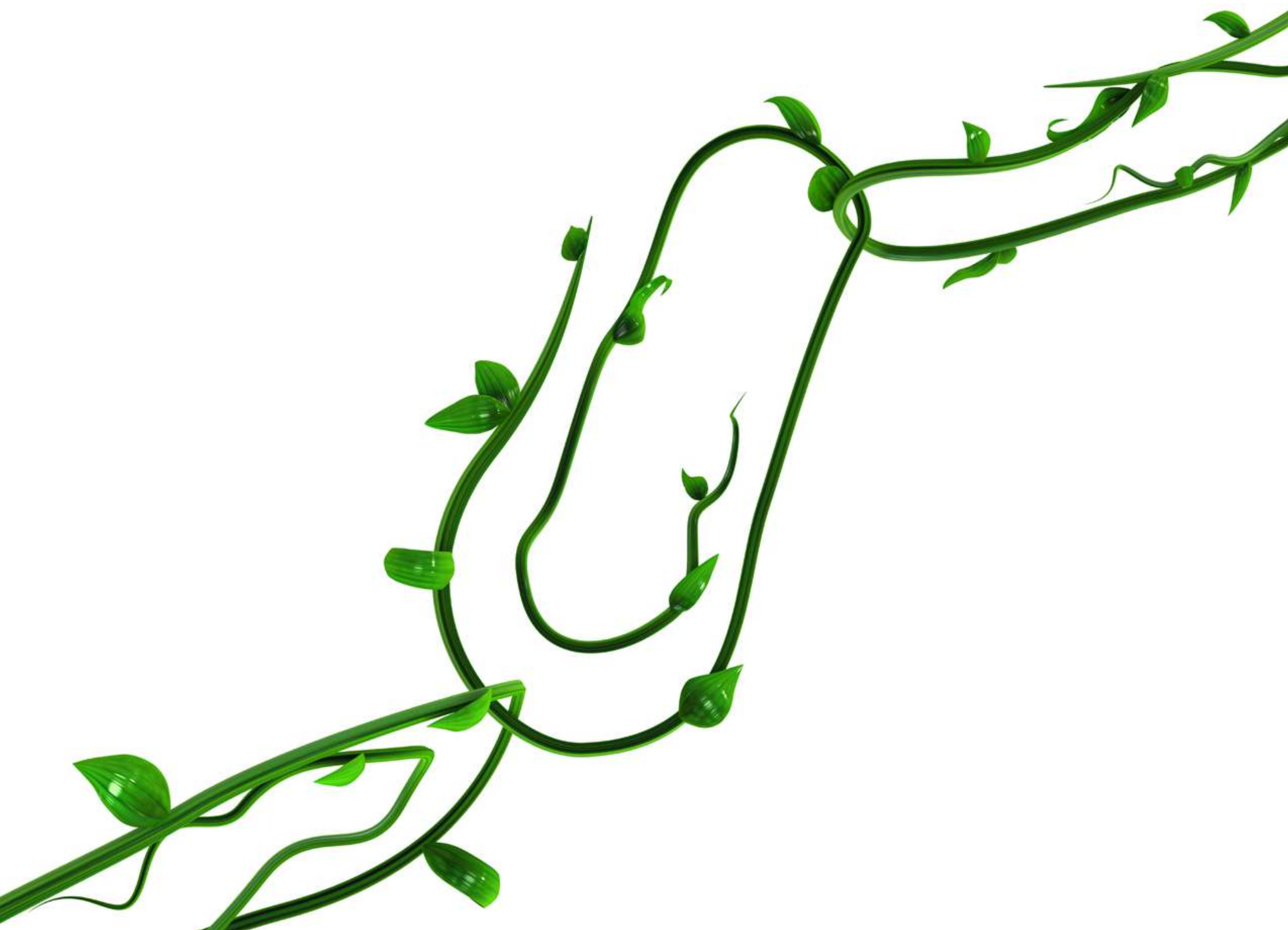
Extending ESG Best Practices Into the Supply Chain

A Review Of Leading Organization Approaches



Doubling down on our commitment to ESG

Environmental, Social, and Governance (ESG) considerations have become central to business and investment decision-making. As the world emerges from the COVID-19 crisis and navigates the arduous path to sustainable economic recovery, we believe that ESG will continue to remain an important discussion among companies and their stakeholders. The closer examination of corporate practices has inevitably extended to companies' supply chains. Indeed, the rise of outsourcing has meant for many Western corporations, 90% of their environmental footprint has been pushed into their supply chain.

From our vantage of working with the leading corporations and thousands of suppliers around the globe, we are witnessing an ever-growing interest in ESG supply chain management. However, we also recognize the complexities and intricacies of ESG supply chain implementation.

We at Avetta take pride in having helped our network of suppliers improve their safety practices an average of 57% after joining the program. Now we are excited to continue that journey in helping to turn the supply chain not just safer, but greener, more diverse and inclusive. We have deepened the ESG capabilities of our platform, and simultaneously, are taking a proactive role in sharing actionable insights with our community of corporate clients and supply chain partners.

This white paper is an attempt to provide a comprehensive summary of the key factors shaping ESG supply chain management. We have outlined best practices gleaned from our research from companies leading this generational shift. In subsequent research we will continue to share new strategies being taken through these initiatives.

Avetta is committed to providing best-in-class ESG solutions to our clients and partners.

We look forward to your participation in this journey as we all strive to leave behind a better world for the generations ahead.

Sincerely,

Arshad Matin CEO

Avetta

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The growing importance of ESG: Risks and opportunities for companies

Corporate commitments to ESG and long-term sustainable value creation reached an inflection point in 2019 when over 180 CEOs of leading US businesses threw their weight behind 'Stakeholder Capitalism'—a concept that holds a business accountable to all its stakeholders - be it investors, employees, suppliers, customers, or communities[1]. The idea signals a paradigm shift away from the longstanding notion of the primacy of shareholder capitalism.

What's underpinning this fundamental shift?

Accelerating climate change, massive energy transition, widening economic disparity, rapid digital transformation, and compounding resource constraints are all factors that have led to ESG becoming increasingly material for businesses around the globe. The growing importance of "non-financial factors" to a company's value is amply demonstrated by an analysis done by Ocean Tomo that found that in 1975, only 17% of the assets in the S&P 500 were intangible; in 2015, the number stood at 84%.

Awareness on ESG issues has steadily grown over the decade. Consumers increasingly prefer a sustainable lifestyle and engage in sustainable activism. A global study by Unilever found 1 in 3 customers purchasing from brands with perceived social or environmental impact[2]. In the age of social media, companies involved in ESG controversies are heavily prone to consumer backlash that could cost them millions. According to Bank of America, US companies in 2019 lost more than $500 billion in market value over the prior five years from controversies related to corruption, data privacy, sexual harassment, and more[3].

This rise in sustainable consumerism is mirrored in the soaring demand for sustainable investments. In the US, 8 out of 10 individual investors favor sustainable investing[4]. Catering to the voice of their beneficiaries, institutional investors are making ESG a prerequisite for portfolio selection. Going further, many institutional investors are leveraging shareholder rights to vote or engage with investee companies on ESG integration, disclosures, and performance. The COVID-19 crisis has reinforced the investor community's focus on ESG issues. The 2020 Edelman Trust Barometer surveyed over 600 institutional investors with assets totalling $20 trillion and reported that 96% of the respondents planned on deepening focus on ESG during COVID-19 recovery[5].

To avoid the costs of inaction and curb ESG issues, nations, states, and cities around the globe are launching ESG-related regulations. The UN-supported Principles of Responsible Investments (PRI) lists over 650 ESG policy instruments and guidance and 300 policy revisions, 95% of which came into force in the past two decades[6].

As the ESG appetite accelerates, executives are increasingly wary of the rising materiality of ESG issues. For instance, climate change - undeniably the most pressing ESG challenge of our lifetimes - has sweeping consequences for ecosystems, societies, and businesses. Business assets face impairment risks from rising sea levels, frequent wildfires, and increasing temperatures brought on by the escalating climate crisis. Besides preparing for physical climate risk exposure, businesses also need to grapple with the imminent transition risks posed by climate change. Measures to restrict rise in temperatures to 2°C above pre-industrial levels for the rest of this century - as set out in the Paris Agreement - could render more than half of fossil fuel reserves of big oil and gas companies stranded[7].

However, there are immense opportunities to be harnessed as the world enters a period of unprecedented energy transformation. The Business & Sustainable Business Commission estimates opportunities worth $12 trillion from fulfilling the UN Sustainable Development Goals by 2030[8]. Nature-positive business could unlock opportunities worth $10 trillion, as per the World Economic Forum[9].

Supply chain sustainability is an important part of a company's ESG program

According to the UN Global Compact, supply chain practices are the biggest roadblock to achieving sustainability, and hence require utmost executive and board commitment[10]. Supply chains are a complex network of various tiers of suppliers that are heavily interdependent and interconnected. In large corporations, each supplier might require inputs from thousands of sub-tier suppliers. The more intricate a supply chain is, the more prone an organization is to uncertainties and hidden risks.

