

FOSTERING INTEGRITY IN GLOBAL SUPPLY CHAINS

A GUIDE TO INTEGRATING ANTI-CORRUPTION,
HUMAN RIGHTS, AND ENVIRONMENT
IN SUPPLY CHAIN OPERATIONS



Alliance for Integrity

The Alliance for Integrity is a global initiative bringing together all relevant stakeholders in the field of corruption prevention in the private sector. Our major goal is to raise business integrity and compliance capacities.

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Executive Summary

Multinational companies are facing unprecedented challenges in their global supply chains.

With spiraling costs, logistics barriers, political risk and economic instability, never before have the world's leading companies been confronted with such an array of physical, financial and socioeconomic obstacles. The growing demand of consumers for ethically-produced and -sourced goods, the advent of a new generation of ethical and impact investors, and a new level of investigative journalism powered by open data have shed a harsh light on multinationals' and their suppliers' ability to manage their global sourcing fairly and without harming the environment and society. Egregious cases of environmental damage, modern slavery, and corruption abound in multinationals' supply chains, especially in the less regulated Global South, all overshadowed by the ever-present, and as yet unresolved, long-term threat of climate change.

As a result, governments and regulators are now introducing new laws and stricter enforcement to ensure that corporate behavior corresponds with public expectations. This is forcing multinational companies to take a fresh look at how they manage and promote integrity in their supply chains. From assessing and managing risk to establishing integrated warning systems; from onboarding new suppliers to supporting and training them to implement the new responsible business standards; and above all how to respond to the new risks in an organised and integrated fashion – these represent the new challenges facing multinationals and the companies in their global supply chains.

The creation of an Integrated Supply Chain Management System which is capable of meeting these tasks is the focus of the current publication.

Driven by these changes, leading global companies are already beginning to adopt risk and supply chain management processes commensurate with the new level of risk and the increased complexity of their third-party relationships. Particularly given the movement in supply chain and due diligence regulation, companies are, and will be, expected to take a more active role in identifying and managing negative impacts and harm that may occur as a result of the business's operations or value chains.

New legislations, such as the German Act on Corporate Due Diligence Obligations in Supply Chains, are increasingly demanding that companies should ensure comprehensive risk management and oversight of third-party relationships involving critical activities, including across all of the following risk areas:

- Human and labour rights
- Environment; and
- Anti-corruption and bribery

Research shows that the conditions giving rise to risk in each of these areas is overlapping and correlated, and companies would be wise to consider these risk areas as interconnected and should design internal processes and structures that ensure that one type of risk raises an alert for other risk types, to prevent and mitigate harm most effectively.

In this publication, the authors propose five steps towards achieving this integrated approach:

1 Understand background risks:

This involves defining the key risk factors that the business is exposed to, and how they interact and influence each other. Environmental, human rights, and corruption risks manifest themselves differently according to the local conditions and operating environment. Local knowledge can be key for understanding root causes and effective prevention and mitigation strategies.

2 Build an integrated team:

Environmental, human rights and corruption risks are often traditionally managed by different departments, frequently with little institutionalised connection between them. Especially in larger companies, the functions responsible for overseeing these risks often effectively operate in siloes, leading potentially to both knowledge gaps and unnecessary duplication. With company-wide involvement in risk identification, prevention, remedy and management, such challenges can be overcome, and many benefits from enhanced efficiency generated.

3 Integrate data, alerts, and action:

Current risk assessment, prevention, remediation and reporting systems in companies often do not sufficiently address the connections between corruption, human rights, and environmental risks, and how identification of one of these risks should trigger actions and increased attention related to other risk areas. Properly integrated data enables risk identification and assessment and triggers appropriate alerts within the Integrated Supply Chain Management System so that the appropriate people can act on these risks.

4 Work with suppliers:

The relationship between multi-nationals and their suppliers has traditionally been defined in commercial or contractual terms. The new demands of the business environment are placing on companies the need to build a stronger relationship with their suppliers, one of partnership and support, not just supplier and purchaser.

5 Act collectively to scale impact:

The new legislation and the other drivers focus companies' attention on how to gather accurate data from the market, and how to do so in cooperation with other market actors, working with them to contribute to wider social and development change in their markets. A "Collective Action" approach encourages multinational companies and their suppliers to work together to find solutions to driving integrity into the mainstream of supply chain operations.

By following these steps and taking inspiration from the examples provided, companies can understand a grander vision for supply chain engagement that goes beyond compliance towards transparency and responsibility.

The global trade of the future will require companies to know, understand and be accountable for harms related to their business operations. In order to stay ahead of reputational, legal and other complications, companies which are already bringing human rights and environment into legal and compliance functions should take the opportunity to integrate and embed awareness of rights and risk across all business roles. With the help of this Guide, companies that are ready to rethink their business to align with the new regulatory environment and market drivers and to stay ahead

by implementing an integrated approach to responsible business practices will learn, from the experience of others, how to efficiently and effectively restructure and build on their existing approaches to risk, by fostering integrity, protecting the environment, and safeguarding human rights.



Abbreviations and Acronyms

CSDDD	EU's Corporate Sustainability Due Diligence Directive
CSR	Corporate Social Responsibility
CSRD	EU's Corporate Sustainability Reporting Directive
DOJ	US Department of Justice
EHS	Environment Health and Safety
ESG	Environmental – Social – Governance
FCPA	US's Foreign Corrupt Practices Act
ISO	International Organization for Standardization
KPI	Key Performance Indicator
LkSG	Lieferkettensorgfaltspflichtengesetz (Germany's Act on Corporate Due Diligence Obligations in Supply Chain)
NGO	Non-Governmental Organisation
OECD	Organisation of Economic Cooperation and Development
RM	Relationship Manager
SEC	US Securities Exchange Commission
SME	Small- and Medium-sized Enterprise
UNGP	UN Guiding Principles on Business and Human Rights

Methodology

Research was carried out for this study by the authors from October 2022 to March 2023. It consisted in desk research, interviews with the expert community and practitioners from companies (see acknowledgments section) and a number of facilitated discussions in small groups. Writing of the study was undertaken from March to May 2023.



Part 1 – The Why: Rationale for an Integrated Approach to Supply Chain Risks

1.1 The Aim of this Guide

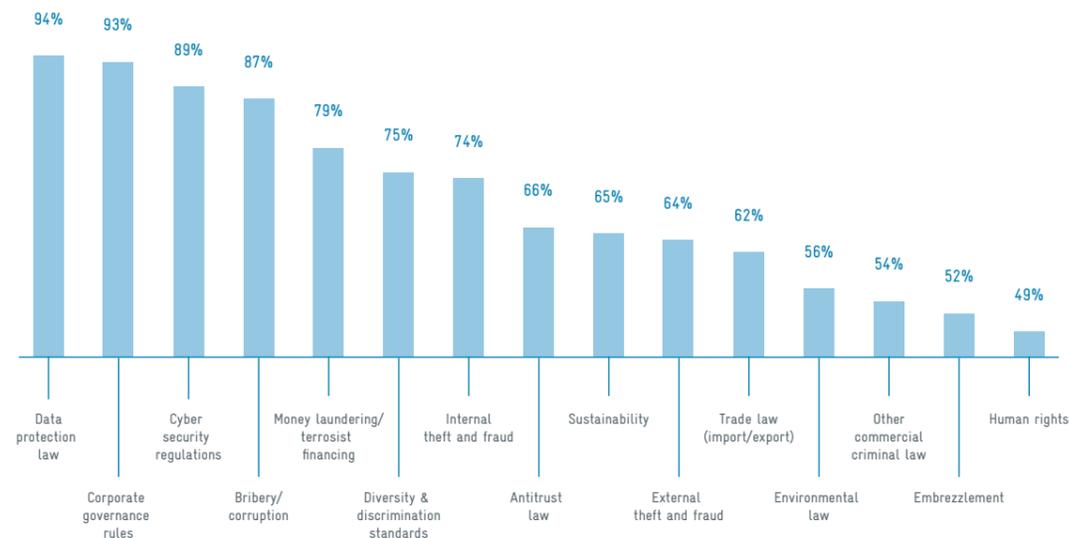
A new era of responsible business has arrived. The expectations for global business are being transformed, with important stakes for supply chain participants, and opportunities for companies that see the long game and are able to restructure their businesses around integrating transparency and being proactive about their responsibility for all of the risks posed by their supply chains and impacts.

Driven by investor interests, regulatory changes, consumer pressure, and an international consensus articulated by the UN Guiding Principles on Business and Human Rights (UNGPs)¹, the OECD Guidelines for Multinational Enterprises² and other codes of responsible business, companies that operate internationally are being held to higher standards of conduct not only with respect to their own operations, but also to the operations of the companies in their value chains.

Companies that are moving “beyond mere compliance” and which have already been incorporating responsible business principles have an advantage, and current regulatory trends suggest that those that adopt a forward-looking approach to environmental rights, human rights and anti-corruption will continue to reap benefits from investors, consumers, business partners, and regulators. The integration of these risk areas is critical to these efficiencies and to addressing the underlying conditions that create harm in supply chains.

These changes in the culture of international business herald unique opportunities for companies to orient their strategies and operations towards benefiting the environment and society, both upstream and downstream. When companies can no longer push to third-party suppliers the risks and costs of safeguarding human and labour rights, protecting the environment, and rejecting bribery and other unfair business practices, those that have already internalised, integrated and managed these costs will leap ahead.

FIGURE 1: KEY RISK FACTORS IN COMPLIANCE (%OF RESPONDENTS MENTIONED)



Source: 2022 Global ESG, Compliance and Risk Report, BCG, 2022

For ethical companies committed to these goals, there are immense opportunities for success defined by positive impact on the planet and people as integrated, not separate, goals: the emergence of socially and environmentally impactful products and customers especially in the Global South, the application of innovative technologies, socially conscious investors, and enhanced reputations built on both shareholder and stakeholder value. Leading companies have a positive impact on climate change, human rights, labour, financial practices, and governance and reap the benefits of treating these as interconnected, not isolated, issues.

The complexity of global business and interconnected supply chain risks means that multinational companies are facing unprecedented challenges. A recent survey of companies (see Figure 1 above) shows the risk factors included in compliance department or role mandates.³ Historically, supply chain integrity, governance, social and environmental risks have often been managed in siloes, under different functions and departments such as Legal, Compliance and Risk Management, Environment Health and Safety (EHS), Procurement, Finance, and Corporate Social Responsibility (CSR) – to name but a few. Companies and industries have taken very different approaches, leading to a lack of clear role-models. The shift of human rights and environment from soft law, or voluntary standards, to hard law in combination with voluntary standards may also require a reorganisation of how these functions sit within the company structure.

The requirement that companies take a proactive approach towards responsibility for risks and rights in their global supply chains, embodied in a new generation of mandatory laws such as the Lieferkettensorgfaltspflichtengesetz or Act on Corporate Due Diligence Obligations in Supply Chains (LkSG)⁴ which came into force in Germany in January 2023, the draft Corporate Sustainability Due Diligence Directive (CSDDD)⁵ in the EU expected to come into effect in 2025, as well as sector-specific legislations such as the upcoming EU Regulation on deforestation-free supply chains⁶, suggest that companies can more efficiently tackle human rights, anti-corruption and environmental protections in a holistic and integrated way that acknowledges their common root causes, and take advantage of structures for compliance, procurement, supplier management, etc. to address all kinds of financial and non-financial risks. The leadership of global companies can seize this opportunity to reorient their business’s risk approach systemically and systematically by understanding all risks as being inter-connected and in

need of an integrated, whole-company solution. By ensuring that all of the business functions in a company have an embedded sensitivity to risk and have appropriate processes for communicating and supporting suppliers through these issues, management can eliminate redundancies and leverage expertise across the business that will save the company from chasing minimum compliance standards in a constantly changing regulatory environment.

The purpose of this publication

The purpose of this publication is to help companies understand how to integrate their approaches to addressing potential harm caused by environmental damage, human rights abuses, and corruption / bribery and to lessen the burdens on suppliers. Without an efficient and effective risk integration strategy, doing business will become more complex, more costly, and, as has been demonstrated in a large number of legal cases against corporations, riskier from a reputational, legal, and financial perspective. Suppliers will also be looking for companies that can simplify and integrate their reporting and compliance costs and implement responsible sourcing practices, to ensure that they can focus on their core business and remain competitive. This Guide will also help introduce SMEs with international end-markets to the trends in supply chain legislation and how to leverage their local knowledge to improve risk solutions and to provide support to global brands to address risks effectively.

Leading global companies are already beginning to introduce new assessment tools, preventative measures, alert systems and reporting into their policies and practices to cover risks in an integrated fashion. They are investing in new technologies to process complex data sets to capture and even predict outlier behaviors. The functions of the compliance department and general counsel⁷ are being rethought, to build a culture within the company and in their broader supply chains oriented towards agility, due diligence, and understanding and responding pro-actively to new risks, not just the traditional compliance approach.

