

6 ways to integrate responsible sourcing into ESG strategy

ESG

By Chris McClure and Rebecca Miller

Many companies already have a responsible sourcing program – but have you considered how it can work with your ESG strategy?

Between regulatory requirements and increasing stakeholder pressure, it's important to have a strong responsible sourcing program that addresses everything from conflict minerals to anti-human trafficking to product chemical compliance. Many businesses might already have a solid, well-defined program in place – but when was the last time you reviewed your process, especially in the context of your environmental, social, and governance (ESG) strategy?

Here are six ways you can solidify your responsible sourcing program and integrate it into your overarching ESG strategy.

Solidify your responsible sourcing program

- 1. Understand your legal requirements.** Is there a proactive monitoring system in place to identify developing regulatory requirements? Waiting until a regulator or customer asks for information puts companies in a vulnerable position.

Organizations are subject to a variety of different sourcing regulations tied to geography, industry, revenue, headcount, and other factors. The obligations can apply directly or through key customer requests. The dynamic nature of supply chains adds complexities: Mergers and divestitures, new customers and suppliers, and changes to bills of materials all could affect a responsible sourcing program. Finding where regulations and other obligations overlap can help make best use of existing programs by creating efficiencies and limiting supplier fatigue.

- 2. Communicate requirements to your suppliers.** Organizations need to assert any expectations regarding compliance up front, preferably during supplier selection and onboarding, and proactively communicate updates to codes of conduct and other terms. They also should regularly evaluate their suppliers for compliance in order to identify and mitigate any risks as quickly as possible.

As new issues arise – such as the Office of Foreign Assets Control sanctions of Russian entities or the ban on products from Xinjiang Uyghur Autonomous Region – it's especially important to communicate expectations and time frames to suppliers while monitoring customers' requests.

- 3. Address any needed improvements.** Responsible sourcing is not a one-and-done initiative. Supply chain due diligence is an ongoing management process that identifies and mitigates risks.

It's important to stay on top of changes, nuances, or differences in regulations, and communicate that information consistently across the organization. Proactively educating and updating organizational teams can enhance both internal coordination and external communication.

Integrate your responsible sourcing program into your ESG strategy

- 4. Evaluate existing programs against your ESG strategy and goals.** The responsible sourcing process likely will play an increasingly important part of an organization's overall ESG strategy. Many elements of responsible sourcing are well established, rely on existing frameworks, and already require regulatory disclosures.

For example, the conflict minerals rule, which has been in place since 2012, follows the Organisation for Economic Co-operation and Development framework, relies on an industry standard template for data sharing, and requires an annual Securities and Exchange Commission filing. This compliance process can readily incorporate into broader ESG reporting and also serve as a procedural template as organizations plan for new obligations regarding anti-human trafficking, carbon emissions, and other areas.

- 5. Form a multidisciplinary ESG steering committee.** ESG strategy involves all areas of an organization, which means ESG goals should be both visible and clearly communicated. Forming an ESG committee can help with that process.

Such a committee would include at least one person from every area of the business that touches ESG (including but not limited to legal, compliance, supply chain, finance, IT, investor relations, and internal audit), and it would meet regularly. It's also important to have a process in place to gather and disseminate stakeholder feedback and determine approvals for each initiative. Coordination and visibility help drive accuracy and efficiency.

- 6. Refresh your ESG materials and make sure they're accessible.** The increased demand for ESG reporting is driving more surveys, compliance documentation, supplier scorecard metrics, and ESG benchmarking by ratings groups and nongovernmental organizations.

That's why reviewing these programs for the right data and systems creates an opportunity to both elevate programs and prepare for third-party ESG review. Making sure cross-functional teams are coordinating throughout the data validation, controls, and attestation process is imperative.

In many companies, responsible sourcing is the most advanced and well-defined ESG program because regulations already require validated data, templates, processes, and technology. Integrating responsible sourcing into your overarching ESG strategy can help define and implement other successful ESG programs.

Contact our integrated responsible sourcing team

If you're wondering how to take the next step in your responsible sourcing program or need help integrating what you have into your ESG strategy, our cross-functional team can help. Contact us today to find out how we can help you elevate your ESG strategy.



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