Unsurprisingly, a vast majority of ESG concerns and red flags stem from the supply chain. According to the Carbon Disclosure Project (CDP), the average supply chain generates emissions that are 5.5 times greater than operational emissions[11]. According to the US's Environmental Protection Authority, supply chains are responsible for more than three quarters of greenhouse gas emissions for several industry sectors[12]. McKinsey, in its study of supply chain impacts in the consumer sector, found supply chains responsible for over 90% of natural capital impact[13].

Material ESG risks often seep into the supply chain through the lower tier, unaudited suppliers. CDP estimates that environmental risks emerging from the supply chain could cost corporate buyers $120 billion by 2026[14]. Failure to manage ESG risks could trigger huge reputational losses and threaten business continuity.

February 20, 2020- Avetta signs the United Nations Global Compact, joining more than 9,500 companies in 145 countries.

"At Avetta we uphold the highest levels of ethical business practice and transparency and support our clients to follow these same standards through our supply chain risk mitigation programs worldwide, regardless of their geographic location. The U.N. Global Compact offers a tangible way to instill transparent business practices, protect human rights, provide safety in the workplace and protect our planet." - Arshad Matin, Chief Executive Officer

Supply chain sustainability is also high on the agenda of regulators and investors and their demand for supply chain ESG data continues to grow. For instance, the California Transparency in Supply Chains Act mandates companies to disclose efforts against human trafficking and slavery in supply chain[15]. The US Trade Facilitation and Trade Enforcement Act addresses unfair labour practices across global supply chains by barring the import of forced-labour-linked goods into the US[16] In Europe, the EU Directive 2014/95 requires disclosures on human rights issues in the supply chain[17]. Similarly, Australia's 'Modern Slavery Act 2018' requires companies to report on modern slavery risks in operations and supply chain[18].

Recently PRI, the largest international network of responsible investments with signatories representing collective assets under management (AUM) of $103.4 trillion (March 31, 2021), announced that it will be affording its work on human rights equal strategic priority to its work on climate change. The announcement is a strong reiteration of investors' responsibility and commitment to respect and monitor human rights.

Consumers too prefer products that are sustainably and ethically sourced, processed, and delivered. In IBM's consumer preference study spanning 28 countries, 73% of consumers said that they care about traceability and transparency, looking beyond ingredients to understand the journey of the product from suppliers to consumers. 71% of the consumers were willing to pay a premium for traceability[19]. By building long-term, ESG-focused supplier relationships, businesses can track products better, monitor ESG risks, and make supply chains more efficient.

While thus far it might appear that the demand for greater ESG integration into supply chains has been driven by sustainability advocates and consumer preferences, it is now gaining mainstream endorsement from businesses too. 94% of the companies interviewed by Euler Hermes – for its 2020 Global Supply Chain Survey – experienced supply chain disruptions last year. To avoid a repeat of the situation, 32% of high-level executives plan to strengthen ESG due diligence on suppliers[20]. In Gartner's global survey of supply chain professionals, 87% reported making supply chain resilience a priority investment within the next two years[21]. In a post-COVID world, business leaders will have to address one of their most significant - and perhaps the most challenging - ESG focus areas: supply chains.

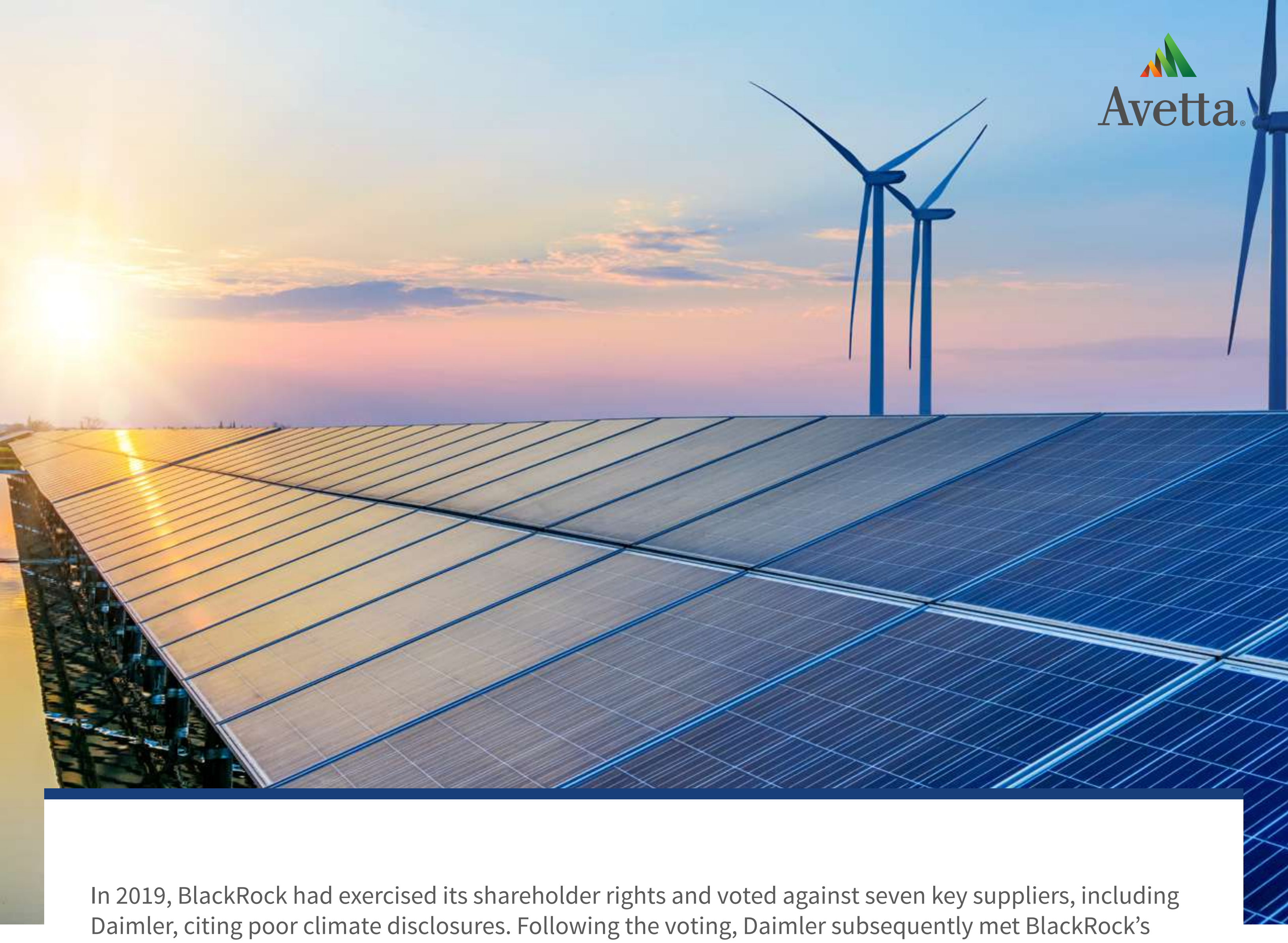
ESG supply chain implementation: The dynamics, motivation, and emerging best practices

I Investors are increasing focus on the ESG supply chain

Investor demand is a major force propelling the supply chain sustainability movement. In its 2021 ESG Outlook, Bloomberg listed the supply chain as a key ESG theme for investors[22]. Given the lack of transparency, many investors are wary of the hidden ESG risks stemming from complex supply chains of portfolio companies. To manage exposure to supply chain risks, investors are asking portfolio companies to integrate ESG considerations into supply chain due diligence, risk assessment, and compliance[23].

As universal owners, some of the world's largest institutional investors are also using their influence as shareholders to address material ESG issues in the supply chain—be it through public statements, shareholder proposals, proxy voting, direct dialogue, policy support, divestments, or shareholder activism.

Larry Fink, the CEO of BlackRock, took a firm stance on supply chain sustainability in his 2020 annual letter, which has become the bellwether of the financial sector's ESG expectations. In the letter, BlackRock urged that company disclosures, "extend beyond climate to questions around how each company serves its full set of stakeholders, such as the diversity of its workforce, the sustainability of its supply chain, or how well it protects customers' data."[24]



In 2019, BlackRock had exercised its shareholder rights and voted against seven key suppliers, including Daimler, citing poor climate disclosures. Following the voting, Daimler subsequently met BlackRock's disclosure requirements[25]. The firm is one of the many institutional investors asking companies for better disclosures. This year, over 590 investors with assets worth $110 trillion asked thousands of portfolio companies to disclose supply chain GHG emissions using CDP questionnaires[26].

