



# ESG Integrity on Third Parties



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# Your third-party's focus on ESG affects your company's credibility. Have you thought about it?

You may be taking utmost efforts to be compliant from an Environmental, Social and Governance (ESG) perspective. However, have you thought about your third-parties and their compliance with your ESG principles?

Their contribution to ESG, in turn, impacts your overall brand image. Therefore, the supply chain you deal with must align with your collective conscientiousness for social and environmental factors.

Financial reporting is now backed by sustainability reporting, a critical factor in assessing the credibility and reliability of a business.



## ESG reporting – Focus shift from a trend to regulation

ESG reporting is making a shift from being a trend to a mandatory regulation, a move expected to bring in greater transparency and enable market participants to identify and assess sustainability-related risks and opportunities.

Governments around the world are introducing nation-wide ESG standards and making ESG reporting

mandatory for all sectors. Gauging the criticality and significance of being socially responsible, regulator Securities and Exchange Board of India has introduced "Business Responsibility and Sustainability Reporting (BRSR)" guidelines aligned with "Global Reporting Initiative (GRI)". SEBI under disclosure requirements of BRSR mandates quality compliance from top 1000 listed companies by market cap from FY 2022-23.

## Examples of ESG violations:

### Environmental

A major supplier for a leading mobile manufacturing company was accused of violating environmental norms and sometimes repeatedly emitting hazardous chemicals into rivers and wastewater systems

**Outcome:** The mobile company was extensively cited in media for flouting environmental norms and accused of overstating the company's commitment to responsible social practices



### Social

A leading electric- vehicle (EV) manufacturer was fined due to alleged human rights issues and atrocities against a minority community at one of their supplier's manufacturing units. A report by an Environmental NGO found several instances of such serious violations and the EV manufacturer was fined.

**Outcome:** The EV automaker rolled out a "supply chain review" plan in 2021 to track its suppliers, to adhere closely to the company's ethical code of conduct and to rectify any violations identified within a time limit.



### Governance

An internal investigation at a global renewables company found that the company, through its global network of suppliers, engaged in bribery of government officials to win lucrative contracts from 2004-2009. Bribes included inducements of concert tickets, cash and season passes to sporting events.

**Outcome:** After government officials pleaded guilty to accepting bribes and failure to prevent bribery, the company was fined and ordered to implement necessary internal controls to ferret out corrupt conduct.



According to a global press release, a large investment management company has increased its momentum in sustainable investments by focusing on businesses which have high ESG ratings.

Investing companies view greenwashing; a practice of making an unsubstantiated or misleading claim of

being sustainable as a potential concern as they try to integrate into a sustainable supply chain.

To mitigate the growing risk of greenwashing among third-parties, a thorough ESG-Third Party Due Diligence (ESG-TPDD) will provide the necessary transparency and confidence to invest in such companies.

## Evaluate these factors before engaging with third-parties

### Environment



- Are your third-parties located on reserved lands (national parks, wildlife sanctuaries, etc.) and do their operations have any direct impact on the surrounding flora and fauna?
- Do your third-parties employ waste management practices?
- Are your third-parties taking appropriate steps to reduce carbon footprint and toxic emissions?
- Do your third-parties have requisite permit(s) to use the nearby water bodies as their primary source?
- Do your third-parties invest in clean energy (biomass, solar energy, hydro power)?
- Do your third-parties regularly employ Product Stewardship?

### Social



- Do your third-parties contribute to local community upliftment?
- Do your third-parties conduct engagement surveys frequently?
- Are they compliant with labour codes and labour rights?
- Do they have grievance redressal mechanisms?
- Are health and safety protocols in place?
- Have you assessed their attrition, hiring and turnover rates for possible impacts on your supply chain?

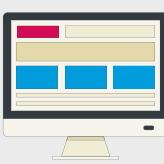
### Governance



- Do your third-parties have a proper supplier's code of conduct?
- Are the anti-corruption, anti-bribery, anti-sexual harassment and ethics policies being implemented?
- Is there a gender imbalance in the workforce?
- Does the company release an Independent Auditor report?



