

5 ways to improve your supply chain environmental, social governance impact in 2023



5 ways to improve your supply chain environmental, social governance impact in 2023

Reading time 9 mins

Key Points

- Covid-19, geopolitical problems and the increased frequency of climate catastrophes have highlighted supply chain issues worldwide
- Inadequacies in environmental, social and governance (ESG) strategies are both the cause and consequence of supply chain fragility
- ESG risks that destabilise the supply chain include resource scarcity, war, natural disasters, corruption, weak and/or unenforced labour laws, and a disregard for human rights and the environment
- Tips to improving it include measuring key metrics (e.g. wastage, pollution), implementing compliance frameworks, prioritising collaboration and codes of conduct, creating a 'virtuous circle', and avoiding virtue signalling
- Studies show that effective supply chain ESG management can lead to better branding, improved employee satisfaction, lower levels of regulatory risk, increased productivity, more profitability, long-term sustainability, and increased access to investment and funding opportunities

**Ready to start developing your new product?
Call us for a quote!**

[Get in touch](#)



Ben Mazur

Managing Director

Last updated Aug 8, 2023

I hope you enjoy reading this post.

If you would like us to develop your next product for you, [click here](#)

[Share](#)

[Share](#)

[Tweet](#)

[Pin](#)

Disruptions caused by covid-19 and its repercussions, geopolitical tensions, and the increasing frequency of climate catastrophes continue to destabilise economies – causing a ripple effect worldwide that few can escape being unaffected by. The ongoing electronic component shortage ^[1] (e.g. semiconductors) is just one example of how flaws within our interconnected and complex global markets are both cause and consequence of supply chain ESG (environment, social, governance) frailty.

Another example: a company's procurement strategy might entail buying raw materials at the lowest cost – even if it involves child labour or [blood minerals such as cobalt](#). Considering that most of these resources come from poor and/or politically unstable countries, what happens to this company's supply chain if there's a military coup, social unrest, natural disaster, or whistleblower? Consequences could include disruption to manufacturing and sales, loss of productivity, reputational damage, consumer backlash...

How can companies implement a supply chain ESG strategy to help avoid these consequences? Is it possible to monitor every aspect of the supply chain, considering how complex they have become? Are there any tangible benefits that can be measured to ensure that this strategy is viable and sustainable?

Environmental, Social and Governance (ESG) in a nutshell

ESG was one of the hottest and most politicised topics in 2022, as companies and economies struggled to recover post-covid. It is gaining momentum in 2023 as more people become actively engaged in the environmental, social, and governance impact that they – and those they work or invest with – have.

Although the term might seem relatively new, it was coined over 15 years ago in a study called '[Who Cares Wins](#)'. The report made the case that ESG in capital markets leads to better sustainability, generates a positive social impact, and makes good business sense ^[2].

This, and the [UNEP Freshfield Report](#), which highlighted how ESG issues are an integral part of financial evaluation, consequently led the New York Stock Exchange to launch the [Principles for Responsible Investment](#) (PRI), and the UN to inaugurate the [Sustainable Stock Exchanges Initiative](#) in 2005 and 2006 respectively. ESG asks us to consider ^[3]:

Environment: How do our actions contribute to conserving the natural world? What are we doing to reduce waste or greenhouse gas emissions? Do we behave in a way that is climate responsible?

Social: What importance do we place on people and relationships? Is our workplace diverse? Do we support human rights and uphold labour standards?

Governance: What standards is our company run by? How is the audit committee structured? Does our business operate ethically, or are we inclined towards shortcuts that entail bribery and corruption?

Studies have shown that good corporate sustainability performance – even with challenging metrics – leads to ^[4]:

- Better branding and reputation
- Higher levels of employee satisfaction
- Lower levels of regulatory risk
- Top-line growth and cost reductions
- More investment opportunities.