Institutional investors are increasingly engaging in collaborations and partnerships, lending support to ESG-focused coalitions such as PRI, Coalition for Environmentally Responsible Economies (CERES), Farm Animal Investment Risk and Return (FAIRR), Climate Action 100+, The Interfaith Center on Corporate Responsibility (ICCR), and CDP. Working groups such as PRI's 'Supply Chain Working Group' and 'Water risks in agricultural supply chains advisory committee' allow investors to share best practices and streamline efforts. These investor groups spearhead engagement on various material ESG supply chain issues. CERES's Engagement Tracker, for instance, registers 135 investor engagements related to supply chain, on various themes such as deforestation, water, animal welfare, human rights, labor, and paper. The majority of resolutions request companies to adopt ESG policies and describe ESG supply chain risks and impacts. In response to the engagements, 63 companies made ESG supply chain commitments[27]. Another CERES and FAIRR-led investor coalition comprising 90 investors with $11 trillion in assets went beyond disclosures and policies and asked fast food giants to set clear and measurable emissions mitigation and water reduction targets for their dairy and meat supply chains[28].

Investors are going beyond disclosure requests and are establishing engagement dialogues with companies. In 2020, 108 investors with assets totaling $12 trillion took part in the CDP's Non-Disclosure Campaign, targeting 1025 companies. Post-engagement, 206 of the 1025 companies with combined scope 1 and 2 emissions of 670 million CO2e submitted their climate, water, and/or forest disclosures[29]. In case of failed dialogue, investors might also divest to generate a signaling effect. For instance, Norway's sovereign wealth fund divested from UK-based G4S over human rights violations after three years of engagement[30].

Through investor coalitions, institutional investors are combining influence to lobby for sustainable supply chain policies and laws. A group of 21 investors was instrumental in the insertion and application of the 'Transparency in the Supply Chains' clause of the 2015 UK Modern Slavery Act[31]. In the US, ICCR backed the Business Supply Chain Transparency on Trafficking and Slavery Act of 2015, pushing for mandatory disclosure on human trafficking and slavery[32].

Institutional investors wield immense power to positively transform normative corporate behavior. As ESG investing continues to mature, we anticipate that the focus on ESG issues embedded in a company's supply chain will only intensify.

II Survey: How are companies prioritizing and approaching ESG supply chain implementation

To understand how companies are approaching and organizing their ESG supply chain programs, we surveyed 45 companies from a variety of industries such as facilities management, chemicals, construction, utilities, telecommunications, transport, manufacturing, food and beverages.

While companies recognize the importance of achieving sustainable outcomes, they are less likely to recognize that most of that impact is in their supply chain

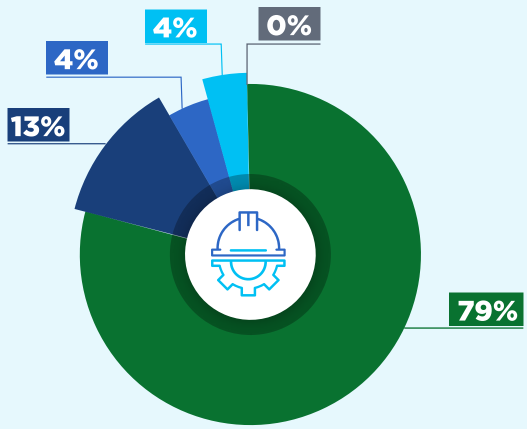
The respondents were surveyed on the importance of various ESG issues. Employee health and safety was ranked highest - 80% of companies considered employee health and safety 'Very Important.'

The variance of responses was highest on ESG supply chain issues. While 39% of the respondents found ESG supply chain issues 'Very Important', 13% saw them as only 'Slightly Important'.

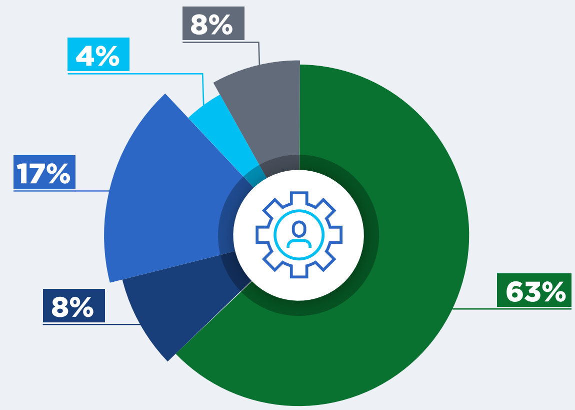
The responses demonstrate a certain degree of potential dissonance in the understanding of the interconnected ESG supply chain issues. Employee health and safety, environmental footprint, diversity and inclusion, and human rights are all material ESG considerations and yet a company that ranks Diversity and Inclusion as a 'Very Important' consideration might rank ESG supply chain issues as 'Slightly Important' or even 'Not Important'. This reinstates that supply chain sustainability should be integrated into the company's broader ESG architecture and not be isolated with the sole oversight of supply chain or procurement functions.

The responses to the follow-up questions further buttress the need for an integrated approach to ESG supply chain management and more industry educational initiatives. However, encouragingly, 56.5% of respondents said that they are planning to make ESG supply chain a part of their organization's ESG program.

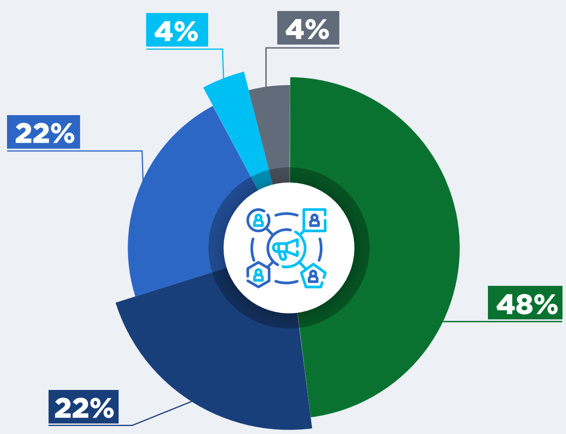
Employee health and safety



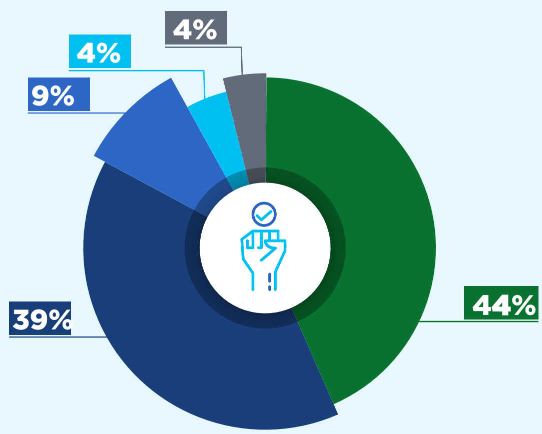
Managing and reducing the environmental footprint of products and services