With the help of this Guide, companies that are ready to rethink their business to align with the new regulatory environment and market drivers will learn, from the experience of others, how to efficiently and effectively restructure and build on their existing approaches to fostering integrity, protecting the environment, and safeguarding human rights with their supply chain partners.

This publication shares some innovative and successful solutions to integrating human rights and environment into existing anti-corruption and bribery policies and practices.⁸ Illustrated by case studies from globally recognised companies, this publication will serve as a useful Guide to companies embarking on a holistic approach to managing legal and market risk. The future of global business is already pushing beyond box-ticking, towards proactive engagement, understanding the interaction of different risk types, and enhanced transparency through constructive and supportive value chain relationships. Jump on board and join us in spreading a new model of responsible business!

1.2 Time for Action on Corporate Responsibility for Supply Chain Risks is Now

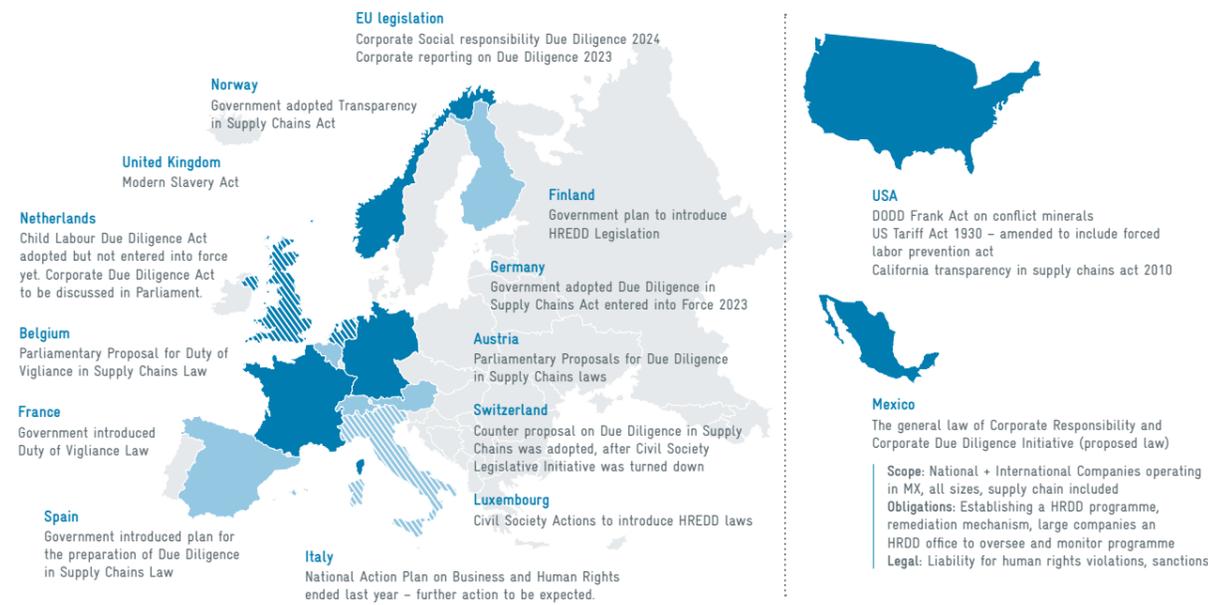
The growing demand of consumers for ethically produced and -sourced goods, the advent of a new generation of ethical and impact investors⁹, a new level of investigative journalism powered by open data¹⁰, and globally connected

social media have shed a harsh light on the gaps in voluntary approaches. Egregious cases of environmental damage, modern slavery, unsafe conditions and corruption abound in multinationals' supply chains, all accompanied by the ever-present, and as yet unresolved, long-term threat of climate change. But strict compliance has risks as well, particularly when legislation is pushing businesses towards active engagement and management of their supply chains leaving companies exposed on reputational risk and on revised legislation designed to compel them to further action. Leading companies in all major industries already go beyond compliance and are invested in shifting their own culture towards responsibility, prevention, and support for suppliers on all kinds of risks.

Recent Laws Change How Companies Must Manage Third-party Risk

Governments and regulators are now shifting the paradigm from soft law to hard law to ensure that corporate behavior corresponds with public expectations, responsible business practices and ethical behavior. As Figure 2 below shows, the enactment of new legislation regulating company's standards in their supply chains has become a global trend.¹¹

FIGURE 2: DUE DILIGENCE – FROM VOLUNTARY TO MANDATORY STANDARDS



Source: Initiative for Global Solidarity, GIZ

This is already changing the way in which companies view and manage their supply chains. Italy's criminalisation of forced labour and modern slavery in 2014 soon followed by the UK's Modern Slavery Act of 2015 set an example which has been reproduced in Australia¹², the US (including specifically human rights supply chain due diligence in California), and several European countries¹³, including in Germany, where the LkSG came into force on 1 January 2023 (Figure 3).¹⁴

Similarly, at a regional level, the EU has introduced legislation which challenges the status quo, such as the Directive on non-Financial Reporting (2014/95/EU), the Conflict Minerals Regulation (2017/821), the Taxonomy Regulation on the establishment of a framework to facilitate sustainable investment (2020/852) and, most recently, new proposals for a Corporate Sustainability Reporting Directive (CSRD) and the CSDDD, expected to be passed into law by 2025 (Figure 4).

FIGURE 3: NEW LEGISLATION IMPACTING GLOBAL SUPPLY CHAINS

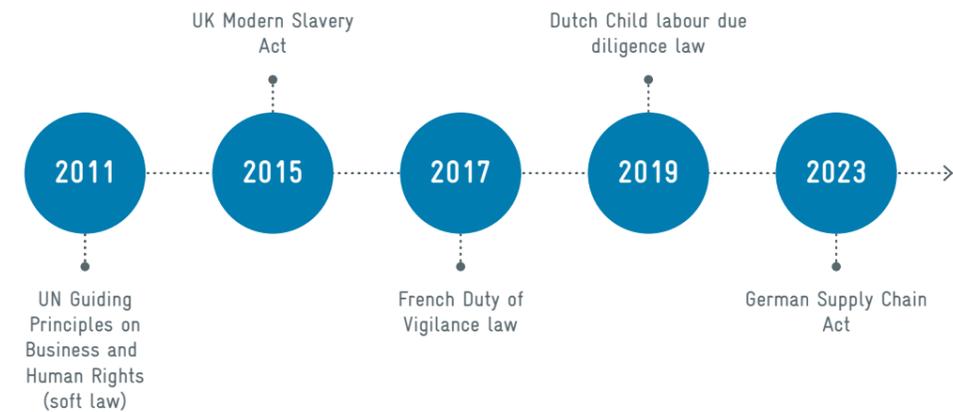
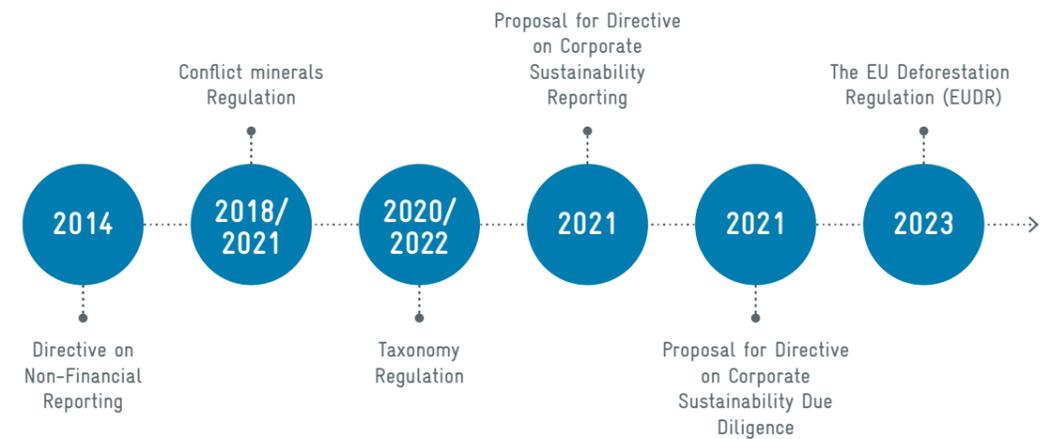


FIGURE 4: LEGISLATIVE TRENDS IN THE EU





Expanding the Scope of Corporate Responsibility

In general, these laws increase the responsibility of the companies sourcing from global supply chains to prevent, mitigate and remedy human rights and environmental risks and incidents throughout the supply chain. This is an important shift. Previously, companies generally weren't responsible for their suppliers' human rights track record, so they could shop around for the cheapest price without a view on risks.¹⁵ Now they are becoming responsible to a certain extent for the impact of their suppliers and known risks of indirect suppliers.

These new laws place new obligations on companies to shift to active management of human rights, environmental, and corruption risks in their supply chains. They require explanations of how companies prioritise risks and engage with suppliers, take responsibility to provide a grievance or whistleblower channel, and act on complaints where they pose a risk to human rights or environment. Companies that could previously take an arm's length approach to the risk of misconduct by their suppliers must now actively identify, prevent and remedy these risks, and report publicly on their efforts and effectiveness.

1.3 The Future of Global Supply Chains

It has never been easy to bridge the gap between the aspirations of ethical and responsible business on one hand, and, on the other, the business reality – fierce cost competitiveness, short-term supplier relationships, and shifting responsibility for labour and environmental issues to third parties with lower costs of compliance and production. An Integrated Supply Chain Management System can bridge this gap.

Traditionally, multinational companies have been able to take a perfunctory approach to risk. An anti-corruption clause in a supplier agreement or code of conduct and a workshop on the suppliers' obligations during an annual suppliers' conference would have been sufficient to allow management to satisfy their legal obligations and show that they were implementing policies to back up their stated commitments to human rights and environmental protection. A new era of global business responsibility has begun and will continue to put responsibility on companies that source from the

Global South. The companies that leverage this opportunity to get ahead of future requirements by understanding both the spirit and the letter of recent legislation and engaging actively with their whole value chains on managing all kinds of negative impacts on people will save time, money, and potential liability later.

Proactive Risk Management

The spirit of the new regulatory regimes encourages companies to move away from a minimalist, "defensive", and strict compliance approach to supply chain risk management, towards a more engagement-focused, proactive approach. This new approach would ideally mean that global companies have earlier indicators for identifying, preventing, mitigating and remedying rights issues, whereby they take more responsibility for knowing and acting on these issues, and for promoting a deeper culture of responsibility for internationally-recognised rights within the companies in their supply chain. The new legal obligations expand the breadth and depth of responsibility that companies take on when they source internationally, and we encourage companies to think beyond compliance towards a proactive, integrated approach to risk that is embedded throughout the organisation and is part of the business model.

In terms of breadth, for example, it had previously been considered sufficient for companies to take responsibility for their direct, first-tier, suppliers as contract counterparties over which they could reasonably assert some leverage. However, in the proposed EU draft CSDDD, companies will need to ensure that these standards are adopted by some second- and even third-tier suppliers.¹⁶ Downstream responsibility, particularly in tech, finance, weapons and packaging, is also gaining traction with EU lawmakers, and if successful, may be adopted elsewhere.

In terms of depth, the "box-ticking" approach which characterised many compliance programs is unlikely to be acceptable to the regulators going forward. Now companies are being urged to set out action plans and strategies, justify risk assessments and prioritisations, and report prevention and remedy efforts. Companies are also increasingly responsible for monitoring and assessing the effectiveness of their measures. For example, in the 2020 resource guide published by the US Department of Justice (DOJ) and Securities Exchange Commission (SEC)¹⁷, in order for any kind of mitigation or leniency in sentencing to be considered, it is no longer sufficient to show that a compliance program

was in place; the company needs to demonstrate that it was an "effective" compliance program.¹⁸ The EU's CSDDD draft directive also requires justifications for risk prioritisation and measurement of effectiveness of the measures the company puts in place.¹⁹

Interconnected Risks

Companies sourcing various components and materials (directly or indirectly) through a number of geographies and jurisdictions have to face how to deal with the wide range of risks to people, communities and environment in the supply chain.²⁰ Each company will have a different assessment of the balance of risks within the local commercial, social and political context, what stakeholders are impacted, and how to prevent or mitigate any harm.

However, there are some common features between these different contexts, because human rights, environmental and corruption risks are often interconnected. Corruption often undermines state-powered control and prevention mechanisms, restricts accurate information flows and reporting which stop prevention and mitigation efforts, and closes off victims' pathways to remedy. With these mechanisms weakened by bribery or corruption, the likelihood of other severe rights violations rises, and increases their potential severity. Corruption and human rights are also intrinsically linked with environmental rights and protection. For example, where deforestation persists despite legal and regulatory frameworks designed to prevent it, this is often because enforcement regimes are weak and / or corrupt. Research shows correlation between different types of risks, a feature which can help companies better identify and mitigate harms and potential issues. Corruption and environmental exploitation also often go hand-in-hand with exploitation of workers and children. For example, farm laborers and smallholders growing tropical commodities may be exposed to unsafe working conditions and dangerous chemicals, and face pricing demands that put pressure on labour costs and create conditions for child labour, which is sometimes allowed to continue because of impunity and cronyism in concession agreements, conflicts of interest, and bribery.