**Our experience of some of the common ESG issues in different sectors:**

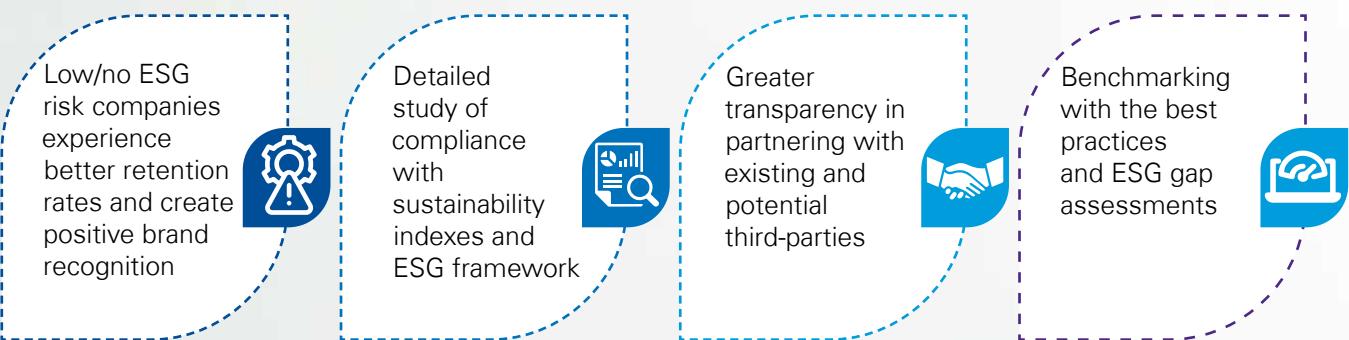
| Sector   | Environment   | Social   | Governance  |
|--|---|--|---|
| <b>Energy, oil and gas</b><br>      | <ul style="list-style-type: none"> <li>Risk of land and aquifer contamination</li> <li>Waste management</li> <li>Toxic emission levels</li> <li>Certified to ISO 14001, ISO 50001 or equivalent standard</li> <li>Use of green energy or renewables</li> </ul>  | <ul style="list-style-type: none"> <li>Incident/accidents reported</li> <li>Employee benefits</li> <li>Frequency of engagement surveys</li> <li>UNGC signatory</li> <li>Health and Safety protocol (such as ISO 45001 certification)</li> <li>Social cohesion</li> </ul> | <ul style="list-style-type: none"> <li>Ethics compliance</li> <li>Anti-corruption policy</li> <li>Anti-bribery policy</li> <li>Whistleblower protection</li> <li>Anti-Money Laundering policy</li> <li>Government ownership and involvement</li> <li>Supplier code of conduct</li> <li>Workforce composition</li> <li>Independence of board of directors</li> </ul> |
| <b>Metals and mining</b><br>       | <ul style="list-style-type: none"> <li>Water and land rights</li> <li>Waste management</li> <li>Toxic emissions</li> <li>Certified to ISO 14001, ISO 50001 or equivalent standard</li> <li>Mine tailings management</li> <li>Heap leach facilities impact</li> <li>Use of green energy or renewables</li> </ul> | <ul style="list-style-type: none"> <li>Health and Safety protocol (such as ISO 45001 certification)</li> <li>Employee benefits</li> <li>Compliance of median wages</li> <li>Social cohesion</li> <li>Availability of proper licences</li> </ul>                          | <ul style="list-style-type: none"> <li>Supplier code of conduct</li> <li>Workforce composition</li> </ul>   |
| <b>Information Technology</b><br> | <ul style="list-style-type: none"> <li>Primary source of energy</li> <li>Green infrastructure (LEED certified)</li> </ul>   | <ul style="list-style-type: none"> <li>Anti-discrimination</li> <li>Gender pay parity</li> <li>CSR disclosure</li> <li>Data privacy/cyber security system</li> </ul>   | <ul style="list-style-type: none"> <li>Layoffs</li> <li>Independence of board of directors</li> <li>Workforce composition</li> </ul>  |
| <b>Consumer goods</b><br>         | <ul style="list-style-type: none"> <li>Product packaging (single use/biodegradable plastics)</li> <li>Recovery and recycling of post-consumer waste</li> <li>Certifications such as FSSAI, ISI, FDA (USA), CE marking (EU)</li> </ul>   | <ul style="list-style-type: none"> <li>Data privacy</li> <li>Transparency in product labelling</li> <li>Product recall</li> <li>Social media-related marketing</li> </ul>  | <ul style="list-style-type: none"> <li>Workforce composition</li> </ul>   |

## Our value proposition:

ESG due diligence checks on third-parties across multiple domains including:



## Why choose an ESG-TPDD report for your third-parties?



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