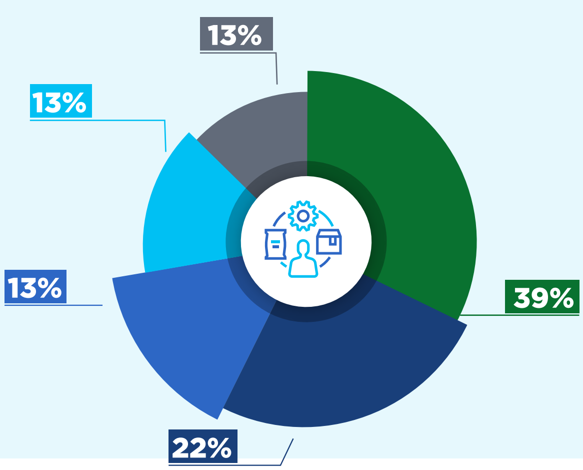
Diversity and Inclusion

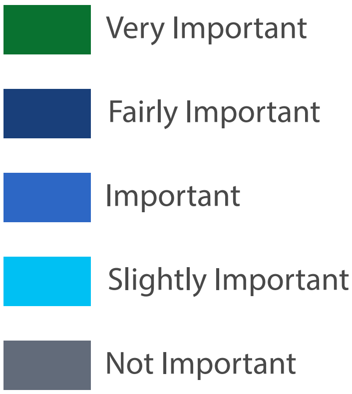


Human rights considerations

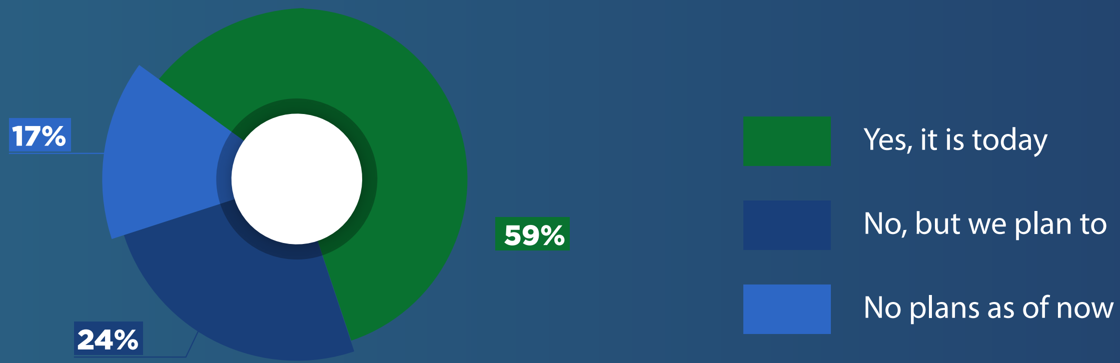


ESG supply chain issues



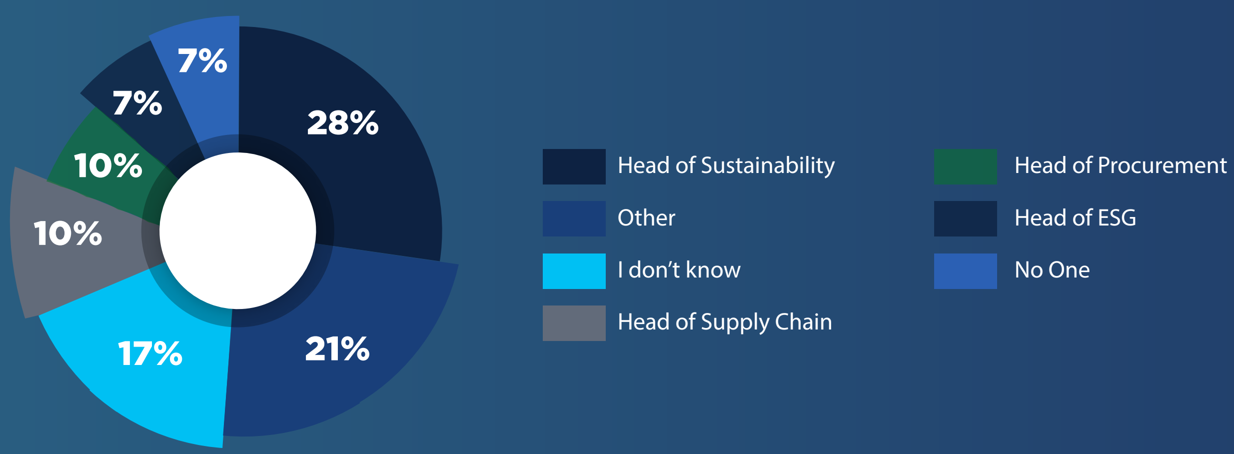


Is ESG supply chain a part of your organization's ESG program?



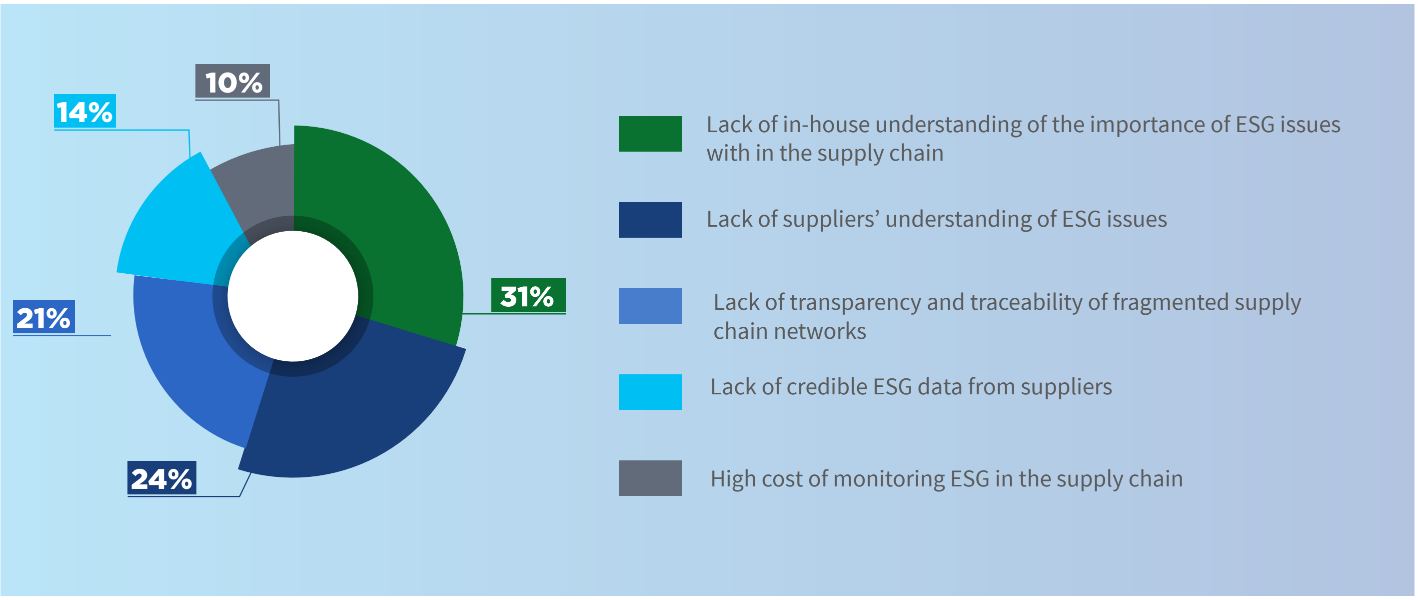
Who is MOST responsible for implementing ESG supply chain in your organization?

In 26% of the cases, the Head of Sustainability oversaw the implementation of ESG supply chain. However, in 21% of the companies, a variety of personnel took on that role, including founders, managing directors, and sustainability managers.



What is the biggest challenge extending ESG practices into your supply chain?

Majority of respondents identified a lack of in-house understanding of the importance of ESG issues within the supply chain as the single biggest challenge in developing ESG supply chain management.



ESG supply chain integration is in nascent stages

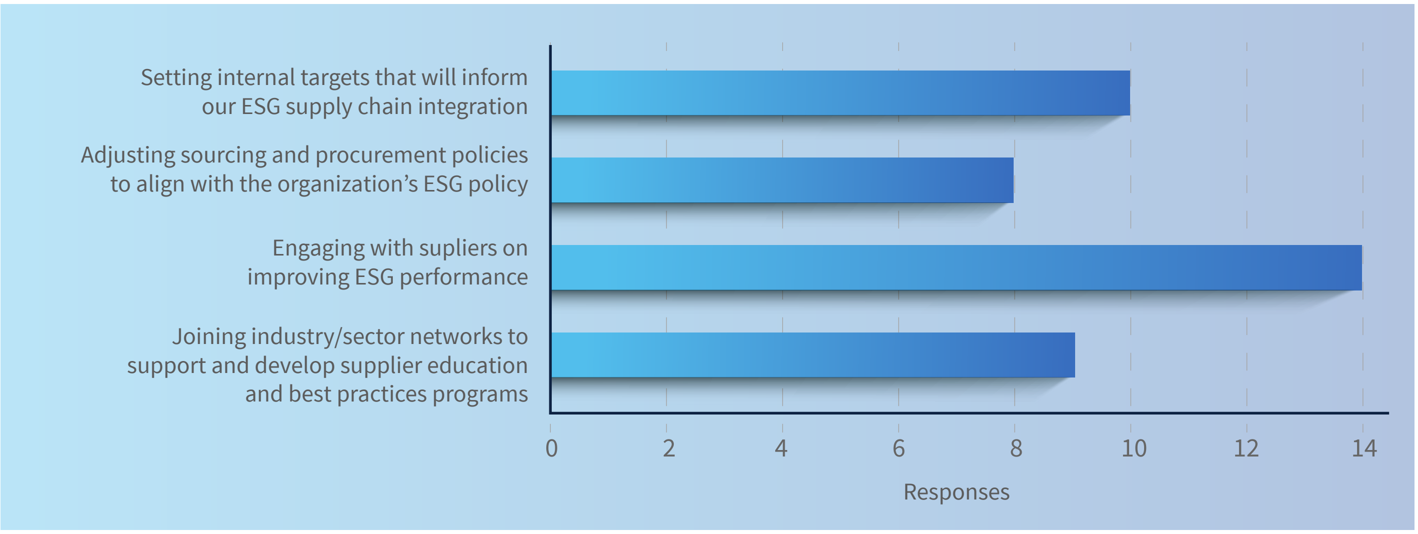
The majority of the respondents are in nascent stages of implementing supply chain sustainability. 62% of respondents have just started integrating ESG considerations into their supply chain infrastructure and only a small minority of 8% rated their supply chain ESG monitoring approaches as fairly advanced.

How would you describe the maturity stage of your ESG supply chain integration?

Diverse approaches to ESG supply chain integration and monitoring

34% of the companies are engaging with suppliers on improving ESG performance. Besides supplier engagement, companies are also setting internal ESG supply chain targets, adjusting sourcing and procurement policies to align with the organization's policy, and joining industry networks to support and develop supplier education and best practices' programs.