Corruption can have devastating and long-lasting impacts on human rights. This connection is recognized by the UN, Transparency International and other international organizations concerned with corruption and human rights. A report of the UN Human Rights Council sets out how corruption weakens a State's ability to provide necessary

goods and services to fulfil their human rights obligations, as well as undermining the rule of law and governmental institutions, which in turn hinders the State from protecting and respecting the rights of people, particularly vulnerable and marginalized people.²¹ Despite these clear connections and interdependencies, companies seem not to have built into their legal and compliance mechanisms and organisational structures corresponding connections and cross-reporting processes. Anti-bribery and corruption, human rights and environmental risk management require similar (though not identical) controls, for example, at the pre-contractual stage, with due diligence and contractual clauses committing suppliers to meet the company's policy on bribery, human rights abuses etc.; and, at the post-contractual stage, with audits, certifications, training and other measures. Existing structures and lines of defense can be utilised to cover all supply chain risks.

The Challenge of Integration

The practical challenge for some larger companies is that the management of these risks is often divided amongst separate functions, each employing different processes, leading to potential under-detection of some risks, or over resourcing or duplication of other areas. Companies that have had human rights awareness as part of their operations, have a challenge in bringing it into compliance without losing human focus and connection to procurement, sustainability, health and safety, and other areas. For companies that have not considered human rights before, the challenge in adopting a whole new risk category is trying to understand a basket of new obligations and requirements and how to cost-effectively manage these within the organisational structure.

With the advent of new legislation, and the transition to mandatory compliance from hitherto voluntary principles, companies would benefit from ensuring that these functions come together to develop a common supplier due diligence process and risk management and supplier engagement system that connects the whole organisation. By integrating these multiple risk areas into one, companies will benefit from a more effective and efficient operations framework. It pays to be ahead on this, as other voluntary areas (biodiversity, deforestation, Scope 3) are anticipated to have mandatory reporting and management requirements in the near future, and an organisation with integrated and proactive risk communication and engagement processes will be well placed to stay on top of changing regulatory requirements.



1.4 How to Use this Guide

The intention of this Guide is to show how to simplify the way corporations manage supply chain risks and interact with their suppliers / SMEs so that these supply chain partners can provide better information and identify and address potential risks to and negative impacts on people from the business operations. Through the actions recommended here, companies can take advantage of efficiencies and evidence-based interactions between risks, and orient their operations, compliance and reporting towards proactive risk awareness and engagement. By guiding you through the process of integration of different business functions' approach to risk, this Guide will assist you in streamlining your management and operations, enabling you to keep the cost and the complexity of running a global business under control.

By creating and running an Integrated Supply Chain Management System, your company can support its suppliers in understanding, and acting upon, the risks that are caused by, and impact on, your business. By helping suppliers to adopt more proactive business practices with respect to human rights, environment, and corruption, your company will create a more sustainable, transparent, fair and accountable business environment in global supply chains.

The Guide contains five high-level steps about how to establish an Integrated Supply Chain Management System. Each step is subdivided into questions, the answers to which describe how companies are addressing the issues and finding solutions. The steps are illustrated by a number of real-world examples.

These steps are not intended to be exhaustive or exclusive. The actions suggested in the question responses are arranged in terms of logical organisational change, but you can adopt them in any order.

Each step is accompanied by examples that describe how leading global companies have implemented these approaches in their supply chain. These best practices should act as inspiration for executives to discover imaginative and effective ways to meet the new challenges in supply chain management, while building on existing company resources.

Whom this Guide is for

It is difficult to produce a Guide that will be equally useful for all companies. Larger companies may already be quite advanced in restructuring their risk management approach but will benefit in learning from the experience of their peers. Smaller companies, just embarking on this path, will appreciate the step-by-step guidance offered in Part 4. Although not the primary readership, it is possible the local companies in the supply chains of global multinationals will appreciate learning more about what drives their clients' new, and highly active engagement on business standards.

For company secretaries, Board directors, and non-executive directors and "C-suite" managers, the Guide provides advice on the impact for companies of the new legislation impacting supply chains. It provides insights into changing investor and consumer expectations, industry standards, and peer best practices, affording Board members opportunities to rethink their companies' long-term risk management strategies and planning. The questions under each of the four steps can be useful as a way of deep diving into issues with your management team.

For sustainability managers, environmental managers, general counsels, compliance and ethics professionals, the Guide sets out the linkages between corruption, human rights, and environmental risks, and shows how companies can enhance the efficiency and effectiveness of risk prevention and detection through better coordination and integration of corporate functions. For supply chain managers, responsible sourcing professionals, and procurement personnel, the Guide shows how companies can raise the standards of the companies in their supply chains through innovative training, tools, and incentives.

For government officials, consultants, academics, and civil society organisations, the Guide provides real world examples of how companies' good practices can positively manage the impact of legal and regulatory reform and policy change by contributing to raising the business standards throughout their global supply chains.

Part 2 – The How: A Guide to Establishing Your Own Integrated Supply Chain Management System

Throughout this document we talk about a new concept, which we call an "Integrated Supply Chain Management System". This term is intended to encompass all of the practices and processes that a company with a global supply chain uses to communicate, assess, prioritise, identify, prevent, mitigate, remedy, measure, evaluate and report on supply chain risks including anti-corruption and bribery risks, human and labour rights risks, and environmental risks. A key feature of the Integrated Supply Chain Management System is leveraging the connections and correlations between different types of risk incidents to more efficiently and effectively identify and prevent harm. Initially, integration may be done ad-hoc manually by a dedicated person with access to data; eventually, this should be integrated via systems.

In our view, validated by dozens of companies who are already using this kind of integrated approach in their operations, this new approach to supply chain risk requires integrated governance structures, shared communication and reporting, and integrated actions that trigger business decisions and resources across several business functions. No longer can risk be siloed in compliance; risk management must be applied throughout the business, including the supply chain, from governance structures to KPIs, in order to allow the company to comply and compete in the new era of responsible business. In Part 2 we will show you how, and illustrate this guidance with examples from leading companies in a variety of sectors. Figure 5 shows the key steps and questions you can ask to help you implement your new approach.

FIGURE 5: STEPS AND KEY IMPLEMENTATION QUESTIONS

Steps	Key implementation questions
1: Mapping Your Background Risks	<ul style="list-style-type: none"> • What is risk mapping? • How does risk mapping benefit from an integrated supply chain risk approach? • Which external organisations should be involved?
2: Building an integrated internal structure	<ul style="list-style-type: none"> • Who are the internal key people? • What organisational structures are needed for integrated risk management? • How can incentives and KPIs drive an integrated risk approach? • How can an organisation be resourced to be fit-for-purpose regarding supply chain risks?
3: Integrating data, alerts and action	<ul style="list-style-type: none"> • How are the risk inputs defined and connected? • What are integrated alerts and how do they work? • How can technology help detect interconnected risks? • How should incidents be raised within an Integrated Supply Chain Management System? • What actions should come next after an alert?
4: Working with suppliers	<ul style="list-style-type: none"> • What role do suppliers play in supporting their buyers' understanding of risks? • What benefits can both parties receive from long-term purchasing relationships? • How can companies provide meaningful support to their suppliers on risk issues?
5: Acting Collectively to Scale Impact	<ul style="list-style-type: none"> • How can Collective Action help companies collect more reliable data? • How can Collective Action help save resources? • How can Collective Action drive behavioral change in complex supply chains and wider society?

2.1 Step 1: Mapping Your Background Risks

Given the objective of developing an integrated approach to risk, it will be crucial to first define the key risk factors that the business is exposed to. Environmental, human rights, and corruption risks manifest themselves differently according to the local conditions and operating environment. Local knowledge can be key for understanding root causes and effective prevention and mitigation strategies. It can also help your company detect rights violations or risks at an early stage and to implement effective prevention and remedial measures.

The first step in establishing an Integrated Supply Chain Management System is to conduct due diligence aimed at gathering data about your suppliers and the business environment in which they operate. It is not the aim of this publication to explain how to conduct due diligence, about which much has already been written.

However, from the point of view of later integrating the various risk factors, two elements of the due diligence process are worth exploring in more detail as prerequisites to embedding an integrated risk approach in your supply chains: stakeholder mapping and risk mapping.

Both the stakeholder mapping and the risk mapping can form the basis for a collaborative approach to supply chain management. First identify stakeholders by looking at people, organisations, or other groups that are active in areas impacted by your sourcing or operations, including indirect sourcing, such as raw materials and wet processes as these are often outsourced in order to further separate final buyers from supply chain risks. By understanding other parties who might be impacted by your business activities, and the stakeholders in the places where you have business partners and sourcing relationships, you can recognise aligned interests in protection of human rights and environment and identify potential allies who you can work with to achieve your goals. This can form the basis for broad alliances within an industry or geographic region which will allow your company, your suppliers and your key stakeholders to share knowledge and to pool resources in identifying and mitigating environmental, human rights and corruption risk or to create common tools or approaches that simplify the burden on suppliers and create a supportive environment for

identifying and addressing risks. It is the foundation of an innovative collective action approach to actively promoting integrity in the markets where your company is investing and operating (see Step 5).

What is risk mapping?

Risk mapping provides an understanding of how historical precedent, current and potential future conditions on the ground conditions (including the presence and activity of the stakeholders mentioned above) can impact your company and your suppliers. It will include the potential and actual risks that are specific to an industry or geographic region and should demonstrate an understanding of how risks are interconnected or correlated. Of course, with a global supply chain, tracking and monitoring all of the potential risks in human rights, environment, and anti-corruption in each of a company's suppliers and beyond quickly becomes a gargantuan and unwieldy task. The current legislation, including LkSG, contemplates a risk-based approach, including risk prioritisation, to address this issue and to allow companies to focus their efforts on risks that are most likely to have negative consequences, and those risks that have the potential to have the most serious impact, particularly on vulnerable people and communities.

Risk prioritisation can take many forms – including a list, or a heat map – and should show the way that the business understands the risks according to their likelihood and their potential severity.

For an integrated approach to risk, the following elements need to be considered in risk mapping:

- **Risk to people:** The new regulatory environment and public expectations are that companies consider the impact of their operations and materials on people rather than simply on the company's operations, reputation and bottom line. Risks that companies should be aware of can impact the company and its customers, as well as the workers and communities involved in or impacted by materials sourcing and the value chain. Any risk category can have impacts that are internal to your company and external (e.g. exposure to bribery can both be a liability for your company and detrimental to the community and / or society where the corruption occurs) – and regulations increasingly are requiring companies to be responsible for external impact as well as internal. It is all the more critical to evaluate impacts to people (human rights and

environment), as well as to your business, within the context of the local conditions and with the input of people and stakeholders who are directly impacted to understand all of the risks and how to prevent, mitigate and remediate them.

- **A process for assessing and identifying of risks and their interconnections:** With new types of risks becoming part of mandatory compliance, risk management, operations, sustainability and procurement considerations (to name but a few), companies need to ensure that they have a consistent and rigorous way to (1) assess risks in the geographies and sectors they work in and source from, (2) identify specific or incident-related risks as they arise, (3) ensure potential and actual risks are communicated internally such that every business function or department impacted can incorporate this information to their operations and decision-making, (4) distribute responsibilities for assessment, identification, prevention, remedy and reporting across the relevant business functions (with appropriate channels and processes to report in these outputs cross-function), and (5) review and assess their risk understanding and processing regularly to ensure effectiveness.
- **A common methodology:** For the sake of combining risks into an Integrated Supply Chain Management system, it is critical to define a common methodology for evaluating the risks, including interconnected risks. At the time of writing, the relevant regulations envision a risk prioritisation exercise to help companies focus on the risks which have the highest likelihood to negatively impact people or cause harm, and those which have the potential to have the most severe damage to people, particularly vulnerable people. While detailed methodologies will diverge according to risk-specific characteristics, companies should be prepared to justify their risk prioritisation in writing.
- **Regulations assessment:** As mentioned in the earlier chapter, different regulations in different jurisdictions may have distinct requirements and scopes of risks to be considered. Aligning the requirements across different legal regimes may require additional planning and coordination.
- **Local conditions assessment:** In addition to the demands of the law in multinationals' domestic jurisdictions, legal reform and new legislation in developing markets

is changing rapidly. Furthermore it is often prone to arbitrary enforcement and interpretation. In fact, "local conditions" are not determined solely by legal and institutional regimes – politics, history, traditional business practices determine what is a risk, and the chances that it will be detected too.

- **A changing landscape:** Local conditions can change and affect risk calculation. What was not illegal before, becomes illegal. Social norms are challenged. Environmental conditions change. So it is local conditions, and how they are changing over time, that is important to determining potential risks and impacts. It is a moving target, and it needs to be monitored on an on-going basis.

