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Supply chain transparency for greater due diligence

A series of large-scale crises, including the COVID-19 pandemic, armed conflict and climate change has led to a heightened awareness of the need for transparency into global supply chains. Acute shortages of essential goods, shipping challenges, and the overall fragility of supply chains also highlight the need for companies to know more about the businesses and actors in their network, as well as what is occurring at every point in the process.

However, constantly evolving conditions and a need for greater due diligence require businesses to employ affordable and scalable tools capable of meeting the growing demand for increased supply chain transparency.

Slow progress

The advent of Industry 4.0, which connects the physical with the digital, has opened up new pathways to provide real-time information and visibility into processes and operations at all levels of the supply chain. Digitalisation was key to helping companies understand what was going at every point in the process – without digitalisation, it would have been impossible to achieve any real sense of transparency.

Since, there has been a ‘maturation’ of transparency in supply chains, with a much stronger focus on understanding the workings of all stages of the supply chain, rather than only tier-1, and also on potential environmental, social and reputational risks. Over the past decade, there has also been a growing number of voluntary initiatives and international guidelines requiring companies to report on the due diligence they conduct regarding their human rights and environmental impacts. The United Nations Guiding Principles on Business and Human Rights and The OECD Guidelines for Multinational Enterprises are two notable examples.

According to these frameworks, the concept of due diligence comprises two components. It is a continuous, five-step process to identify, prevent and mitigate adverse impacts arising from its own operations and supply chain, and a standard of conduct that a business must meet to discharge its responsibility to respect human rights and environment standards.

Despite this growth, progress around corporate due diligence has been slow. According to a *2020 report* published by the European Union, whilst the majority of companies expressed their commitments to respecting human rights, only 36% actually publicly disclosed the processes they employed to prevent the violation of those rights throughout their supply chains.

This lagging response from the private sector has prompted the adoption of mandatory legislation. In 2022, the European Union Commission published its draft Corporate Sustainability Due Diligence Directive (CSDD) and its proposal to ban goods made with forced labour from the EU market. Several European countries, including Germany, France, Netherlands, Norway and Switzerland, have already introduced their own laws – with different degrees of obligations for businesses. Outside the European continent, legislative approaches have been adopted in Australia, the United Kingdom, and the United States.

Lack of visibility

Another issue plaguing companies is a lack of visibility and monitoring over the various tiers of their supply chains. The same report by the European Union also indicated that only a small proportion of businesses (16%) cover their entire value chain, while many only undertake due diligence in one specific area. What’s more, 69% didn’t disclose data on the demographics of their supply chain at all.

This omission is significant. A lack of visibility into the identity and location of their suppliers’ workplaces, or knowledge of the composition of their workforce, can hamper multinationals from taking steps to improve social and environmental compliance in line with their own corporate Codes of Conduct. Without visibility, they have no way to ascertain the conditions of work, or levels of respect for their standards at their suppliers' facilities, much less remedy any violations of law or normative conduct that might exist.

As the need for transparency extends into ever deeper parts of the supply chain, and with more data being collected from multiple actors, like workers and their representatives, companies are becoming more reliant on socially responsible supply chain tools.

End-to-end due diligence

Even as we are on the verge of adopting an EU-wide corporate due diligence law, far too few companies still conduct real, end-to-end due diligence with their supply chain partners.

Ensuring a uniform push towards supply chain diligence requires a greater focus on implementation rather than reporting or policy. To do this, there must be more affordable tools that cater to all supply chain partners, to provide the transparency necessary for enforcing due diligence.

The market for socially responsible supply chain tools is expected to reach $2.7B over the next five years. Indeed, there are several such tools available on the market, but the majority are not fit for purpose. Most supply chain SaaS tools, for instance, carry over the same problems that exist with social auditing – their scope can be limited, and won't always identify vulnerabilities faced by workers. What's more, at between £30,000 to £50,000 per year on average, they can be prohibitively expensive for smaller businesses. There can be strict limitations on the number of suppliers that can be included, too. As a result, the riskier parts of the supply chain, such as seasonal and transactional suppliers, can be left out of the process. This is why the need for affordable tools is now.

Businesses have long been aware of the need for better supply chain transparency. Now, with the right, socially responsible tools in place, they can achieve it, ensuring end-to-end due diligence over every point of their supply chain.

Supply chains are polycentric and adaptive ecosystems. No one actor can identify, prevent, or remedy the risk independently. However, technology has the ability to enable an ecosystem approach to due diligence, ensuring each party takes responsibility and holds its partners accountable.

Leanne Melnyk is Head of Global Supply Chains at *diginex.*

Article by LEANNE MELNYK