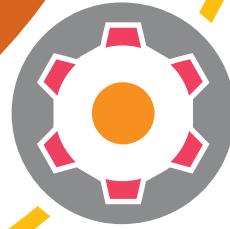


The S in ESG: Spotlight on the social element of supply chains

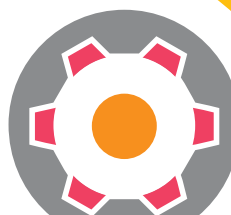


Human impacts in the supply chain, such as those related to modern slavery, labour rights and broader human rights – are an increasing focus area for many stakeholders.



Stakeholders are increasingly interested in how businesses align their purpose and values with their performance. As trade and supply chains have globalised, it's clear businesses have a responsibility for the impact – both positive and negative – of their supply chains. Suppliers are a critical stakeholder for business and how they are engaged is key to mitigating impacts and seeking competitive advantage.

Human impacts in the supply chain, such as those relating to modern slavery, labour rights and broader human rights, are a growing focus area for a number of stakeholders.



Managing the human impacts in supply chains

The social elements of supply chains have received less attention than the environmental elements, but this is predicted to change in the years ahead. A recent report from the United Nations High Commissioner for Human Rights makes clear that in the race to develop 'green' supply chains, businesses may unintentionally worsen human rights and increase the risk of forced and child labour on some of the world's most vulnerable people¹. As estimated by the International Labour Organisation (ILO), the number of people in modern slavery has risen significantly in the last five years with 10 million more people in modern slavery in 2021 compared to 2016².

Businesses must ensure they have a balanced focus on the impacts of their supply chains across a wide range of environmental, social and governance (ESG) issues.

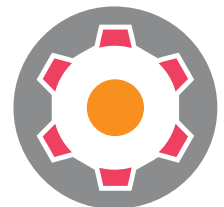
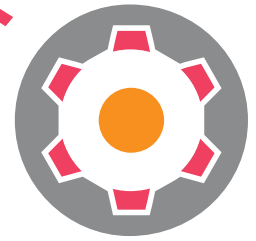
- Environmental issues include the impact of supply chains on land, water, air, natural systems and biodiversity. Specific issues vary based on industry but typically include waste and pollution, deforestation, soil fertility and climate change.
- Social issues include freedom of association, collective bargaining, forced labor, hours of work, wages paid, age of employment, working conditions, diversity, inclusion and wellness, harassment, discrimination, and access to grievance processes and remediation.
- Governance issues include protecting the rights of indigenous peoples, consumer protection, privacy and safety (including data privacy), corruption and fraud, and transparent reporting on corporate practices.

However, simply avoiding negative impacts is not enough. Businesses need to collaborate with suppliers for mutual benefit and intentionally create supply chains that meet the longer term expectations of society, while also working to avoid negative impacts on workers, suppliers and the communities in which they operate.

The United Nations (UN) Sustainable Development Goals, UN Women's Empowerment Principles, UN Business and Human Rights Principles and ILO standards provide business with guidance on how to do this. This guidance is based on a 'shared value' ethos: that business success and social progress are interdependent, or put simply, that what is good for society is good for business.

¹ <https://www.ohchr.org/sites/default/files/2022-05/report-sustainable-global-supply-chains-g7.pdf>

² https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_855019/lang--en/index.htm

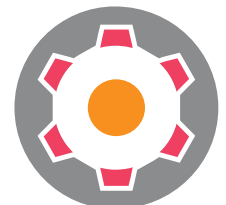
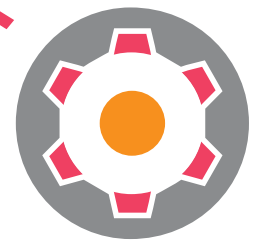


Bringing a people-first lens to your supply chain

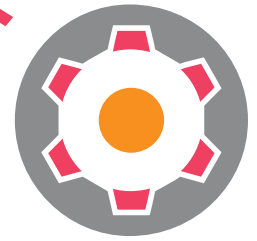
Traditional supply chains created incentives to deliver the right goods or services at the right time and price. People-first supply chains do this too, but also integrate expectations related to social accountability, inclusion, and ethical behaviour.

These supply chains embed the ethos of shared value and are resilient, efficient and deliver mutually beneficial outcomes. They integrate the voices of rights-holders and stakeholders, and work **with** suppliers to build the capability of their shared workforce, offer living and equitable wages, and diverse, inclusive and respectful workplaces.