Case study Risk Mapping at Adidas

At Adidas, suppliers are monitored for human, labour rights and environmental risk using the following approaches / tools:

- **Country level assessment:** Country profiles are based on in-depth due diligence (including government and NGO databases, and engagement with CSOs, unions, employer federations and with workers directly through surveys, focus group discussions, and grievance tools). Countries are categorised as high or low risk with attendant checks and additional responsibilities on high-risk context suppliers.
- **Factory level assessments:** Regular audits, KPIs, factory risk-rating analysis. This information determines the level of check-ins with the factory.
- **Monthly reporting to executive team:** This includes any updates to country and factory-level assessments, as well as immediate reporting of sufficient priority. Depending on the issue, this may also lead to additional action on a case-by-case basis.

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- Immediate reporting: Crisis management and grievance mechanisms that workers and other parties can use to reach the Social and Environmental Affairs team. The information received may result in additional site visits, audits or other engagement with a business entity or factory at any time.

As a result, Adidas has extensive data on the human rights risks of its supply chain partners, and together with their list of zero tolerance issues and embedding this data into the procurement process, can use risk data to make sourcing decisions where several potential suppliers are available.

→ For more information on Adidas' risk, please refer to the company's [Topic Page on Sustainability](#).



- Going beyond first-tier suppliers: One of the emerging obligations from the new generation of legislation is the potential responsibility of companies for what goes on throughout the entire production cycle from raw materials sourcing to finished product (and its eventual disposal or recycling). The upstream and downstream scope of human rights due diligence is still undecided as a general rule, but the expectation seems clear -- companies need to take on more responsibility for what happens beyond their direct (first-tier) suppliers to the second- or even third-tier (also referred to as "fourth-parties" and "fifth-parties"). Considering the opacity of global supply chains, traditional risk mapping processes may yield limited information. The best source of information is your direct supplier, but the extent to which the supplier will be willing to share this information will depend on the contractual obligations you set and the quality of the partnership between your company and the supplier (see Step 3 below).
- Use of technology to collect, organise and analyse data: A plethora of services exist to help companies collect, organise and analyse data on their supply chains and risks. So far, no single service has emerged as global industry standard, and these services may draw from different data sources and use different (sometimes proprietary) ways of aggregating and reporting on

data, either alone or with consulting services, supplier self-assessments, media (and social media) scraping, product traceability and blockchain services, and AI-powered data mining.

How does risk mapping benefit from an integrated supply chain risk approach?

Under the new legislative approach typified by the LkSG and CSDDD, companies will be required to be responsible for human rights risks and certain environmental risks. That is in addition to the prevention of bribery and corruption which is already part of your compliance obligations. A fully integrated risk alert system should bring these together, identifying potential risks during the risk mapping exercise and then bringing this into the risk prioritisation and prevention as well. Understanding the connections between types of risks will ensure that the mapping exercise is complete and can accurately inform the later stages of the supply chain engagement process.

Risk prioritisation will vary from company to company (a mining company may need to pay much more attention to environmental risks than a tech company, for example) and the way that inputs are tracked may even vary between operations and compliance functions. For example, if the risk profile of a specific product line is mostly stemming from corruption risk, there still needs to be awareness of assessments and incident reports from outside the compliance department which might signal the existence of potentially connected human rights and / or environmental issues. Without an integrated approach, the potential severity and impact of a rights abuse may not be clear or sufficiently thought-through.

Which external organisations should be involved?

Engaging directly with stakeholders at an early stage may have several benefits. Firstly, they are a source of local information and context that will help you to understand the risks that exist and the interconnections that will help your organisation to correctly assess, prevent and remedy risks. Secondly, they may become useful allies in exposing risk or potential risk in or around your company. These organisations may have existing projects or relationships with workers or the community that provide valuable insights into your integrated risk management and can help you build on existing community assets rather than building your own tools, processes, resources and structures from scratch. If

handled in a constructive spirit from the start, stakeholders can become an important means to support you and your suppliers in fulfilling your legal obligations.²²

Relevant stakeholders could include local trade unions; workers organisations; union coalitions / confederations; regional and national business and industrial associations; NGOs or CSOs focused on human rights, worker rights, land rights, women's rights etc.; representatives of international organisations such as UN offices and programs; and other international NGOs working in these regions or sectors (for example CARE, Rainforest Alliance, International Organisation for Migration, Oxfam, etc.). Other companies working in the same geographic region (local or international), community organisations, local government, religious organisations, and other interest groups may also be helpful to consult as part of your risk design and assessment, and to support other parts of your due diligence obligations.

Case study Creating an effective stakeholder network at Rainforest Alliance

Rainforest Alliance, along with Conservation International, Verra and other partners, is piloting a new approach to identifying specific risks in the geographies where they work. As a certification body, Rainforest Alliance does not have direct suppliers, but works with farmer organisations, exporters, and coffee buyers around the world to establish standards that return value to farmers and ensure certain human rights and environmental protections. Acknowledging the complexity of smallholder farmers who may be involved in several crops, Rainforest Alliance designed a "landscape approach", which involves looking at an entire region, rather than a single value chain, to identify risks and conditions. The landscape approach is premised on the close interactions and connections between conservation, economic development, and human rights, and that there are often defined geographic areas where economic activities and human activity are closely knitted together.

Focused on creating a global approach to landscape-level measurement and a support system for communications between stakeholders,

LandScale takes an integrated approach to identifying risks using surveys and other data collection that is scalable and that takes into account how corruption and exploitation of human beings and environment overlap in different regions. This involves setting up and supporting stakeholder groups, including local communities, private sector, civil society groups, and government officials, to develop and implement landscape action plans, policies and investments that advance sustainability holistically. The basic idea is that by bringing all these people together, they can break down silos that have impeded progress in the past.

LandScale is like a compass and benchmark that both individual companies and initiatives / projects can use to keep oriented to their sustainability goals, track progress, and measure results. Their core indicators provide comparability across different regions, and the landscape-dependent indicators are defined at the local level to take into account conditions on the ground and how issues manifest in the particular landscape.

→ For more information, please see the [LandScale Assessment Framework](#) (online resource) and the [Rainforest Alliance Topic Page on LandScale](#).



2.2 Step 2: Building an Integrated Organisational Structure

Environmental, human rights and corruption risks are often managed by different departments, frequently with little institutionalised connection between them. Especially in larger companies, the functions responsible for overseeing these risks often effectively operate in siloes, leading potentially to both knowledge gaps and unnecessary duplication. Simply moving human rights and environment into a compliance role or department along with anti-corruption and bribery would not necessarily satisfy the spirit of the Integrated Supply Chain Risk Management Approach, which is to embed responsible and ethical business practices, awareness of risks, and supply chain engagement throughout companies and all of their operational functions. There will be challenges to overcome with this new expectation of company-wide involvement in risk identification, prevention, remedy and management – e.g. complex organisational and reporting structures, unclear responsibilities, inadequate incentives and poor communication – but also many benefits.

Integrated internal processes ensure that the relevant departments and individuals responsible for managing specific risks (“risk owners”) are able to work together to ensure that potential risks and issues do not “fall through the cracks”. Close teamwork in this area also serves to continue to identify risk beyond the initial stakeholder or risk mapping, and to allow course corrections should conditions change.

An integrated approach to risk and spreading your company’s culture of integrity deep into your supply chains starts with an organisational structure that is fit for purpose.

Who are the internal key people?

The Risk Mapping exercise will have revealed the priority risks. From this it is possible to assign risk owners within your corporate structure and review the roles of the three lines of defense and how these should work together in the overall risk architecture. It is not only risk owners, but any role collecting and analysing data could affect the company’s understanding of impact of operations and supply chain management, including sustainability / ESG, human resources, environment, compliance and legal, are

all important to carrying out the dual-requirements of data collection and proactive engagement to prevent, identify and remediate potential risks and issues within the supply chain.

Procurement and sales are at the frontline of operational risk – the two functions closest to the market and in direct contact with supply chain partners. These business functions assess potential suppliers and customers and are in the best position to influence decisions about engaging or not with particular value chains, upstream and downstream. However, these roles have incentives / KPIs that may need to be recalibrated to reflect a new focus on due diligence and understanding underlying risk context. They too need to be included in this new Integrated Supply Chain Management System approach in order for it to be successful.

Case study Integrating and linking distributed risk ownership at Covestro

Covestro views the management of opportunities and risks as an integral part of the overall business management system rather than as the task of a specific corporate function (e.g., compliance). Covestro also recognizes that individual risk factors require distinct ownership and often dedicated tools and approaches. The result is a distributed, but interlinked approach to risk management. At an overarching level, the Corporate Risk Management aggregates risk-specific assessments to get an overview on risks and associated measures. The degree and type of aggregation itself is sensitive to risk-specific circumstances. For example, the risk matrix for human rights differs from the traditional risk matrix as it focusses on severity of the risk to the concerned individual.

Underlying this aggregate view are different, often risk-specific systems, controls, and monitoring approaches with dedicated owners. For instance, risks associated with product and services quality are assessed on the basis of a quality management system following ISO 9001; risks relating to critical financial loss are assessed using the accounting-based Internal Controls System.

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Crucially, the measures used in such underlying systems for individual risks are interlinked in various ways. In particular, Covestro uses a human rights management system modelled on established principles of other management systems (like ISO 9001, 50001, 14001) which designate clear responsibilities and follow a management cycle of design, implementation, training, communications and continuous improvement processes. Moreover, this human rights management system makes active use of existing measures and controls from other systems to avoid duplication of effort; for example, the tool used to perform an Anti-Bribery check in procurement processes is mirrored to document human rights controls in supplier management. The IT tool to assess the effectiveness of the compliance management system globally is planned to be used also for the effectiveness monitoring.

Applying this corporate mindset to supplier management, Covestro does not expect its suppliers to build up new management systems for human rights risks, but to make good conscious use of existing management approaches to foster the goals of sustainable business relationships. Thus, a culture of making decisions based on awareness of risk, and of embedding risk awareness throughout the company, has created the basis for improving supplier relationships for a sustainable future. This allows a practical balance between depth of engagement with high-risk supply streams and the breadth of Covestro’s extensive supply network, including Tier 2 and beyond.

→ For more information, please refer to the company’s [Topic Page on Sustainability in Supplier Management](#)



What organisational structures are needed for integrated risk management?

There is no single standard organisational structure around risk which can serve as a model since this will depend on the identified risks, and indeed many other commercial and non-commercial considerations. Whatever the structure,

to integrate the risk management there needs to be some coordinating function which can bring together the different strands.

Companies have found different solutions to this, either by building on existing structures, or creating new roles, teams or taskforces to cut across the relevant internal stakeholders. In the largest companies, especially in financial services, there may be divisions of responsibility between risk / compliance, legal and procurement, as well as internal audits. To bring all of these functions together, an human rights or risk lead, or a risk committee or task force which would bring together the risk owners on a regular basis and might be chaired by a risk coordinator – either a dedicated manager, or a senior executive from amongst the owners might be a solution that helps your business integrate these aspects effectively. In medium or smaller companies, there may be fewer functions to coordinate amongst and it may be clear who should be responsible for coordination. For example, commodity companies often have a product-specific lead who is responsible for all risks and commercial decisions for their particular commodity, in addition to risk or compliance. In smaller companies, formal bureaucratic structures may not be so necessary if informal coordination is practical. In any event, some laws require the creation of a new role, or the appointment of a specific person (not just a role) with responsibility for risk management in a particular risk area, or across several types of risk.²³

How can incentives and KPIs drive an integrated risk approach?

Achieving an integrated team effort in a multifunctional organisation may involve re-thinking traditional roles and aligning incentives towards this new way of doing business. For example, while procurement teams hold the relationships with suppliers and are best placed to gather information and influence their suppliers, “integrity” rarely features as a measurable KPI. In some organisations, procurement is merely the home of contracting paperwork to support other business functions rather than being major decision-makers. They may be rated on contract value, cost savings, management of contractual terms (including deliverables and payments) and might liaise with compliance or legal but are generally not responsible for supplier behavior or other non-commercial obligations. In a traditional procurement team there is no clear incentive or directive to look outside the four corners of the contract (other than their understanding of the Code of Conduct) or to ensure that suppliers are acting in a way

that suggests they are following expectations about integrity and responsible business practices.

Rather than a traditional checks-and-balance system, where compliance acts as the company's internal "conscience" and "enforcer" but does not inspire allegiance to such values at every level of the company, all of the new legislation around supply chain engagement suggests that roles and departments or business functions should internalise some of these responsibilities and understanding of the company's approach to different types and integrated risks. This will need to be carried out through job descriptions and KPIs to provide real alignment throughout the organisation.

One solution which some companies are trying out, is to add "values-based" KPIs to the measurements of procurement. This would at least heighten their sensitivity to risk and encourage them to raise questions with their managers when in doubt. The same could apply to other market-facing managers such as sales. An incentive system which rewards commercial results and actively living the values of the organisation can help to instill the right behavior throughout the organisation.