Please select all the ways in which you are executing ESG supply chain integration



The survey bears out the fact that there is no prescriptive, one-size-fits-all ESG supply chain integration approach. In the next section, we delve deep into the multitude of innovative and often complementary manners in which ESG leaders are ensuring effective ESG supply chain integration.

III Emerging ESG supply chain best practices: A comprehensive look at the various ways in which ESG leaders are executing ESG supply chain management

To offer insights into actionable ESG best practices, we set out to examine how corporate sustainability champions are developing and executing innovative, robust ESG supply chain practices (See Appendix for research universe and methodology).

Companies are setting clear supply chain sustainability targets to report quantifiable progress

Through the process of setting targets, companies can understand their baseline performance, identify areas of improvement, and streamline efforts to move forward. Many companies are making supply chain sustainability an integral factor in achieving overarching ESG targets. To align with international agreements such as the Paris Agreement, ESG leaders are embracing industry target-setting frameworks such as the Science-based Targets Initiative, TCFD, and the UN Sustainable Development Goals. These frameworks enable companies to reflect on, measure, and communicate the environmental and social impact of their supply chains. The SBTi framework, for instance, asks the user to analyze Scope 1 (direct), Scope 2 (indirect), and Scope 3 (value chain) emissions prior to making emission reduction plans[33].

Industry frameworks used to articulate ESG targets

An ideal supply chain sustainability target is clear, quantifiable, and inclusive of all tiers of suppliers.

Utility company Ørsted (NASDAQ: ORSTED)'s science-based targets specify the base year, target year, scope, and the intended progress – across the supply chain - in alignment with UN Global Compact's campaign on Business Ambition for 1.5°C[34].

'By 2032, reduce emissions from energy trading and in the supply chain by 50%, as compared with 2018, to align carbon reductions across the entire carbon footprint with the 1.5°C pathway.'

'By 2040, carbon-neutral footprint a decade ahead of the 1.5°C pathway by driving out remaining emissions from energy trading and the supply chain.'[35]

Companies are imposing ESG supply chain requirements through formal contracts

Corporate buyers can effectively impose ESG supply chain requirements through formal contracts such as codes, standards, and guidelines. These policies address an organization's material ESG issues – be it health and safety, conflict minerals, water scarcity, human rights, or diversity.

Examples of policies employed by ESG leaders to impose ESG supply chain requirements	
Supplier Code of Conduct	Code of Ethical Purchasing
Modern Slavery Statement	Human Rights Principals
Diversity and Inclusion Statement	Indigenous Peoples Policy
Responsible Mineral Sourcing	Green Procurement Guidelines
Occupational Health and Safety Standards	Biodiversity Policy

Given the comprehensive scope of these policies, ESG leaders refer to global frameworks and conventions such as the UN Guiding Principles on Business and Human Rights, the ILO's Declaration on Fundamental Principles and Work, and the UN Global Compact.

Telecom company Royal KPN (Euronext: KPN)'s Supplier Code of Conduct prohibits discrimination, child labor, forced labor, and expects its suppliers to manage and report GHG emissions[36]. Mining company Teck Resources (NYSE: TECK)'s Health and Safety Policy focuses on eliminating fatalities and serious injuries at workplace[37].

Companies are establishing adequate governance structures

Many ESG leaders recognize the need to find a middle ground between the sustainability departments and the supply chain departments. By making supply chain issues a part of ESG oversight, companies can ensure that supply chain sustainability remains high on the executive and board agenda and permeates into the organizational strategy and culture.

Food company General Mills (NYSE: GIS) runs a CEO-chaired sustainability governance committee that takes inputs from the supply chain function to plan the organization's sustainability-related strategies, policies, and investments[38].

Beverage company Carlsberg Breweries (NASDAQ: CARL B) consults an independent sustainability advisory board comprising external sustainability experts for feedback on its sustainable supply chain strategy[39].

Companies are creating incentives to improve ESG supply chain performance

An increasing number of businesses are demonstrating their commitment towards ESG integration by linking remuneration to ESG performance. Incorporating ESG supply chain metrics into the remuneration model can incentivize management and personnel to prioritize long-term improvements in supply chain sustainability over short-term profit maximization.

At its recent General Shareholders' Meeting, utility firm Iberdrola (BMAD: IBE) unveiled its ESG-aligned remuneration model, to be evaluated as a part of the 2020-2022 Strategic Bonus. The company expects at least 70% of its supplier network to comply with its internal ESG criteria—a set of 47 factors measuring a supplier's ESG commitment - by 2022. It linked its remuneration plan to this target, rewarding executive directors, officers, and other professionals for the increase in the number of ESG-compliant suppliers[40].

Companies are assessing, managing, and monitoring ESG supply chain risks

While it might be challenging to eliminate ESG supply chain risks, companies can limit material supply chain impacts by assessing, managing, and monitoring their suppliers. Many ESG leaders assess suppliers through a variety of tools such as scorecards, self-assessment questionnaires, checklists, certifications, on-site inspections, and interviews.

IT company Hewlett Packard Enterprise (NYSE: HPE) evaluates its suppliers using a proprietary supplier risk assessment scorecard[41]. In contrast, beverage company Diageo (LSE: DGE) applies the Farm Sustainability Assessment, a common industry tool developed by the Sustainable Agriculture Initiative Platform – a group of over 130 organizations focused on sustainable agriculture[42]. Chemicals company Givaudan (SIX: GIVN) checks supplier alignment through certifications such as Fair for Life, FairTrade, and the RSPO (Roundtable for Sustainable Palm Oil) certification[43].

By assessing suppliers in the initial sourcing phases, companies can keep an eye on high-risk suppliers that could cause disruptions or shocks. Many companies do so through supplier risk management programs.

Infrastructure company Acciona (BMAD: ANA) keeps track of over 48,000 suppliers using its digital risk management platform PROCUR-e[44]. The company uses a risk map, updated daily by PROCUR-e, based on variables such as supplier assessment, supplier integrity, ISOs status, and environmental risk[45].

Once flagged, these high-risk suppliers are regularly monitored through audits and due diligence. Audits could be performed internally, or through external auditing programs such as Avetta's assessment service. Non-compliance provides a valid ground for companies to terminate contracts with high-risk suppliers.

With Avetta's Supplier assessment service, EPCOR's prequalified contractors are monitored to ensure they are following the required safety and sustainability procedures. This service not only removes the burden from the EPCOR business units to review contractor manuals, it also gives EPCOR visibility into how its contractors are implementing their policies and procedures. [46] In addition it provides contractors with guidance on how to improve their processes and establish best practices. Custom audits can be created to meet any specific auditing needs. "Avetta is bundled into a consistent package, and the audit function ensures everything is kept current." Guy Greenwall, HSE Senior Manager[47].

Companies are enhancing supply chain traceability and transparency

Despite the lack of data availability, ESG leaders are employing a variety of tools to collect quantitative and qualitative data, including surveys and self-assessment questionnaires.

Besides using its proprietary Kellogg Grower Survey to measure supply chain improvements, food company Kellogg (NYSE: K) also relies on shared industry tools such as Field to Market's Fieldprint® Calculator and the Cool Farm Tool[48]. Renewable materials company Stora Enso automates its supplier sustainability performance data collection using search robotics and alternative intelligence[49].

To encourage supply chain traceability and transparency, many ESG leaders are publicly sharing ESG data and performance on supplier KPIs. To disclose supply chain sustainability efforts, companies refer to a variety of ESG reporting frameworks and standards such as SASB (Sustainability Accounting Standards Board) Standards, the GRI (Global Reporting Initiative) Standards, and the IIRC (International Integrated Reporting Commission) framework. Technologies such as blockchain, RFID tag technology, AI, search robotics, and barcode systems are making it easier for companies to trace their supply chains.

Sample supplier KPIs	Proportion of supplier spend covered by the Supplier Code of Conduct
	Procurement spend with Indigenous suppliers
	Significant disputes relating to land use and the customary rights of local communities and Indigenous Peoples

In its annual report, beverage company Diageo (LSE: DGE) discloses progress on its supply chain sustainability targets using metrics '% of potential high-risk supplier sites audited', '% of agricultural materials sourced locally in Africa', and 'Number of smallholder farmers supported' as shown in the figure below. The company further elaborates on its efforts towards achieving these targets in a sustainability performance addendum that aligns with the IIRC framework, the GRI Standards, the UN Global Compact, the SASB Standards, and the UN SDGs.

Sustainable supply chains		
Deliver our responsible sourcing commitments with suppliers to improve labour standards and human rights in our supply chains. UN SDG alignment 8.7; 8.8	% of potential high-risk suppliers sites audited. **82%**	This year, 1,261 of our suppliers sites addressed as a potential risk completed a SEDEX self-assessment. Of these, 412 were addresses as a potential high risk, with 82% independently audited over the past three years. Of these audits, we commissioned 263, while 73 audits came through SEDEX or AIM-PROGRESS mutual recognition audits. 152 of these audits were conducted in the past year.
Source 80% of our agricultural raw materials locally in Africa by 2020 UN SDG alignment 8.3; 12.3	% of agricultural raw materials sources locally in Africa. **79%**	We sourced 79% of agricultural raw materials locally within Africa for use by our African markets, compared with 82% last year. This percentage fell slightly as Covid-19 restrictions pushed us just below our target of 80%.
Established partnerships with farmers to develop sustainable agricultural suppliers of key materials. UN SDG alignment 2.3; 2.4; 8.3; 12.2; 12.3	Number of smallholder farmers supported. **78,600**	We support more than 78,600 in Africa in a variety of ways, including training, access to seeds of fertilisers, micro-loans and financial resilience support.

