. However — these ESG requirements will also apply if you work with a large company that meets that description.

So, what does this mean for smaller companies? Are they also affected? In short, yes, because when you, as a smaller company, are acting in today's economy as a supplier for a larger company, that larger company will ask you to fulfill ESG requirements. And if you're not willing to fulfill the ESG requirements, you risk losing a customer and revenue.

Think global, act local: German Supply Chain Act

While ESG is a global topic, we've seen how implementation and frameworks vary across countries. The EU has taken a leading role in implementing ESG regulations. As noted earlier, Germany is ahead of others in the EU, as their new regulations went into force in January 2023. The German Supply Chain Act sets requirements for companies with more than 3,000 employees, including risk management policies, whistleblower platforms, remediation measures and annual reports.

But let's look at what's inside that German Supply Chain Act. There are six key subject areas that the supply chain act addresses, as shown in Figure 2:

Figure 2: What comprises the German Supply Chain Act?

1. Risk management policy statement: This guiding document outlines all business practices related to ESG issues.

2. Risk analysis: Organizations need to accurately assess and analyze their own risk factors as well as their direct suppliers in regard to potential environmental and human rights risks.

3. Preventative measures: Organizations are expected to implement measures to prevent or minimize risks, such as adopting a code of conduct for suppliers, implementing due diligence procedures and establishing monitoring mechanisms.

4. Complaint process, also known as whistleblower platform: This act mandates the establishment of a platform so that anyone — internal or external — can easily report ESG violations or concerns within their organization or along the direct and indirect suppliers in their supply chain.

5. Remediation measures and documentation: Organizations are required to take appropriate actions to address identified risks and implement remediation measures. They must also maintain documentation of their efforts to demonstrate compliance with the act.

6. Responsibility and annual reporting on risk scoring: Organizations must provide an annual report that discloses their risk assessment findings and details their risk management measures.

The role of technology in managing ESG compliance

The journey toward ESG compliance is just beginning. Different industries have varying supply chain risks that need to be addressed, and regulations may extend to include indirect suppliers. Technology plays a crucial role in assisting companies with these changes, as shown in Figure 3. Solutions such as the Unisys ESG Orchestration Manager and other portals can help streamline compliance efforts, including whistleblower platforms, risk analysis and supplier management. Technology provides dashboards, risk scoring and document management to ensure companies meet ESG requirements.

With the need to be compliant across various records and metrics, it can be helpful to leverage digital records management strategies to help streamline the process. With a records management solution geared toward ESG metrics, your organization can save valuable time and resources while avoiding risk.

There are several capabilities an effective ESG management solution should have, including:

- Proactive risk identification
- Whistleblower escalation
- Traceability and records management

Take these steps to build a robust sustainability program:

- Start with a gap assessment of your existing ESG tools and processes.
- Assess which existing tools and processes support your ESG endeavors.
- Comply with immediate needs, such as having a risk score about your direct suppliers and providing a whistleblower platform.
- Select a scalable solution that can adapt to future needs.
- Look beyond your processes and develop transparency and trust in your extended supply chain.

Figure 3: Five steps to building a robust sustainability program

ESG compliance is easier with Unisys

The Unisys ESG Orchestration Manager is a comprehensive solution designed to assist customers in meeting ESG requirements and compliance. It encompasses three main areas: the ESG portal, ESG cockpit and ESG risk analysis (Figure 4). These components are directly linked to legal obligations such as the German Supply Chain Act.

Unisys ESG Orchestration Manager

Figure 4: Unisys ESG Orchestration Manager functionality

The solution goes beyond mere compliance by offering features that provide deeper insights and proactive measures. For instance, it includes functionality for analyzing social media to identify potential issues before they are reported through the whistleblower platform. This enables companies to take preventative action and promptly address challenges, safeguarding their reputations.

Some of the key benefits of the Unisys ESG Orchestration Manager include enhanced supplier management, improved risk assessment and scoring, streamlined compliance processes and proactive identification of potential issues. By using this solution, companies can effectively manage their ESG obligations, maintain regulatory compliance and mitigate risks associated with their supply chain.

Contact us to learn more about the Unisys ESG Orchestration Manager.

Featuring:

Christian Schieb, global solutions director for Business Processes Solutions, Unisys
Dennis Drohmann, sales manager and product consultant, Rubicon

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