At the root of an Integrated Supply Chain Management System is a culture shift within the organisation: environmental, human rights and anti-corruption management is promoted as the responsibility of each and every employee, and not simply that of a few risk or compliance managers.

How can an organisation be resourced to be fit-for-purpose regarding supply chain risks?

A truly integrated management approach to supply chain risk management does not emerge on its own; it requires a strategy and sufficient resources to make it happen. An understaffed system can be partially resourced with technology (see Step 3 below) and by outsourcing some discreet tasks – for example to specialised service providers for the tracking of legal requirements in jurisdictions that impact the business, or for media screening, data aggregation, and self-assessment questionnaires for third-party suppliers.

However the growing complexity of the legislative environment, the appearance of human rights as a new area of hard law, and the demands for sifting through vast amounts of data will require substantial investment in people and technology. According to recent studies, businesses underestimate the need for a sound third-party risk management program and

resources: "Practitioners are held back by limited budgets that see them prioritising tactical initiatives over strategic improvements".²⁴

Resourcing and organisational alignment start from the top. Company leadership, particularly the CEO and the Board, need to promote the principles and practice of a company built on integrity and commitment to humane and responsible supply chains. The CEO, in setting the tone and budget, can empower and enable the entire management team to build a corporate culture and structures which will cut through silos and bring together all the different business functions together in a collaborative effort to put into practice the company's commitment to integrity and rights throughout the organisation and deep into the supply chain.

Words alone are not sufficient – this must be proactive, engaged and forward-looking with structural support and reinforcement from the organisation, and sufficient budget as well as human resources provided. Efforts that do not have the full enthusiastic support of management and the board, and accountability or consequences often fail to launch and either remain stuck in a particular department or are difficult to sustain long-term. It is critical to avoid under-resourcing when implementing an Integrated Supply Chain Management System that can handle the company's approach to all types of risk now and in the future.

Investing in an Integrated Supply Chain Management System can bring clear benefits in the longer term. A well-integrated risk team, communicating on a regular basis, will spot risks and act quicker and more effectively, and will already have a proactive engagement orientation that will help it stay ahead of future regulatory requirements. Properly incentivised and motivated employees across all business functions with well-defined responsibilities will avoid duplication and spot gaps in the risk mapping, identification, prevention, remedies and reporting processes. A fully engaged workforce will enable creative ideas about management of high-risk suppliers to be exchanged, reviewed, evaluated, and updated and will offer further opportunities to integrate risk management processes.

2.3 Step 3: Integrating Data, Alerts and Action

An effective Integrated Supply Chain Management System depends on a coordinated approach to analysing data collected through due diligence and throughout contractual engagement, including the local stakeholder and risk mapping and described in Step 1. Properly integrated data, including whistleblower reports and media, enables risk identification and assessment and triggers appropriate alerts (or internal communications and decisions) within the Integrated Supply Chain Management System so that the appropriate people can act on these risks (Figure 6). Good data also enables prevention and mitigation –, detecting issues before they become catastrophes and delivering prompt and effective remedy and reporting – to act on managing issues after they have occurred.

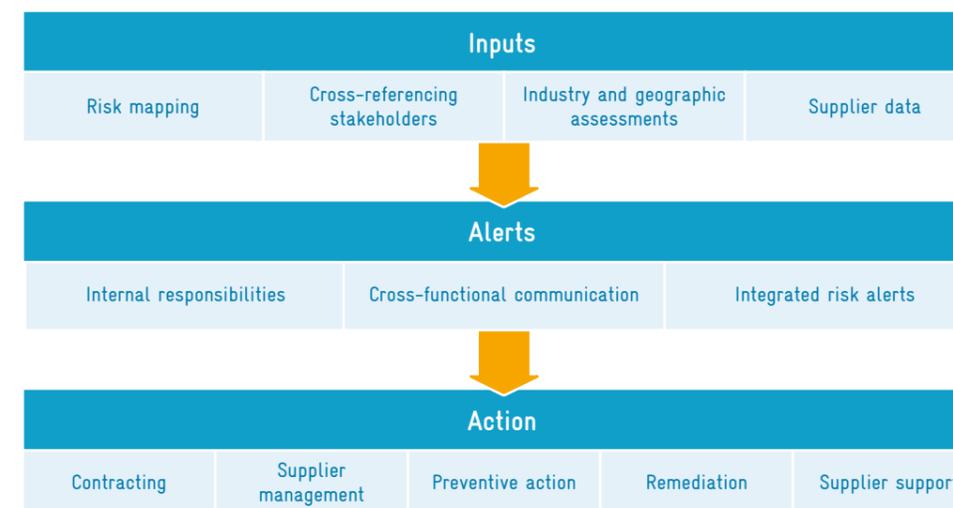
Current risk assessment, prevention, remediation and reporting systems in companies often do not sufficiently address the connections between corruption, human rights, and environmental risks, and how identification of one of these risks should trigger actions and increased attention related to other risk areas. For example, when a forced labour issue is identified, increased scrutiny of financial transactions may be appropriate to ensure that any bribery

or corruption issues are also found and acted upon. It follows that the supply chain risk management system's effectiveness will be enhanced by its ability to make the right connections between human rights, environmental, and corruption risks. Good communication and continuous learning adaptive processes within the company can create better feedback loops and better prevention measures.

How are the risk inputs defined and connected?

Risk inputs should reflect the business reality and broader operating context of suppliers, as well as the stage of engagement. When companies engage in low-risk environments, pre-contract self-assessment and third-party validation may be sufficient. If you can integrate the three (or more, depending on the laws at play from various jurisdictions) due diligence processes in one, this would be an effective and efficient solution that also takes advantage of the interconnections between risks that you will have discovered in your risk mapping and through creating your Integrated Supply Chain Management System. In higher risk environments, particularly where they involve suppliers of critical services or products (such as single-source suppliers), a simple up or down answer may not address the business need, and a more in-depth assessment of reputational risk, supplier conduct, policies and workplace conditions may be necessary to ensure business needs are met while undertaking the responsibility that comes with

FIGURE 6: INTEGRATING DATA, ALERTS, ACTION



contracting suppliers in terms of preventing, remedying and mitigating risks.

The pre-contract assessments for both high- and low-risk environments might identify only general risks, and then depending on your process and tools involved, while engaged with a supplier you can require grievance and / or whistleblower tools, worker surveys, site visits and other approaches to also identify and validate specific ad-hoc risks as they arise. These may be mandated by law or be specific to your company. Because some laws impose different legal responsibilities with respect to harms and impacts caused by direct suppliers versus indirect, your company will also have to decide how on the costs and benefits of engaging fully with tier 2+ suppliers. Many multinational companies have found that the risks of abuses further down their supply chains outweigh the costs of monitoring and support, particularly when potential abuses are serious and could damage the company's brand and reputation.

What are integrated alerts and how do they work?

In this publication, we use "alerts" as shorthand for information about a potential risk, risk-related incident, or a change in the risk assessment or risk environment of any of your suppliers that might impact your operations or create a legal responsibility or liability. An alert may be the trigger for a review or evaluation in your company's risk architecture, may simply be a data point that requires communication or updating risk models in different parts of the company, or may require escalation and response or support to be provided to those affected. What conditions on the ground or incidents lead to such processes or communications is up to you, and your supply chain and risk engagement approach. Critical for the effective functioning of the alert system is to ensure that all relevant key people are informed of conditions or incidents that might impact on their area of responsibility and that no incident is missed or remains unaddressed.

This requires clear channels of communication and organisational structures guaranteeing that the right people receive the right information at the right time (such as the company whistle blowing policy). We recommend that the design of your Integrated Supply Chain Management System include SOPs for channeling information from one person to a group who can evaluate and contextualise the data and decide what steps should be taken, and standards for how different business functions should take into account new risk information, particularly risk information that may

implicate more than one risk type, or interconnected risks, as well as taking into account their severity and likelihood. For example, where environmental damage and bribery is identified, finance, EHS, procurement and legal may all need this information in order to make better decisions about this counterparty and supply chain in the future.

Case study H&M working with others to raise business standards in the supply chains

In April 2019, H&M became one of the first global brands to share its global supplier list and to begin to list individual suppliers on pieces of clothing that consumers could access via link or information on the garment tag. They also include the Tier 2 mills for over 70% of their product volume and set a goal to have 100% transparency of their wet process suppliers (dyeing etc.) by the end of 2022.

H&M's supply chain transparency and support program is called the Sustainable Impact Partnership Programme (SIPP). This program includes an initial assessment, Sustainability Commitment, ongoing validation and follow-up assessments, and capacity building. The SIPP is designed to incentivise high-achieving and responsible suppliers with training opportunities and long-term contracts.

H&M uses the Higg Facility Modules as the basis of their performance and management system assessment. These self-assessment modules include both environmental and social evaluations and are industry-wide tools in the apparel and footwear industry created by the Sustainable Apparel Coalition (SAC) to rate environmental and social sustainability throughout the supply chain.

H&M also participates in the Open Apparel Registry, an open-source tool that maps supply chains from brands to factories and facilities to support transparency and better working conditions.

→ For more information, please see the company's [Topic Page on the H&M Sustainable Impact Partnership Program](#)



With accurate, timely, and actionable data, and a responsive team in place, your company can now quickly act when an alert is triggered. Even if the red flag in question relates to a single risk factor, the alert system will be capable of triggering alerts in all related risk factors.

It should be made clear that there are no standard risk metrics for conducting a risk analysis or detecting likely or potential risk incidents or rights violations. A company's definition of inputs that will trigger an alert should be consistent with the company's prioritisation of risks. The "alert system" will be triggered based on each individual company's assessment and evaluation of the highest and most damaging risks including those that need to be cross-alerted from different parts of the risk landscape.

How can technology help detect interconnected risks?

Recent developments in digital technology and communications are revolutionising transparency and accountability in supply chains and present new opportunities to improve risk identification and monitoring across environmental, human rights, and anti-corruption, as well as to enhance understanding of how they are inter-connected. New technology and services allow companies to more effectively identify and assess risks across all of their suppliers through detailed supplier-provided data, self-assessments, and public sources, and not simply a sampling. Complex, multi-tiered supply chains can now be mapped more easily even for complex value chains, and key risk metrics can be monitored by appropriate functions of a business to see when conditions might impact operations. Thanks to the new technologies, risk alerts can be streamlined and issued in real-time allowing quicker responses internally – between different functions, – and externally – between the company and its suppliers, to ensure better decisions are made and that fewer people are harmed and negatively impacted.

However, for all the excitement around the use of AI and blockchain in supply chains, there is an overwhelming consensus that the technology is still not able to meet the demands of companies monitoring various global supply chains for all kinds of risks. Respondents to a 2022 research survey had high expectations about the technology being able to automate or support risk management tasks, but nearly two-thirds were "frustrated by the lack of visibility that their technology gives them around third-party risk."²⁵ Technology companies are addressing various parts of the complexity of mapping supply chains, compiling data,

scraping media, and coordinating self-assessments and other data requests, but there is not yet a single solution that can do all of these, plus risk prioritisation, alerts and internal coordination amongst risk owners and decision-makers. Clearly technology cannot yet completely fill the gap between companies and their suppliers, nor can it fully automate all the requirements involved in supply chain due diligence and engagement.

"It is important to clearly define responsibilities and a process how to handle information gained from such data. Gathering information on red flags in the supply chain without properly dealing with it and defining adequate remediation measures may even expose the company to liability."

– Anita Schieffer, Siemens Energy

How should incidents be raised within an Integrated Supply Chain Management System?

In a properly set up third-party management system, the full range of tools at the disposal of the company should be accessible and available to detect potential issues and to communicate incidents that result in harm or negative impact. In a company with a strong ethical corporate culture, employees will be encouraged to raise and report concerns to senior management or to a whistleblower facility, which will feed into the alert system. Suppliers may raise concerns and issues themselves and should be encouraged to do so through KPIs and contractual incentives. With suppliers' understanding of the requirements of the Integrated Supply Chain Management System and the benefits for them and their suppliers, they may be more willing to volunteer information to their Responsible Manager or report it through other formal or informal channels. Sometimes, suppliers may not know or be aware of the violations they should be reporting or may deliberately try to hide them.

Another external source of risk or violation data which might trigger an alert are the local stakeholders. Stakeholders of all types should be part of a meaningful, inclusive and

regular engagement (See Step 1). Stakeholder engagement can occur through working groups, focus group discussions, surveys, questionnaires, and virtual or in-person meetings or workshops. Channels for raising concerns can include publicly available grievance mechanisms in the local communities, hotlines, surveys and individual communications / point of contact.

In the case of both internal and external reporting of risks or violations, there needs to be a clear commitment (and capacity to back it up) to whistleblower protection, especially for women and marginalised or vulnerable groups. The usual characteristics of effective grievance mechanisms apply here as well: transparency, anonymity, accountability and accessibility are key features of a well-functioning complaints, grievance or whistleblower system within the practical constraints of balancing these interests. It is also advisable to have several different channels that a stakeholder can use, as the best outcomes result from

systems that get used, rather than from systems that are to satisfy a checklist and are designed to sit idle.