Source: Diageo Annual Report 2020

Through its supplier map, cocoa processor Barry Callebaut (SIX: BARN) elaborates on key details of its cocoa supply chain, such as the farms' geographic location, certification scheme, and the number of farmers it sources from[50]. To identify deforestation hotspots, food company Nestle (SIX: NESN) utilizes satellite imagery from its Starling system that it publicly shares on its Transparency Dashboard[51].

Chemicals company KAO Corporation (TYO: 4452), as a founding member of sustainability assurance and innovation alliance SUSTAIN, uses the platform's blockchain technology to enhance palm oil traceability[52]. Stora Enso (NASDAQ: STERV) uses sustainable RFID tag technology to locate its packages across the world[53]. Real estate development company City Developments Limited (SGX: C09) employs Nature's Barcode™ system to avoid sourcing wood from illegal logging activities[54].

Companies are engaging with suppliers

In addition to enforcing rules and policies, ESG leaders are engaging with their suppliers to understand supplier needs, set realistic targets, and enhance ESG performance. Companies are forming meaningful relationships with suppliers by paying attention to their workplaces, communities, and ecosystems.

Consumer products company Colgate-Palmolive (NYSE: CL) digitized its interactions with suppliers by launching supplier relations technology platform Nulogy[55].

Food processor Mars works with its suppliers and third-party experts to address the root causes of ESG issues and drive systemic change at the workplace[56]. Cosmetics brand Natura Cosméticos' (NYSE: NTCO) Amazonia Program has helped conserve 1.8 million hectares of forest and provided livelihoods for 4,636 supplier families in the Pan-Amazon region since 2011[57].

Supplier engagements can also take the form of collaboration, education, supply chain financing, and co-creation. Given the systemic nature of ESG issues, many companies are partnering with suppliers, industry experts, and peers to explore practical solutions that help achieve ESG objectives.

In May 2020, food company Danone (Euronext: BN) advocated for an EU Common Food Policy that compensates farmers for transitioning to regenerative practices via funding instruments such as crop and livestock insurance, multi-stakeholder financing mechanisms or carbon bonds, and guarantees of first loss[58]. Residential property developer Barratt Developments (LSE: BDEV) partnered with the Supply Chain Sustainability School - a business collaboration project focused on supply chain skill building. By 2016, all suppliers had access to free training resources on a variety of sustainability issues such as modern slavery, waste generation, and carbon emissions[59]. In 2019, luxury vehicle maker BMW (FWB: BMW) started a cross-industry initiative 'Cobalt for Development' with BASF SE (FWB: BAS), Samsung SDI, Samsung Electronics (KRX: 005930), the German development agency GIZ, and select non-governmental organizations. The responsible artisanal mining project has provided risk mitigation training to more than 1500 miners in Democratic Republic of Congo[60].

Conclusion

ESG is increasingly gaining prominence in boardroom and management discussions. Boards and senior leadership teams are prioritizing incorporating ESG risks and opportunities into business value-creation, strategy, and operational performance. Business leaders recognize that, to achieve their ESG objectives, it is imperative that they extend ESG practices to the critical business areas of upstream and downstream value chains.

Despite the numerous challenges and complexities of integrating ESG into supply chain management, companies are proactively focusing on ESG supply chain integration, providing a sample of multi-sector, innovative best practices representing a multitude of diverse, complementary approaches as demonstrated in our research and survey.

In our next paper, we will delve into the details of what a best practice ESG supply chain program management might look like.

How Avetta Can Help

As a leading supply chain risk management solution provider working with major organizations across the industrial spectrum, Avetta harnesses the power of the Avetta Connect™ platform for environmental sustainability. It all starts with a comprehensive prequalification and supplier evaluation process, enabling clients to configure their approach to supply chain due diligence, both domestically and internationally. Our approach allows the client to utilize data that has been produced by suppliers to uncover ESG insights.

01

Suppliers complete registration and Avetta intelligently classifies suppliers and assigns risk levels based on international industry standards

02

Client communicates prequalification requirements to suppliers via our intuitive online platform.

03

Suppliers complete evaluation questionnaires, provide relevant performance indicators, and upload supporting documentation.

04

Make informed supply chain decisions based on qualified supplier information

A Scalable Approach to ESG

Avetta's ESG offering can be applied to a global audience. Based on how we have developed the question set, our questionnaires can scale for any size supplier irrelevant of their demographic. This offering has been typically applied by clients starting their sustainability journey and who wish to:

- Gain understanding of awareness of sustainability issues within the supply chain
- Use as a risk assessment to identify high risk ESG issues that may impact upon reputation
- Start feeding supplier generated ESG data into the company sustainability report

This approach ensures that our content continually evolves and never remains static, it ensures our supplier evaluations always reflect the most current practice. Following gives an overview of the several applications of Avetta's ESG capabilities:

Environmental

GHG Emissions
Air Quality
Water & Wastewater Management
Waste and Hazardous Materials Management
Energy Management
Ecological Impact

Governance

Business Ethics
Management of Legal & Regulatory Environment
Critical Incident Risk Management
Systemic Risk Management
Competitive Behavior

Social Capital

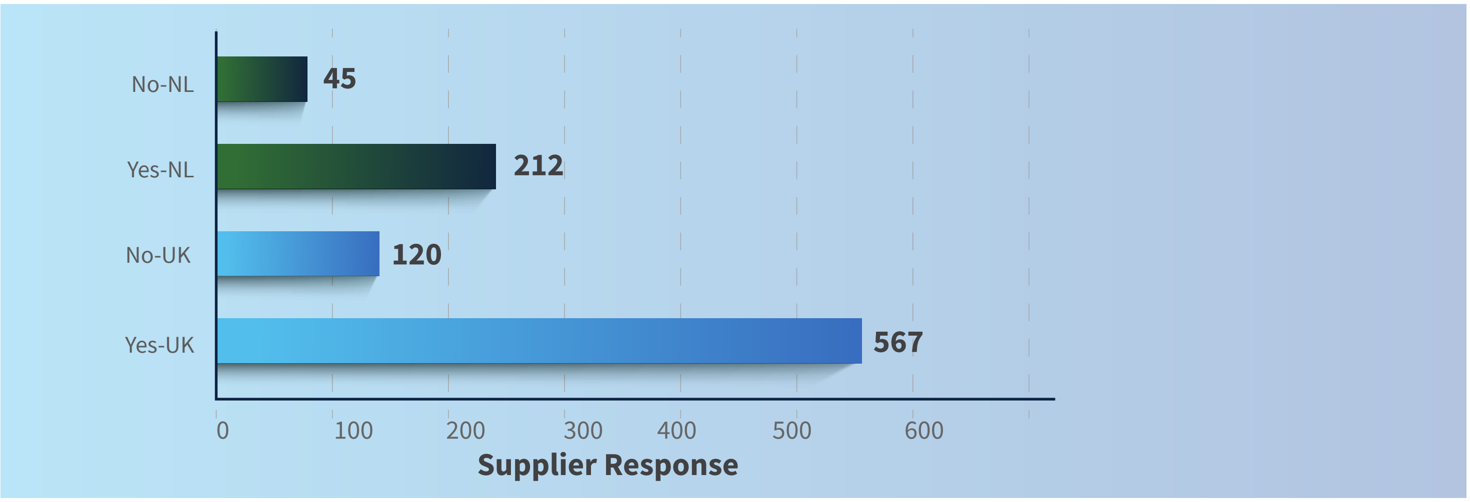
Human Rights
Customer Privacy
Data Security
Product Quality and Safety
Selling Practices and Product Labelling

