August 2024

Appropriate ESG policy requires checking the activities of suppliers

To comply with ESG requirements and provide appropriate information to investors companies will have to more closely monitor and report the activities of their suppliers throughout the supply chain to ensure that they meet human rights, environmental and ethical management standards.

I. Company suppliers must also meet ESG requirements

Transparency of supply chains is becoming increasingly essential. Companies will have to more closely monitor and report the activities of their suppliers to ensure that they comply with human rights, environmental and ethical management standards. An example of this are the new regulations in Germany which require companies to monitor the practices of their suppliers. These regulations also affect Polish companies working with German firms. But this does not only apply to the German market. An increasing number of large companies ask their contractors (suppliers) to provide detailed information on their carbon footprint, or other ESG related information.

II. Each supply chain stage must be analyzed

The supply chain is a series of steps a product goes through from raw material to end user. In the context of ESG (Environmental, Social, and Governance) reporting, evaluating the chain of supply consists of analyzing the way each of those stages affects the environment, society and governance structure. A sustainable supply chain takes into account environmental, social and governance (ESG) aspects at each stage of the process. It includes such activities as: reducing greenhouse gas emissions and resource consumption; ensuring fair working conditions and respect for human rights; transparency and ethical management on all levels of the supply chain.

III. Each step towards the end product affects ESG

Why is the supply chain important from the perspective of ESG? Production, transport and distribution generate greenhouse gases, consume natural resources and may cause pollution (these are referred to as environmental aspects, E). Working conditions, human rights and relationships with local communities are crucial, as mistreatment of employees or communities can lead to legal and reputation problems (so-called social aspects, S). Transparency, business ethics and regulatory compliance are the foundation of responsible management. A supply chain that does not meet ethical standards can affect the entire organization (G).

IV. Proper identification of key suppliers

In the process of analyzing the supply chain for ESG purposes the primary step should be to identify key suppliers, i.e. to recognize those who have the greatest environmental, social and governance impact. This may include large manufacturers of raw materials, as well as smaller sub-suppliers. Suppliers that deliver key components or materials without which production would not be possible are considered critical. At this stage it is advisable to create a supplier map that will make it possible to identify all suppliers, i.e. prepare a list of all suppliers at various levels of the supply chain. During the next step the suppliers are hierarchized, i.e. categorized according to their significance and impact on the company's operations.

V. ESG risk analysis necessary once key suppliers identified

Once it has a hierarchical list of suppliers the company should assess risk from the perspective of ESG factors. This means performing a risk analysis to assess potential ESG-related problems in the supply chain. This can include audits, questionnaires and direct visits to suppliers. It is also possible to use data and indicators to quantify ESG risks, such as CO2 emissions, the number of accidents at work, recycling rates, etc., or to compare suppliers to industry standards and best ESG practices.

VI. Greenhouse gases, waste and natural resource management

Assessing the risks associated with environmental factors in the supply chain includes analyzing such issues as greenhouse gas emissions (analyzing whether suppliers take action to reduce CO2 and other greenhouse gas emissions), waste management (evaluating how suppliers manage waste, including through recycling and minimization), natural resource management (checking how suppliers manage the use of natural resources, such as water and energy).

VII. Working conditions and human rights

Assessing the risks associated with social factors in the supply chain includes analyzing such issues as working conditions (evaluating working conditions, including for compliance with occupational health and safety standards, fair wages and absence of forced and child labor), human rights (ensuring that suppliers respect human rights, including equality and non-discrimination), impact on local communities (analysis of the impact suppliers' operations have on local communities, including any displacement and impact on the health of local residents).

VIII. Transparent and ethical business management

Assessing the risks associated with governance factors in the supply chain includes analyzing such issues as business ethics, i.e. assessing whether suppliers apply ethical practices, including anti-corruption and fair competition; risk management, i.e. checking whether suppliers have effective risk management systems to quickly respond to problems; transparency, i.e. assessing the level of supplier transparency and openness in communicating and reporting on their activities.

IX. Company ESG policy should be known to suppliers

An appropriate ESG policy should be implemented based on the preparations associated with both identifying a list of key suppliers in the supply chain and assessing risks related to ESG factors. This policy can include requirements relating to sustainable sourcing of raw materials, reducing emissions and improving working conditions, as well as those related to establishing or maintaining relationships between the company and its subcontractors and suppliers.

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