What actions should come next after an alert?

The possibility of harm and rights violations cannot be entirely eliminated through screening and prevention, and as part of your company's repertoire of risk management, there should be a plan for responding to and remedying both the acute situation and any structural issues and root causes that enable such issues. Due diligence obligations include an obligation to prevent and remedy issues; therefore your company response should go beyond the immediate issue and focus on correcting weak systems and processes to build support for human rights and impacts in a way that prevents future incidents. For example, encouraging workers not to engage in bribery and corruption within the company and ensuring they know their rights can engender a more transparent, accountable and safe workplace for everyone.

**Case study
Covestro's grievance tools and process
for case management**

Covestro has created an integrated system for collecting complaints and grievances from employees and suppliers, allowing those working in the business and its suppliers to report any human rights risks or potential violations without having to evaluate the type of risk themselves and to select between different channels for different types of concerns or complaints. All grievances ("human rights risks and potential violations of rights") are checked, investigated, and concluded according to a standard process and evaluation standard for consistency and completeness.

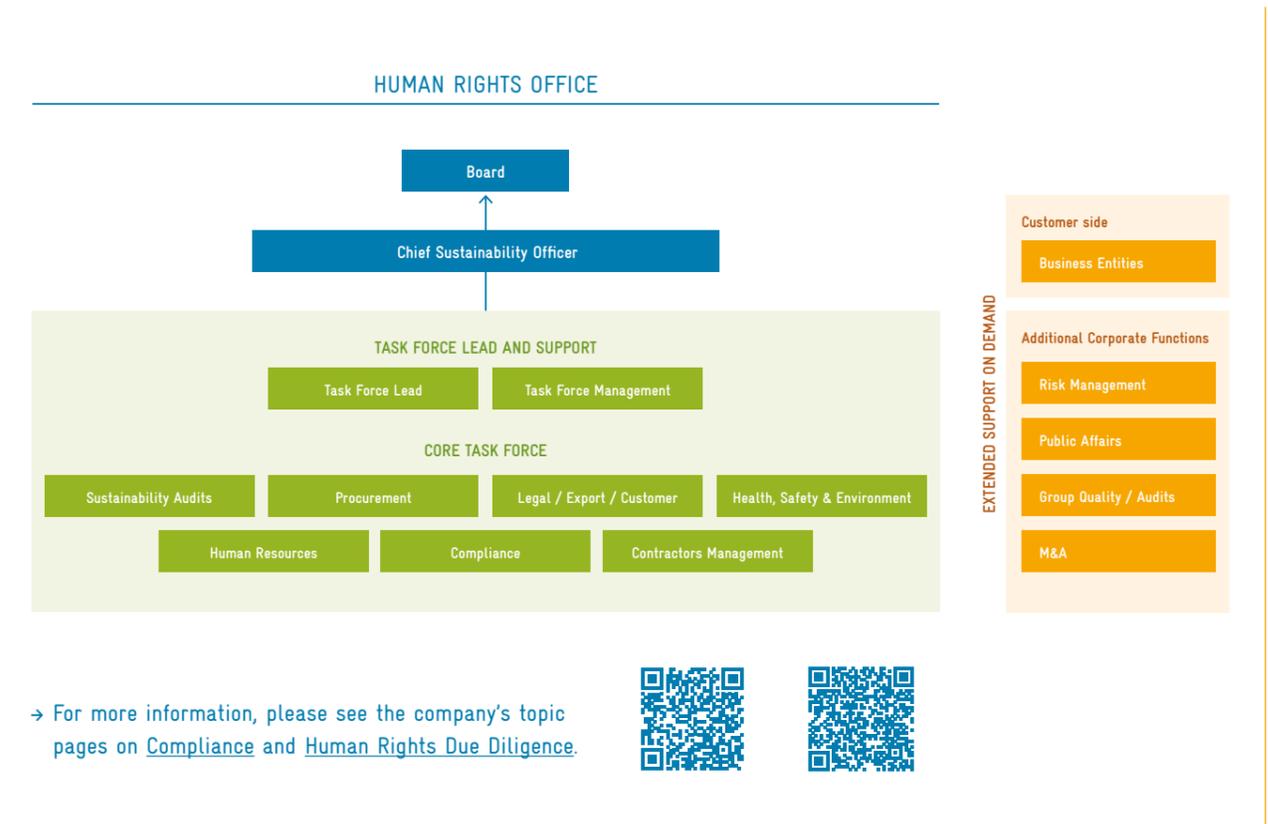
This grievance process, which can be accessed via a whistleblower tool with online and telephone access channels as well as via a dedicated e-mail address, is available worldwide. Covestro expressly encourages reporting of possible human rights violations in the Group as well as at suppliers' companies.

In addition to a unified grievance mechanism for taking up individual complaints, compliance and human rights teams at Covestro share the approach for systematic self-assessments regarding the effectiveness of the

respective management system by using an established tool from which questionnaires can be created and sent out. It is a cascaded self-assessment system, similar to the approach Covestro uses to evaluate its ICS processes for accounting and financial reporting. The results of the effectiveness evaluations are documented in the global system for the internal control system (ICS) processes. For high-risk areas, spot checks are performed, and the results used to improve our systems.

The coordination and use of shared tools is facilitated by a cross-functional Human Rights Office that encompasses members from sustainability, safety, compliance, procurement, human resources, and supply chain management.

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Once a suspected breach has been detected and red flags raised, an action plan can be put in place which may include both short-term and long-term measures and support. Local stakeholders can be involved and as a priority, impacted people should be kept physically safe even before a full investigation takes place. Relevant legislation might require different levels of involvement—from prevention and mitigation to remedy, and reporting. Here again, the connections between environmental damage, human right abuses, and corrupt behavior should feature highly in any follow up data collection, and new discoveries should be fed into the Integrated Supply Chain Management System.

It is essential that as part of the onboarding of suppliers into the Integrated Supply Chain Management System includes an explanation of how incidents will be supported by the company, what the supplier needs to provide to safeguard impacted individuals, and how information should be shared. Because the legal obligation is yours, not your supplier's, ensure that they are properly incentivised to share information about incidents honestly. It is usually not constructive to punish suppliers when incidents happen, as

this may cause future incidents to be hidden and this will prevent good supply chain engagement and real management of risks to people.

With a strong partnership built on the sort of support mechanisms and incentives mentioned earlier, it will be easier to find ways through an integrity crisis, short of dismissal. It should be clear when additional resources or training will help suppliers avoid future incidents, or if there are more pervasive issues that may require your company to consider a responsible exit.

Where damage has been done, either to individuals or local communities, remedial action may be required: Remedy (or more appropriately, adequate remedy) requires that people whose rights have been negatively impacted have access to both state and non-state channels and should be able to claim remedies responsive to their diverse experiences and expectations. A resolution will remedy the harm caused to the individuals or communities involved as well as addressing the cause of the harm. It would be best if the parties that caused and allowed the harm were part of the solution.²⁶

2.4 Step 4: Working with Suppliers

To be implemented effectively as described in the preceding steps, the Integrated Supply Chain Management System will require you to build a stronger relationship between your company and your direct and indirect (Tier 2+) suppliers.

This poses certain challenges. Many suppliers in developing countries are small and do not have the experience, workforce or financial resources to manage compliance at the level of a large multinational. Indeed many times they are small and family-owned businesses trying to compete in difficult markets and are asked to follow rules imported from quite different regulatory cultures by a variety of buyers, each with their own requirements. But responsible business practices are not only beneficial from a compliance perspective—research increasingly shows that worker engagement, grievance mechanisms, and attention to safety and environment also result in better business outcomes (reduced turnover, improved product quality, better community relations etc.).²⁷ It can also be useful to show suppliers how they compare to their peers on key metrics.

In order to ensure that companies in the supply chain are improving their own internal compliance and that of their suppliers to attain the best international standards, there needs to be a new kind of relationship – one of partnership and support, not just supplier and purchaser.²⁸

“Relationships within your supply chain are on the brink of change: The traditional top-down mindset will fade away and a trust-based cooperation with your supply chain will prevail. Enhancing together sustainability levels brings opportunities for commercial success and grounds for a better society and environment.”

– Dr. Bernhard Lippsmeier, LL.M., Head of Governance, Risk & Compliance / Chief Compliance Officer, Volkswagen Caminhões e Ônibus, Brazil

What role do suppliers play in supporting their buyers' understanding of risks?

The risk mapping process (See Step 1) is the natural place to begin risk assessment and has aspects that are supplier-agnostic and supplier-specific. With your baseline knowledge of the operating environment established, the rest of your due diligence process (documentary and policy review, surveys, management discussions, self-assessments etc.) with each potential supplier can help you to understand the extent to which they are willing to take an open and participatory approach to understanding and managing the various types of risk. Risk-based due diligence (which takes into account the specific issues that are likely in an industry, location or company) means that third-party due diligence should be responsive to the kind and level of risk created by a supplier's operations and facilities and should be detailed [and documented]²⁹ to identify priority risk issues that your company can mitigate, terminate and remedy. In order to correctly identify supplier-specific risks, you must establish trust through transparency, mutual obligations, good communications, accountability and alignment such that suppliers will provide accurate information about risks and conditions. Suppliers should be confident in the support that they will receive and any consequences of bad behavior or failure to follow agreed processes and implement tools and protections.

Case study Motivating Volkswagen suppliers to conduct risk self-assessments

Based on its Code of Conduct for Business Partners and Suppliers, the Volkswagen Group (“VW”) sets diverse expectations and requirements regarding sustainability in its supply chain. Whether a supplier suits those requisites is analysed with the help of a tool called Sustainability Rating (“S-Rating”) for Suppliers (“S-Rating”). It is a self-assessment tool for suppliers that the suppliers themselves can act on. The assessment covers fundamentals across human rights, anti-corruption, environmental protection and health and safety and defines minimum requirements based on the suppliers' size.

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This self-motivated improvement removes the incentives to adopt surface-level measures, and instead provides a threshold that suppliers must achieve, plus an online resource centre with additional instructions on how to get support and to book trainings to improve their understanding of key sustainability and risk topics, including HRE and ABC. In some cases where culturally appropriate, the support can also be delivered in person.

When necessary, the submitted self-assessment can be followed up by an on-site check. Volkswagen supports suppliers in closing any identified gaps while simultaneously securing commitment for achieving sustainability by jointly developing a Corrective Action Plan that is signed by both parties.

→ For more information, see [Volkswagen's Topic Page on its Sustainability Rating](#)



During the tender or bidding process, your company may wish to place up-front conditions on candidates to commit to the company's integrated risk management approach. You could ask for a written statement that they have not previously breached any human rights, corruption or environmental regulations. If they have, as part of the due diligence process, you can ask for further explanation about the details and the materiality of the breach and determine whether this places them into a risk position that is too large for your company. If the potential and actual risks are acceptable, a statement of the supplier's commitment to protecting human rights and preventing and remedying harm to people should eventually become an integral part of the contractual obligations. You may also want to elaborate at the contract stage the requirement for suppliers to comply with a remediation and / or improvement action plan supported by your company, and other actions you may need to take in order to comply with any specific legislation.³⁰

Case study Integrating key risks into Siemens Energy's sustainability training for suppliers

Siemens Energy created a series of awareness-raising sessions to inform 200 suppliers at a regional level of the company's sustainability strategy and its goal to decarbonise the value chain. The sessions went beyond traditional environmental issues and included topics such as compliance risks and diversity and inclusion in the workforce. It was coordinated and delivered by a cross-functional team from the regional company.

The company further developed a robust Environment, Health and Safety (EHS) assessment program for service providers to promote sustainability and manage EHS risks during purchasing. The program included a supplier analysis to support transparency and compliance with national legislation.

As an example of the pro-active support it has rendered to its suppliers, Siemens Energy's procurement team developed a “Decarb Toolbox” for its suppliers as part of its strategy to reduce its supply chain emissions (Scope 3). The Toolbox broadens the decarbonisation capabilities of suppliers by guiding their efforts to decarbonise their own operations.

→ For more information, please refer to the [company's online portal for Sustainability in the Supply chain](#) as well as the 2021 Siemens Energy brochure [Sustainability in the Siemens Energy Supply Chain](#). The company has also made available to the public



One other consideration is to make clear your company's expectations about transparency and work towards gathering information beyond first-tier suppliers. Conditions around data collection, privacy, and information-sharing about second-tier and third-tier suppliers should be clear and easy to explain to smaller companies who might supply your suppliers. If your suppliers are convinced of the value for their own operations of being part of your Integrated Supply Chain Management System, they may become an invaluable source of information about upstream suppliers and their business practices; information which can be channeled into your Integrated Supply Chain Management System. Do keep in mind that some legal regimes might make your company responsible for any potential risks or rights violations that you are aware of at any point in the product lifecycle (from raw materials to final consumers), or a subset of these parties. This will impact how you generate buy-in from your suppliers, the content of the requirements that you ask of them, and what due diligence you may want to complete on the extended supply chain before contract finalisation.