Human Capital

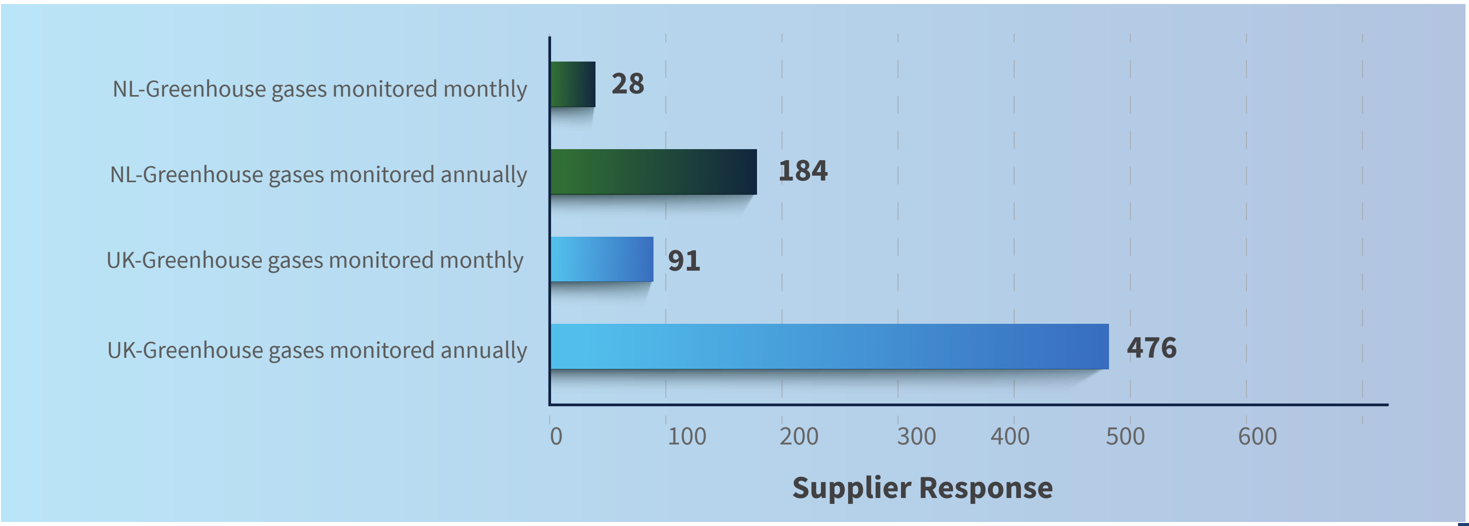
Labor Practices
Employee Health and Safety
Diversity and Inclusion

Shown below are just a few examples of the type of data that can be generated even at the most basic level. This data can be verified or non-verified based upon an individual client's preference.

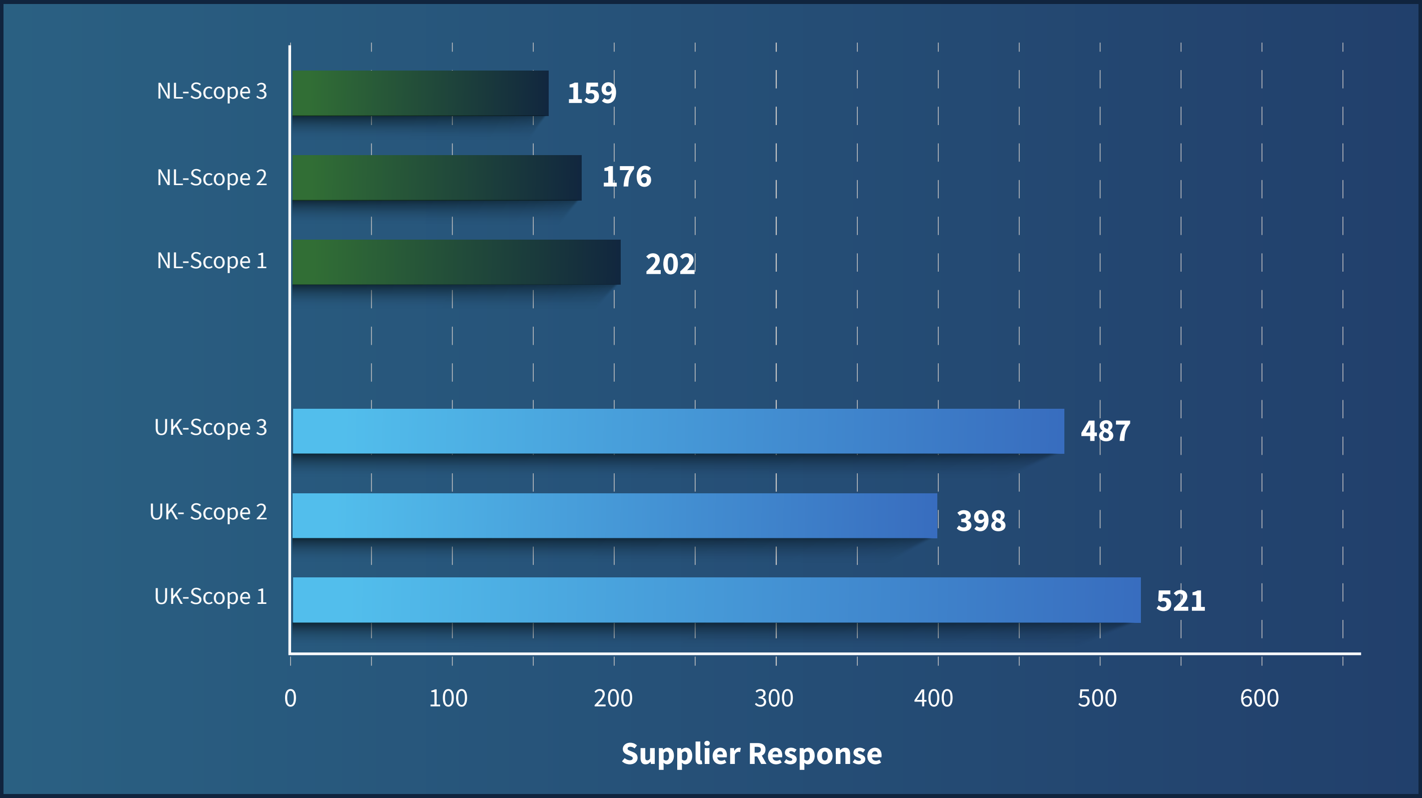
Does the company track/monitor and analyse greenhouse gas emissions?



Data on the Suppliers' GHG Monitoring Cycle



Suppliers-Category of Emissions Assessed



About Avetta

Avetta offers a configurable SaaS-based solution that assists organizations – both large and small – in managing supply chain risk across a variety of disciplines. Avetta is building the world's most intelligent supply chain risk management network to advance clients' safety, resilience and sustainability programs. Avetta leads the world in connecting leading global organizations across industries, including telecom, construction materials, manufacturing, facilities management, high tech and energy with qualified and vetted suppliers and contractors.

The company brings unmatched access and visibility to its clients' supply chain risk management process through its innovative and configurable technology coupled with highly experienced human knowledge and insight. We contribute to the advancement of our clients' sustainable growth by protecting supply chains from a wide range of potential risks through trusted contractor prequalification, safety training and monitoring, regulatory compliance, insurance/financial stability and other areas of risk. Avetta serves more than 450 enterprise companies and 100,000 suppliers across 100+ countries.

Visit https://www.avetta.com/ for more information.

ESG research and knowledge partner: Blue Dot Capital

Visit https://www.bluedotcapital.co/ for more information.

Appendix

To provide insights into ESG supply chain best practices, we reviewed ESG supply chain practices of peer group ESG leaders. The research is based on publicly available information, gathered from company's sustainability reports, websites, and interviews given to third parties.

Over the past few years, leading ESG rating providers such as MSCI, Sustainalytics, and S&P have developed ESG ratings and scores for companies. These ESG rating providers cover thousands of public companies. These providers have different methodologies with varying levels of attribution to supply chain management. The Sustainalytics ESG Risk Rating considers 'Human Rights – Supply Chain' and 'Resource Use – Supply Chain' among its key material ESG issues[61]. MSCI ESG Rating counts 'Supply Chain Labor Standards' among its key ESG issues[62]. The S&P ESG Score provides a breakdown of the company's ESG performance on 9 indicators, including 'Supply Chain Management'.[63] The Corporate Knights 100 ranking published 'Supplier Score' as a part of its overall responsible business ranking. While the Gartner ESG Score exclusively ranks ESG supply chain leaders, the data is limited to 25 companies[64]. On the other hand, the CDP Supplier Engagement Rating evaluates corporate supply chain engagement based on responses to the CDP climate change questionnaires. It focuses solely on environmental issues. Owing to the heterogeneity of ESG rating approaches, ESG data providers have often rated the same company materially differently[65].

Given the diversity in methodologies, definitions, and coverage, we used a combination of ESG data sources to build our universe and identify ESG supply chain leaders.

ESG data sources	
Sustainalytics ESG Risk Ratings	Sustainalytics ESG risk ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. The lower the ESG risk rating, the lower the risk. Sustainalytics assigns the risk category as follows: negligible (0-10), low (10-20), medium (20-30), high (30-40), severe (40+). Sustainalytics' ESG risk management score, a subset of the ESG risk rating, assesses the robustness of a company's ESG programs, practices, and policies.
MSCI ESG Ratings	An MSCI ESG Rating is designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks. MSCI uses a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).
S&P ESG Scores	S&P calculates its Global ESG Scores based on three underlying Environmental, Social, and Governance & Economic Dimension Scores, and an average of 23 Criteria Scores informed by 61 industry specific approaches. S&P assigns ESG scores based on either public information or the information collected during its Corporate Sustainability Assessment (CSA). The scores range from 0 (min) to 100 (max).
Corporate Knights Global 100	Corporate Knights Global 100 Index is a ranking of the world's most sustainable corporations.
Gartner Supply Chain Top 25	Gartner's Supply Chain Top 25 is the preeminent ranking of supply chain leaders. The ranking is composed of two main components: a quantitative measurement of business performance and a qualitative representation of both peer and Gartner analyst opinions. These two components are combined into a total composite score which ultimately determines the ranking. The ranking is revealed each year at the Gartner Supply Chain Executive Conference.
CDP Supplier Engagement Leaderboard	CDP's annual Supplier Engagement Rating (SER) evaluates corporate supply chain engagement on climate issues.