The issues and challenges faced by suppliers as we build people-first supply chains will vary considerably – and suppliers will need to overcome a variety of challenges: from efficiency, to management controls, to grievance processes. Working with suppliers means building clarity and a shared set of values. This provides the foundation on which transparency and the willingness to invest and improve allows for the building of robust, assurable systems to manage risks, and remediate where necessary. Consequently, transparency, traceability, verification and assurance processes are critical – and so is collaboration.



Stakeholders driving the change



Regulators

Changing legal frameworks, legislation and guidance are forces for change, with a particular focus on human rights, modern slavery, supplier diversity and due diligence. Norway has passed an Act relating to enterprises' transparency and work on fundamental human rights and decent working conditions.³ The United States has recently passed the Uyghur Forced Labor Prevention Act and is increasingly enforcing the Section 307 of the Tariff Act of 1930 through the issuances of Withhold Release Orders. Australia and the UK have had modern slavery legislation in place for several years, but more recently Japan has released guidance for business on human rights, Germany has enacted the Supply Chain Due Diligence Act, the EU has environmental and human rights due diligence legislation under review and New Zealand has proposed Modern Slavery legislation that is more onerous than the current Australian or UK regime.



Investors

Like businesses, investors have a responsibility to respect human rights, and mitigating human rights risks also presents a financial imperative. Adverse people impacts are costly to business, both in terms of financial penalties and litigation, but also in terms of brand damage, risks to market value and risks to company value more broadly. This is an area of increasing interest to investors, and is supported by PwC's 2021 Global investor survey, which found that 79% of surveyed investors⁴ consider ESG risks and opportunities an important factor in their investment decision making⁵.



Consumers

Increasing consumer interest in sustainability is here to stay. A recent PwC⁶ survey shows that more than half of global consumers agree they engage in sustainable buyer behaviour. This is supported by the 2022 Edelman Trust Barometer (2022), which shows that 58% of consumers buy or advocate for their brands based on their beliefs. Consumers are seeking information on materials and products, including where they come from and the working conditions of the people who made them.



Technology users

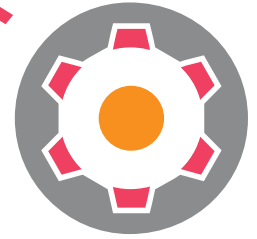
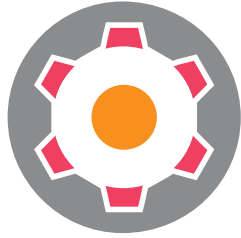
Technology supports stakeholders to access information and call out where performance has fallen short. Technology can also support businesses to connect with their direct and indirect suppliers and measure the impact of their shared operations and supply chains. Digitisation within business' operations is well advanced, but digitisation within the supply chain still has a way to go, and it's a live opportunity for responsible businesses.

³ <https://lovdata.no/dokument/NLE/lov/2021-06-18-99/%C2%A75#%C2%A75>

⁴ The rise in responsible investment and implications for boards: <https://www.pwc.com.au/about-us/insights/non-executive-directors/the-rise-in-responsible-investment-and-implications-for-boards.html>

⁵ <https://www.pwc.com/gx/en/services/audit-assurance/corporate-reporting/2021-esg-investor-survey.html>

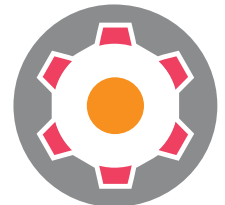
⁶ <https://www.pwc.com/gx/en/industries/consumer-markets/consumer-insights-survey.html>



How to transition to people-first supply chains

Supply chains are evolving for a variety of issues: fragility as illustrated by the COVID crises, resilience needs in the face of climate impacts, rising prices, changing workforce demographics, political factors and other reasons. This will lead to a world of increasing complexity as supply chains will need to balance increased ESG requirements with increasing sourcing complexity and while operating ethically and legally within an increasingly broad set of local expectations.

Below are six recommendations for businesses to transform their supply chains, mitigate risk and position for the operating environment of the future.



1

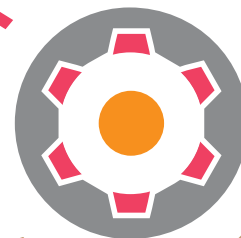
Consider suppliers as critical stakeholder

For many businesses, this will require a mindset shift towards viewing all suppliers – not just direct ('Tier 1') suppliers – as critical stakeholders in the value chain. It may require additional investment in procurement teams and other cross-functional teams to enhance strategy, engagement, technology, traceability and verification of supply chains.