What benefits can both parties receive from long-term purchasing relationships?

In trying to build a new kind of partnership with suppliers, there needs to be a fundamental understanding of the business context in which they are operating, and of the pressures and local customs that affect business culture. A culture of listening and active collaboration in which suppliers feel respected and comfortable sharing their challenges and ambitions with your company is fundamental to implementing the Integrated Supply Chain Management System. This can and should be documented as mutual obligations in the supply contract, as well as in consistent and open communication about problems and incidents as they arise. At the heart of this relationship is trust, thanks to which empowered suppliers will explain to you the true risks and challenges in the industry and local market. This relationship of trust needs to be primarily constructed on a one-to-one basis, as described above. This can be supported by governance, communication, creating shared value, strategic alignment and cross-functional engagement (operational incentives) as well as bonuses and financial incentives.³¹

Supplier perspectives can provide deeper insights into the market, the challenges they face in meeting the new standards, and how you can best support them. Here a broader collaborative approach where your company and the

suppliers can exchange experience is most beneficial. There are several ways of organising this – supplier Focus Group Discussions, larger online or in-person conferences, backed by a questionnaire or survey to frame these discussions. The collective approach is beneficial for your company, but also for the suppliers who understand that their experiences are not unique and can learn from each other.

Once a supplier has been onboarded, there needs to be an agreed process of monitoring and updates, including reports regarding ad hoc risk incidents, using grievance tools where required and which could also include periodic certifications, self-assessments, worker surveys, audits, and meetings. A risk-based approach will help to determine the scope and frequency of these supplier management and reporting measures. The official guidance to the LkSG, "Identifying, Weighting and Prioritizing Risks", contains useful guidance on ranking of supplier and other risks in due diligence.³²

Some companies operationalise managing supply chain risk through a Relationship Manager (RM). The overall function of the RM is to build a long-term commercial partnership with your supplier, but it is also to help them understand the risk and integrity challenges to which you – and they – are exposed. Specifically, the RM is responsible for the ongoing monitoring of supplier's compliance and improvement programs. Through periodic meetings, the RM identifies risks and challenges that the supplier is facing and works with a supplier to address such risks.

How can companies provide meaningful support to their suppliers on risk issues?

Key to the Integrated Supply Chain Management System's long-term success is supplier engagement and buy-in. While each industry, jurisdiction and supplier is different, generally practicing transparency and explaining your needs, as well as how you intend to continue working with and providing support to your suppliers can be compelling. Support for suppliers can take many forms, from training to providing a dedicated supplier liaison or Relationship Manager, to workshops and conferences for suppliers addressing supply chain risk challenges faced by the suppliers. Here the RM, most likely a member of the procurement team, will be critical. Given that this task is quite different from the traditional role of the procurement manager, it will be important to ensure training and alignment of incentives and performance metrics for this integral point of contact on the front-line of the supply chain.

An approach that our experience has shown works well is to present the company's approach as an exchange of experience which is part of a common learning process. This may help overcome the usual "passive resistance" that arises when training is perceived as an imposition. The suppliers will also be more receptive if the training can be portrayed as broader management training beyond traditional compliance. For example, a combined integrity training program could include diverse topics such as quality improvement, DEI in workforce, EHS assessment tools, carbon emission reduction, compliance with local council regulations.

Case study Bringing in high-risk sourcing of raw materials in-house at BMW

BMW's board of directors has been leading internal conversations around rights, risks and other supply chain issues, and identified sustainable sourcing as one of the company's key priorities. In systematic risk assessments, raw materials have been identified as a major risk factor: many raw materials, in particular metals, stem from high-risk countries, the processes tend to be labour-intensive and can come with significant ecological footprints. In addition, and crucially, the suppliers of many raw materials are lower down in supply chains, supplying BMW's suppliers rather than BMW itself. In such situations, transparency of, and impact on, the level of sustainability involved in sourcing raw materials is limited.

The identification of this issue as a key strategic priority, and the strong levels of commitment by the board of directors, has enabled BMW to allocate sufficient resources to tackle the challenge at its root: start sourcing key materials directly and effectively become the raw materials supplier to its own suppliers.

For example, BMW now directly sources all cobalt and lithium needed for 5th generation batteries in BMW cars and provides these resources to all companies manufacturing these batteries for BMW. These sourcing strategies are often accompanied by collective action approaches to increase sustainability in whole industries, for Indian Kailash

Satyarthi Children's Foundation (KSCF) to support social projects and to improve living conditions in Mica mining regions India or trainings for the cobalt supply chain in the Congo as part of the Cobalt for Development project.

The result for BMW is greatly increased transparency and control over working conditions, business practices and environmental risks associated with key raw materials, including the ability to actively drive sustainability in high-risk countries. In addition, greatly reduced supply risks due to direct access to raw materials, and build-up of strong and deep company-internal expertise across whole supply chains of crucial inputs.

→ For more information, please refer to the company's [Topic Page on Sustainable Supplier Networks](#)



Sharing other suppliers' experience of compliance and cost-effective solutions through basic online training can help companies imagine how to begin to build their own modern compliance system. The solutions specifically for SMEs may include basic internal control systems, whistleblowing, reporting and, more ambitiously, technology for risk data collection and processing. For most SMEs, this is the very start of a process, so the solutions offered should be "light-touch", highly practical and not too expensive to implement³³.

In order to support this process change within your suppliers, a behavior change is also necessary to create and embed a culture of transparency, curiosity, and action regarding worker engagement and supply chain risks. As with any behavior change, you should be prepared to support your suppliers through relapse and to help them to achieve a rights-informed attitude as part of their normal business operations. Part of the Integrated Supply Chain Management System is instilling a new culture of integrity and worker-centered responsible business practices, which could start with transparency and building trust through communications, and a simple reporting system, and in time progress to investment in supporting grievance management and remedy, and more rigorous compliance processes.

Training should not be too complex or theoretical. The senior management of your suppliers are primarily entrepreneurs and businesspeople and have little time for strategy and theory. To assist in making the training useful and accessible, Alliance for Integrity has recruited a pool of volunteer compliance officers from global companies to provide training and mentoring for suppliers.

Case study

Empowering SMEs with digital self-assessments: The Integrity App by Alliance for Integrity

Small and Medium Enterprises represent 90% of businesses and more than 50% of employment worldwide. Consequently, they also make up a large chunk of most companies' supply chains – and, for large global companies, often the less well-understood parts of multi-tier (indirect) suppliers and vendors. These SMEs tend to have limited knowledge and resources available for compliance and integrity management and service value chains with a variety of end buyers; consequently, they may lack some of the safeguards needed to prevent active or passive bribery, human rights abuses or environmentally harmful activities and have difficulty complying with multiple sets of requirements.

Recognising that access to easily digestible and applicable knowledge is a major constraint for compliance in SMEs, the private sector-led multistakeholder Alliance for Integrity has developed and rolled out TheIntegrityApp: a practical online solution that allows SMEs to assess their level of anti-corruption compliance as well as degree of risk exposure; an additional module integrating human rights compliance is being developed. TheIntegrityApp can also be used by larger companies to monitor and improve the level of compliance among companies in their supply chain (provided all partners agree). For example, within the private sector in Germany, startup Xylene is leveraging TheIntegrityApp in their supply chain provision offers.

TheIntegrityApp was rolled out in 2018 and currently being used by more than 10000 users

across 60 countries. It has proven particularly effective when used in conjunction with supportive measures. For instance, the Alliance for Integrity uses TheIntegrityApp as a baselining tool, followed by SME trainings which seek to enhance compliance performance. In another case, the government of Colombia has used the tool to incentivise companies with better compliance management systems in place for public tenders.

→ The Integrity App is available online under www.theintegrityapp.com



2.5 Step 5: Acting Collectively to Scale Impact

The new legislation and the other drivers requiring companies to take an innovative approach to risk management in their supply chains creates novel pressures on management. These pressures, exacerbated by scarce resources, focus on how to gather accurate data from the market, and how to do so in cooperation with other market actors, working with them to contribute to wider social and development change in their markets. The answer is "Collective Action", whereby the multinational companies, and their suppliers, work together to find solutions to driving integrity, human rights and environment into the mainstream of supply chain operations.

Collective Action is a relatively new concept in compliance and integrity management, but has gained popularity over recent years, encouraged by new legislation and market expectations. There are a wide range of collective action and multi-stakeholder initiatives, ranging from "Integrity Pacts" in public procurement bidding and project implementation, to multistakeholder alliances such as the UN Global Compact and the World Economic Forum's Partnering against Corruption Initiative, encouraging and fostering commitment to certain standards of corporate behavior.³⁴

In the case of supply chain management, companies working together in a sector or region can gather more information about risks than if they tried to do so individually; and by

pooling their efforts in engaging with their suppliers, they can relieve the burden of compliance on the suppliers, while not compromising the quality of the data gathered. By acting collectively, they can reduce compliance costs. Finally, the Collective Action initiatives in the supply chain can present new opportunities to have a tangible impact on business practices in the Global South, whether in terms of squeezing out corruption bribery, abuse of the labour force, and other human rights violations. Change is possible when companies act together.

To avoid being perceived as a potential violation of anti-trust laws and personal data protection, Collective Action initiatives need to be structured as part of a "pre-competitive space" whereby companies competing with each other in the same markets are not exchanging confidential information such as distribution methods, pricing, or client data. Confidentiality obligations and competition law have to be complied with. There are ways of managing this regulatory risk. For example, in group discussions and exchanges, a third-party facilitator or moderator, from an NGO or CSO, can act as a "neutral" guarantor of fair play, eliminating the risk of participant violating anti-trust rules, such as engaging, deliberately or not, in collusion.

How can Collective Action help companies collect more reliable data?

Companies with similar supply chain risks or challenges may provide fresh perspectives into local conditions that could help identify risks and provide important context for creating shared expectations about supplier performance on sustainability and supply chain risks for your Integrated Supply Chain Management System.³⁵

Indeed such sector initiatives are promoted under the German law and advocated for under the EU initiative. Alignment within an industry also ensures that integrity issues are taken seriously by all market players, and that standards and processes cannot be side-stepped by a supplier moving over to a new customer. Broad alliances and consensus-building enable companies to share the risk of adopting new practices as well as the cost of designing them.

"We see human rights due diligence as a permanent task that we can only master together with our business partners in order to achieve a high level of integrity. Our Supplier Code of Conduct is an important part of supplier selection and provides the ethical and behavioral framework for our collaboration. Industry initiatives are a particularly important lever for us to anchor sustainable integrity in the upstream supply chain."

– Dr. Thomas Römer,
Chief Procurement Officer, Covestro

This regional or sectoral pooling of resources is particularly important when it comes to collecting reliable data from beyond the first-tier suppliers. The standard approach is for companies to rely on their first-tier suppliers to tell them about their upstream risk. However this may not be a reliable source of information – the first-tier supplier may not have this information (since it may never have had to concern itself with these issues; it may not have the resource or inclination to gather the data in a methodical way; and, it may not be willing to share this data, even if data-sharing is part of the contractual arrangements as outlined in Step 4.

An industry initiative, such as Together for Sustainability, comprising companies in the chemical industry, ensures shared data between the members of the initiative, and their suppliers.

Case study

Pooling resources in the chemical industry

Together for Sustainability (TfS) is a membership organisation whose goal is to increase sustainability standards in the chemicals industry through shared tools and approaches.

The TfS standards require supply chain partners of members to be assessed (online and documentary review by Ecovadis) or audited (a specialised audit on-site to gauge the sustainability practices at a supplier by approved auditors). Any assessment or audit covers all of the following areas: Management, Environment, Health and Safety, Labour and Human Rights, and Governance. Results from one supplier can be shared with it and all TfS members. These results form the basis for improvement plans that are managed by members for their suppliers, and suppliers can also access a shared library of resources aimed at continuous improvement with the TfS Academy.

→ For more information, please refer to the [Together for Sustainability's Website](#) and the [TfS Academy \(online resource\)](#)



How can Collective Action help save resources?

The benefits of Collective Action in terms of saving resources are two-fold: firstly for suppliers, secondly for multinational companies.

Suppliers for whom due diligence requirements are already likely to be extremely burdensome, will benefit if multinational companies can take a shared approach to data-gathering. Alignment on due diligence tools like supplier questionnaires and / or audits and standards, e.g. Sedex / SMETA, SLCP, Responsible Minerals Initiative, RSPD and similar organisations in other sectors and industries³⁶, can reduce the need for multiple audits and Human Rights Impact Assessments, which run the risk of fatiguing and demotivating suppliers.

Where a supplier serves several international companies, each with its own requirements, the administrative burden of filling out multiple questionnaires can act as a disincentive: suppliers may resort to a tick-box approach which ultimately will undermine the quality of the information provided. Industry and trade groups, or organisations working in specific sustainability topics, can help to reduce the risk of conflicting or overly complex standards in your supply chain.