By cross-referencing ESG scores and rankings at an industry-specific level across various data sources, we compiled our initial universe of 184 companies. The universe includes industries that best represent Avetta's client categories:

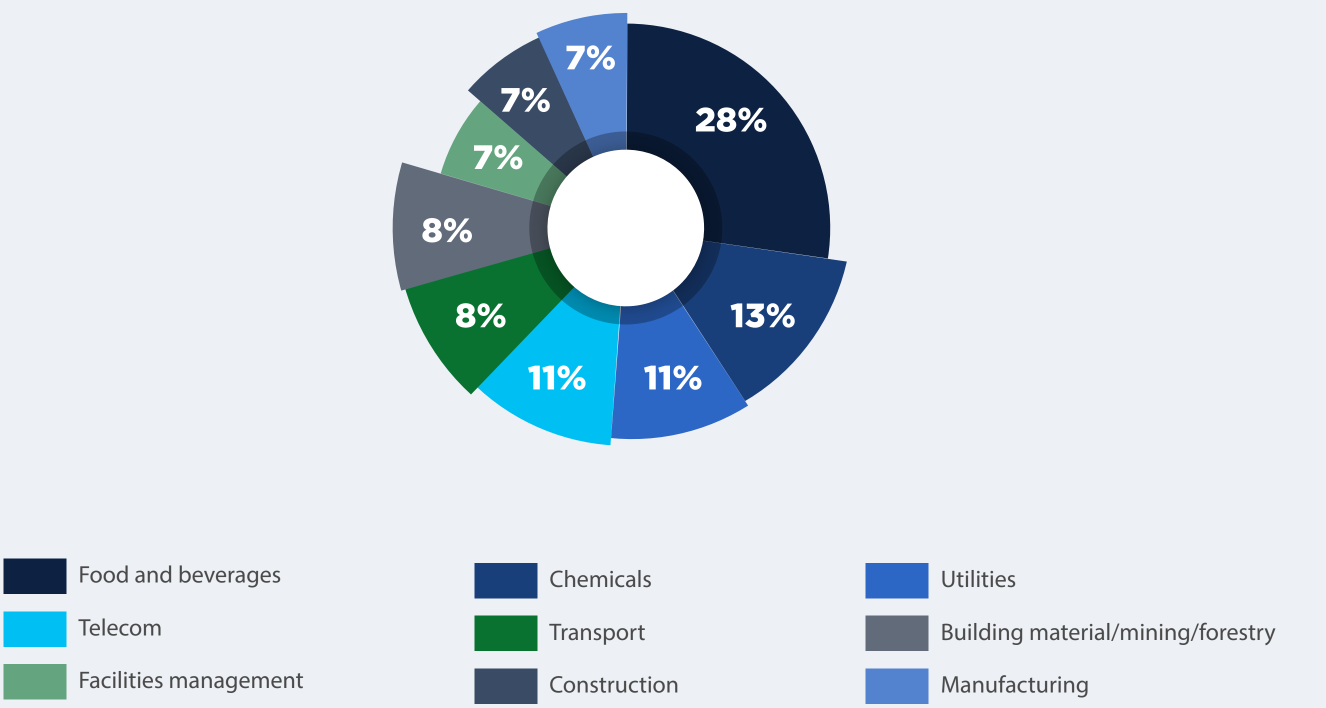
Building materials, forestry, and mining; Chemicals; Construction; Facilities management; Food and beverage; Manufacturing; Telecommunications; Transportation and logistics; and Utilities.

From the universe of 184 companies, we used a proprietary method of blended ESG scores (cross-referencing and appropriately weighing multiple ESG scores, ratings, and rankings) to arrive at the final selection of 46 companies with advanced ESG supply chain practices.

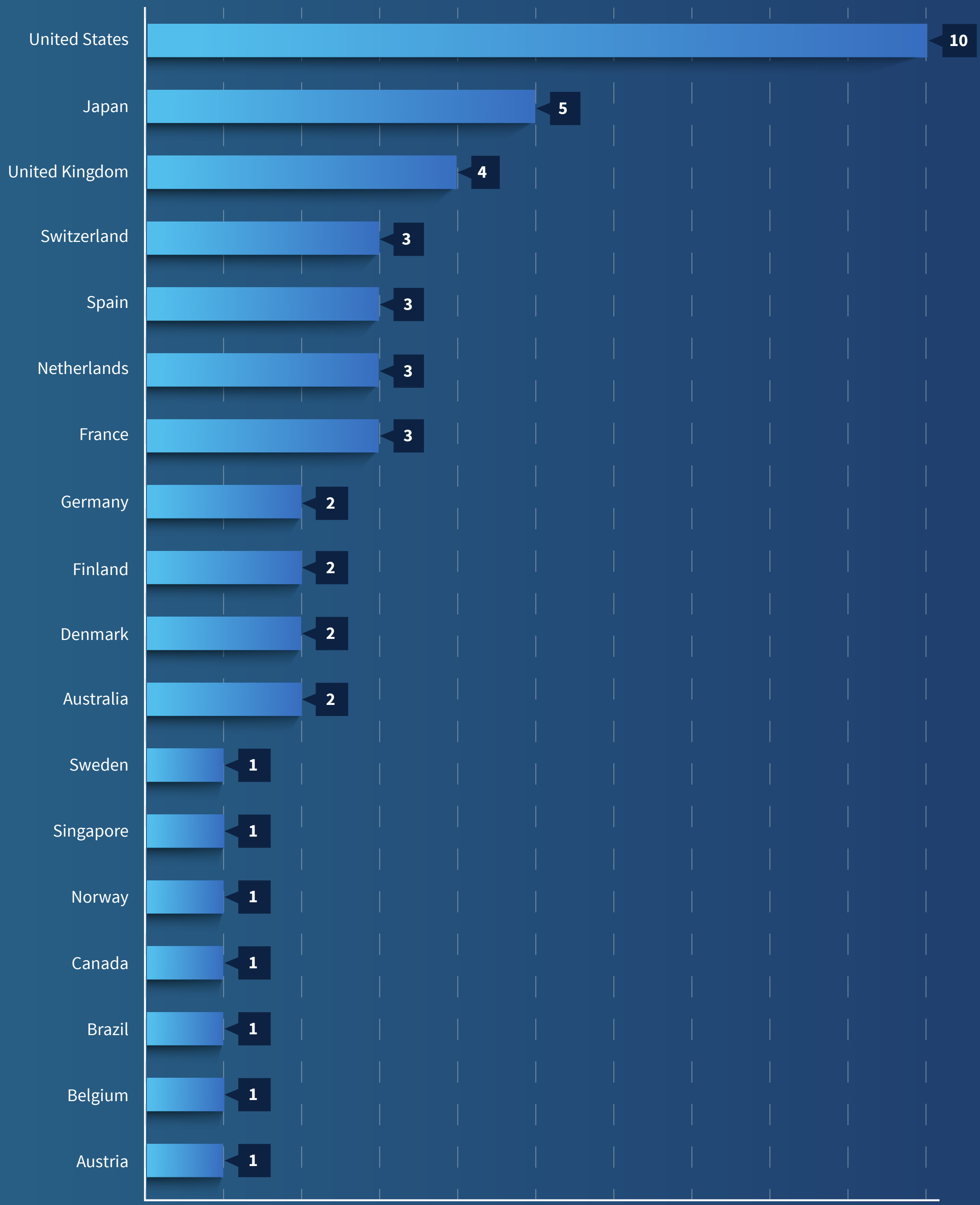
Research sample

Industry	Initial universe	Final selection of ESG supply chain leaders
Building materials, forestry, and mining	14	4
Chemicals	24	6
Construction	20	3
Facilities management	6	3
Food and beverage	30	13
Manufacturing	28	3
Telecommunications	15	5
Transportation and logistics	29	4
Utilities	18	5
Total	**184**	**46**

Sectoral breakdown



Sectoral breakdown



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About Avetta

Avetta connects global organizations with more than 100,000 qualified suppliers, contractors, and vendors across 100+ countries. We support the continued growth of supply chains through trusted contractor prequalification, safety audits, monitoring, and more. With real results in reducing incident rates, our highly configurable solutions elevate safety and sustainability in every workplace.

Let's connect at **avetta.com**