2

Move from compliance to collaboration with suppliers.

Moving to an approach which focuses on compliance *and* collaboration requires proactive supplier engagement strategies. Businesses cannot investigate, strengthen and transform their supply chains to have a people-first focus without the support of their suppliers, and strong relationships with suppliers cannot be achieved by relying only on contracts and annual questionnaires. Businesses that build multiple touchpoints with suppliers that are mutually beneficial typically do so through a range of initiatives, including upskilling and knowledge sharing, showcasing best practice, sharing networks and inviting suppliers to support the business's priorities. Integrate sustainable standards into contracts, and supplier agreements, but go beyond this: seek opportunities for strategic dialogue, enable performance incentives through sustainability-link supply chain finance, co-invest in data, transparency systems and innovation.



3

Understand human rights risks in supply chains, and mitigate these risks.

Many companies can't yet confidently claim to really know their supply chain, but it won't stay this way for long. Businesses can integrate human rights due diligence requirements into their supply chains via human rights impact assessments to identify prioritised risks and manage supplier engagement. From a modern slavery lens, business can start by segmenting suppliers by spend, geography and category, and using this information to prioritise supplier engagement and progressively move deeper into the supply chain.

4

Integrate assurance processes while executing supply chain due diligence.

Enabling suppliers to mitigate both actual and potential negative impacts, while seeking opportunities for positive impacts means looking beyond point-in-time audits. An increasingly sophisticated usage of third-party support should help suppliers assess impacts on people review and assure management controls, build effective grievance systems while executing supply chain due diligence approaches.

5

Set the standard and regularly revisit it.

Evaluating your company's current supply chain and procurement management practices, and benchmarking practices against industry leaders can help businesses to learn, reflect and set or adjust their supply chain ambition. A three or five year roadmap can support a business' evolution from current state to desired state, and can support the business's broader ESG strategies and risk management efforts.

6

Seek opportunities to collaborate.

The issues in your company's supply chain are not unique. Find opportunities to work in collaboration with industry associations and in public-private partnerships. Building shared standards, approaches and accountability will create a level playing field and protect the shared interests of all involved. Examples such as the Better Cotton⁷ Initiative, FSC⁸ and others exist, and require active, purposeful collaboration to fulfil their potential for people first supply chains.

There is a clear leadership opportunity for business to lean into this important issue, and to do so now without waiting for more legislation.

⁷ <https://bettercotton.org/>

⁸ <https://fsc.org/en>

If you'd like to have a deeper discussion on people-first approaches, including human rights, modern slavery and social accountability in the supply chain, please reach out to our experts below.



Rosalie Wilkie

Partner
PwC ESG Assurance

rosalie.wilkie@pwc.com



Jeremy Prepscius

Managing Director

jeremy.prepscious@pwc.com



Louise Halliwell

Director
PwC ESG and Social Impact

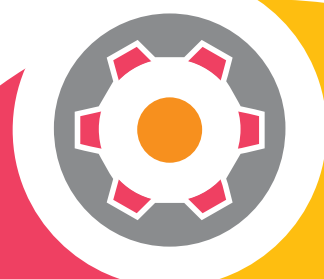
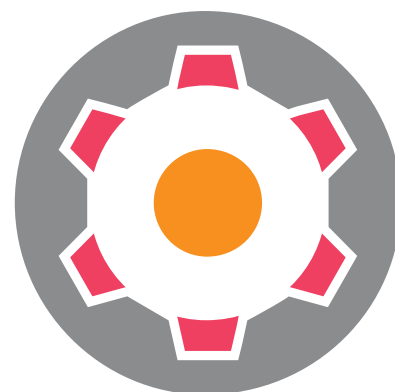
louise.halliwell@pwc.com

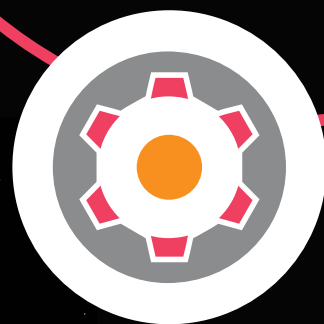


Toby Kent

Partner
Energy Transition

toby.a.kent@pwc.com





© 2023 PricewaterhouseCoopers. All rights reserved. PwC refers to the Australia member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. Liability limited by a scheme approved under Professional Standards Legislation.

At PwC Australia our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with more than 250,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.au

PWC200687474