For the multinational, a Collective Action approach to Integrated Supply Chain Management System together with other companies, directly or through local or international business and industry associations, can reduce set-up costs. Industry-wide efficiencies that reduce compliance costs for suppliers will make a strong business case for integrated risk management.

Through collaboration with other companies, you may discover opportunities to develop shared platforms for data collection, reporting and training of common suppliers. This can significantly reduce the administrative burden on your company and your suppliers alike, without compromising the integrity of the results.

How can Collective Action drive behavioral change in complex supply chains and wider society?

Collective Action goes well beyond the immediate benefits of complying with specific legislation or managing burgeoning compliance costs. For companies committed to driving behavioral change in their own companies, supply chains and, potentially, in the wider society beyond, Collective Action is a strong instrument.

Most of the corruption, human rights and environmental risks that companies confront, especially in markets with weak rule of law, are social issues, extending far beyond the ability of a single company to do anything about it on its own. However, the combined efforts by international companies representing a particular industrial sector, or investing in a particular region or country, can have an impact on local practices.

At a "macro" level such groups can have a powerful voice in persuading the government or local authorities to open markets or regulate more effectively for corrupt practices or human rights abuses. The interaction between government and business sometimes takes the form of public-private dialogues. When well curated by an independent NGO, these

dialogues can create a "safe haven" where controversial subjects can be raised and discussed in a calm and constructive atmosphere. For the companies, engaging with the government together with peers, provides some safety, if not full guarantees, that they will not be subject to some "reprisals" in case the discussions are taken the wrong way. A good example of such dialogues is the series of public-private dialogues run by IBLF Global with the Vietnam Chamber of Commerce and Industry from 2016-2019 which led to the creation of a Government-Business Integrity Initiative that has provided a framework for promoting integrity amongst SMEs ever since.³⁷

Case study

Supply Chain trainings as Collective Action: Alliance for Integrity's "From Companies to Companies" training framework

Since 2016, over 250 large national and multinational companies' compliance officers have conducted compliance trainings for SMEs as part of the Alliance for Integrity's training offer "From companies to companies". Those compliance officers have trained almost 4,500 enterprises in the 14 countries of the Alliance for Integrity's activities. Crucially, all trainings are open not only to a specific company's supply chain, but to all relevant SMEs in the sector. In this way, the companies whose compliance officers conduct the training can impact the overall context they operate in, going beyond their immediate area of control and contributing to a common foundation of compliance training.

All trainings pursue three main objectives: share knowledge on corruption and how to identify it; motivate companies to prevent and fight corruption; and provide practical tools to implement a compliance programme. In countries or sectors with systemic corruption, motivating SMEs to prevent and fight corruption is a challenge. In this context, the added value of the trainers – who are compliance experts from companies working in the same sector and country as the respective SMEs – is their experience and conviction that change is possible even with few resources and little investment, by leveraging the knowledge of the companies' staff

and acting together with others through collective action.

In each training trainers provide different perspectives on anti-corruption in a specific industry. Over time, training material has been developed for agriculture, construction, healthcare, telecommunications, insurance, and the forestry sector. It has also been adapted to specific target groups such as CEOs, cooperatives, women entrepreneurs, state-owned enterprises, and start-ups.

→ More information on the "From Companies to Companies" training framework can be found on the [Alliance for Integrity Training Programme Topic Page](#)



At a market level, these business communities can begin to promote knowledge and understanding amongst local market leaders about the expectations of international regulators, investors and consumers.

At a "micro" level, the multinational companies can play a critical role in educating their direct suppliers, and through them, second-tier suppliers and beyond, in basic rules of good governance and compliance. Local suppliers, often SMEs, for whom being in an international supply chain offers attractive possibilities for growth, will aspire to these new standards, when they have understood that these represent the universal conditions for participating in international markets. The example from Alliance for Integrity below shows how a Collective Action approach to supply chain training, involving compliance officers from national and multinational companies, can deliver new management knowledge and practices and inspire new attitudes to managing corruption, human rights and environmental risks at every level of the supply chain.

Conclusion: The Future of Supply Chain Relationships

There is little doubt that the recent years of legal and regulatory reform in transnational business operations have heralded a major shift from “tick-box” compliance to active engagement with global suppliers. No longer will outsourcing production or raw materials sourcing allow companies to outsource the attendant risks to people and environment that are part of those critical operations. Henceforth, companies will have to think carefully about their business models, cost structures, and incentives across all business functions in order to align with this new expectation of the supplier as an engaged and equal partner.

Whilst different jurisdictions may have their own specific requirements, in general, businesses that rely on global networks to produce and sell their products now have an opportunity to build resilient systems based on the principles underpinning the Integrated Supply Chain Management System. As set out in this Guide, the new concept of compliance will be built on the foundations of an integrated and proactive business approach, irrespective of where the winds of regulation might blow.

The changes required to successfully implement an Integrated Supply Chain Management System are not straightforward in large organisations. In the initial setting-up phase, they will involve financial and human resources, but once the new processes are in place, systematic efficiencies will emerge.

The new external pressures are pointing not only to a quantitative transformation, but a qualitative one:

- **A new corporate culture:** In order to manage the supply chain of the future, companies will be required to create, and proactively maintain, an internal business culture that ensures effective prevention, and prompt detection and remediation of wrongdoing.
- **Restructuring governance structures and processes:** Companies are rethinking creatively their management structures and the responsibilities and inter-relationships of the departments related to governance functions, such as Risk Management, Legal, Compliance, Human Resources.

- **Advanced technology:** Already being introduced in some of the companies that are featured in the Guide are new data processing systems, capable of managing the increased flow of information, and able to detect “outlying” behaviors. New technologies may also help in prevention by signaling “red flags” in one set of risks and connecting them with red flags in another.
- **New ways of working with suppliers:** Multinationals will need to rethink how they screen, vet, and interact with suppliers – a purely transactional and superficial business relationship will no longer satisfy the legal obligations under new due diligence laws. As new procurement policies are adopted, companies will have to be highly engaged with both direct suppliers and a broader community of stakeholders in each market. Both buyers and suppliers will have to create new ways of working together.
- **Changing the culture of compliance in suppliers:** Multinationals will need to develop new strategies to monitor, support, cultivate and incentivise their suppliers’ commitment to the best international business standards.
- **Sharing the costs and opportunities through collective action:** Companies can spread the burden of compliance through a multistakeholder collective action approach to due diligence, supplier assessment, red flags, whistleblowing, black lists and supplier training.

Further reading

While the literature in the individual topics of business and human rights and anti-corruption are extensive, publications focusing on the intersection are rare. Below is a short selection of useful texts on the connections between anti-corruption and Business and Human Rights:

Business at OECD and IOE	<u>Connecting the anti-corruption and human rights agendas: A guide for business and employers’ organisations, Business at OECD and IOE, September 2020</u>
OECD	<u>Due Diligence Guidance for Responsible Business Conduct, OECD, May 2018</u>
OECD	<u>OECD Guidelines for multinational enterprises, OECD, 2023</u>
OHCHR	<u>Connecting the Business and Human Rights and Anti-Corruption Agendas, Working Group on Business and Human Rights, OHCHR, 2020</u>
U4	<u>Human rights: The links between corruption, anti-corruption efforts and human rights, U4, 2022</u>
Alliance for Integrity	Podcast Series: Human Rights and Compliance, Alliance for Integrity, 2022-23 <ul style="list-style-type: none"> • Part 1: <u>The future of legislation for businesses</u> • Part 2: <u>Integrating Human Rights into Compliance Management Systems</u>

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Endnotes

- [Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework, UN Human Rights Office of the High Commissioner, 2012](#)
- [Update of the OECD Guidelines for Multinational Enterprises, OECD, June 2023](#)
- Topics such as sustainability, environmental law and human rights, are on average only included in the compliance mandates of around half to two thirds of organisations. This is expected to change given recent mandatory human rights due diligence legislation but presents a challenge in terms of the breadth of topics that compliance will be asked to manage. [2022 Global ESG, Compliance and Risk Report, BCG, 2022](#)
- [Act on Corporate Due Diligence Obligations in Supply Chains, Bundesministerium für Arbeit und Soziales, Germany, 16 July 2021](#)
- [Proposal for a Directive on Corporate Sustainability Due Diligence, EUR-Lex, 23 February 2022](#)
- [Proposal for a regulation on deforestation-free products, European Commission, July 2021](#)
- [The General Counsel as Key Corporate Social Responsibility Advisor, Michael W. Peregrine, McDermott Will & Emery LLP, Harvard Law School, June 2018](#)
- Recognition needs to be given to an earlier publication which covers the broader topic: [Connecting the anti-corruption and human rights agendas: A guide for business and employers' organisations, Business at OECD and IOE, September 2020](#)
- [The Rise of Millennial Investors: What the Future of Investing Looks Like, Trueman, Millennial Magazine, July 2021](#)
- [What is data journalism? The Bureau of Investigative Journalism](#)
- Initiative for Global Solidarity, GIZ
- [Modern Slavery Act 2018, Federal Register of Legislation, Australian Government](#)
- French Duty of Vigilance Law, Swiss Responsible Business Initiative/Swiss Code of Obligations, Norwegian Transparency Act
- Figures 3 and 4 were presented by Peter Dieners, Dominique Laymand, Thomas Voland and Alice Dunoyer de Segonza of Clifford Chance Paris to an [Ethics Society](#) meeting, Paris, 18 October 2022.
- This approach was increasingly questioned after Rana Plaza and other incidents that revealed the systemic issues arising from supplier-shopping and responsibility avoidance by big brands.
- The directive applies to "established business relationships" (section 20) which are defined as direct or indirect business relationships that are expected to be lasting and which are not ancillary or negligible parts of the value chain. (Sections 17, 18, and 20) [Proposal for a Directive on Corporate Sustainability Due Diligence, EUR-Lex, 23 February 2022](#)
- [A Resource Guide to the U.S. Foreign Corrupt Practices Act, Second Edition, United States Department of Justice, March 2023](#)
- ibid. p56
- CSDDD Proposal, section 16, [Proposal for a Directive on Corporate Sustainability Due Diligence, EUR-Lex, 23 February 2022](#)
- For detailed analyses of corruption risk typologies by sector, see the online resources at [CurbingCorruption.com](#)
- [Connecting the business and human rights and the anticorruption agendas, UN General Assembly Human Rights Council, \(A/HRC/44/43\), June/July 2020. Cited in Business and Human Rights: The Corruption Dimension, Mayer Brown, Lexology, May 2021.](#)
- There is further useful information about stakeholder mapping and subsequent engagement in [What makes stakeholder engagement meaningful? UN Global Compact Germany, July 2022](#)
- Section 3 on the "human rights officer", [Act on Corporate Due Diligence Obligations in Supply Chains, Bundesministerium für Arbeit und Soziales, Germany, 16 July 2021](#)
- [Time for action: Third-party Risk Management Outlook 2022, KPMG, June 2022](#)
- Ibid.
- [Access to Remedy, Working Group on Business and Human Rights, UN Human Rights Office of the Commissioner and Report to the UN General Assembly from Working Group on Business and Human Rights, UN Human Rights Office of the Commissioner](#)
- [Amplifying Work Voice with Technology and Organisational Incentives, Achyuta Adhvaryu et al., Springer, September 2022](#)
- American Bar Association model supplier clauses: [Balancing Buyer and Supplier Responsibilities: Model Contract Clauses to Protect Workers in International Supply Chains, Version 2, American Bar Association, April 2021](#)
- Documentation and justification are required, for example, under the LkSG (Section 3(2)), including a risk inventory which could include a description of the risk, person(s) responsible, weighting / prioritisation explanation, preventative and remedial measures
- For example, under the LkSG, remedial actions may have several levels of escalation before contract termination is permitted. See e.g. [Know your exposure – The remedial action under the German Supply Chain Act, Freshfields Bruckhaus Deringer LLP, January 2023](#)
- [Taking supplier collaboration to the next level, Agustin Gutierrez et al., McKinsey, July 2020](#)
- [Identifying, Weighting and Prioritizing Risks, Federal Office for Economic Affairs and Export Control \(BAFA\), Germany, August 2022](#)
- For further information about conducting due diligence in the context of the LkSG, a very useful guide, written with SMEs in mind, is the [SME Compass \(Online Resource\)](#)
- For more information on Collective Action, visit the [B20 Collective Action Hub](#) hosted by the Basel Institute of Governance
- [Multi-stakeholder initiatives in sustainable supply chains: Putting sustainability performance in context, Cory Searcy, Elementa: Science of the Anthropocene, University of California Press, 2017](#)
- A list of multistakeholder initiatives is available from [Multi-stakeholder Initiatives: Supporting the Implementation of Due Diligence, Economie, October 2021](#)
- [Enhancing Government-Business Integrity Cooperation in Vietnam, Vietnam Chamber of Commerce and IBLF Global, January 2017](#)

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