ESG risks that disrupt the supply chain

Rising demand, new industry capabilities in the developing world, and technological advancement have led to complex global supply chains. Many companies choose to outsource production to suppliers in countries with a cost advantage to reap more significant economic rewards. However, the bigger and more complex the supply chain, the greater the risks. Understanding the supply chain ESG impact of your company's products and services along the entire life-cycle is key to identifying potential risks ^[5]. These can include:

- Environmental pollution
- Natural resource scarcity
- Workforce health and safety incidents
- Labour disputes
- Corruption
- Geopolitical instability



Let's say, for example, a company develops electronic products that use lithium-ion batteries – of which cobalt is a crucial component and has created [international cobalt controversy](#). Not only is mining it fraught with environmental damage (water, air, and soil pollution), but it's also a unique commodity as very few regions in the world produce it. Furthermore, about 70% of the world's cobalt mines are in the Democratic Republic of Congo, but 80% of them are either financed or owned by China. Not only does this create geopolitical tension (i.e. global markets are disproportionately skewed in China's favour) but also a human cost that is impossible to measure: child labour, human rights violations, civil unrest, and corruption, to name a few.

5 tips to supply chain ESG management and compliance

1. **Start measuring:** Understanding your key performance indicators regarding your ESG evaluation will give you an overall picture of what to work towards. For example, what is your electricity and water usage? Can it be reduced or switched out for a renewable energy source? The [International Sustainability Standards Board](#) (ISSB) is a valuable tool from which to start your ESG reporting.
2. **Put a traceability system in place:** Identify and trace the history, distribution, location and application of all the resources (including human) in your entire supply chain. This will ensure the reliability of your sustainability efforts in human rights, labour (including health and safety), the environment and anti-corruption. International standards and compliance frameworks such as [ISO 20400](#) and [ISO 19600](#) provide the ideal benchmark for sustainable procurement and compliant business development.
3. **Prioritise conscious collaboration:** By adding codes of conduct to your contracts

with suppliers, engaging with local communities and collaborating with industry peers, you'll be able to better manage and anticipate existing and future risks.

4. **Create a 'virtuous circle'**: The more you track and measure where you get your raw materials from, the conditions in which these materials are produced, the environmental impact, workplace safety, workplace diversity etc., the more proactively you can improve. This, in turn, leads to ethical procurement, fewer workplace-related accidents, fewer fines and lawsuits, regulatory compliance and increased productivity. Increased productivity creates additional profits, sparks more interest in supply chain ESG for positive impact, creates more innovation opportunities, and re-starts the circle.
5. **Beware of 'virtue signalling'**: An electric vehicle company whose mission statement is based on environmental sustainability while also sourcing their cobalt from an unknown mine in the Congo is an example of virtue signalling. Without changing their policies (e.g. procuring cobalt from another country, ensuring that working and environmental conditions are safe), their actions speak louder than words. Not only can this lead to reputational damage, but it can also result in dire consequences, e.g. [tech giants such as Tesla and Apple being sued](#) for the deaths of child miners.

Benefits of supply chain sustainability in the long term

Reducing fragility and vulnerabilities within the supply chain ESG can significantly help businesses in the long and short term. In addition, it reinforces the importance of ensuring that people and the natural environment throughout the supply chain are supported.

Where business viability has traditionally been entirely focused on supply quality and cost, investors are increasingly looking for businesses with a long-term sustainable future. At the same time, more funding is available for those who can demonstrate their ability to meet [sustainable development goals](#) mandated by the United Nations.

At Ignitec, climate responsibility and workplace diversity are integral to our core values. Everything we do – from [our path to becoming carbon neutral](#) to the [new talent we hire](#) and develop – is geared towards having a positive impact and a social purpose.

We're interested to hear how supply chain ESG issues affect you. What, in your experience, are the biggest challenges? Is it an attainable goal considering the sheer complexity of global systems and the challenging task of managing each link in the supply chain?

Similarly, we're always keen to share our experiences, so please get in touch and let's keep the conversation going!

Comments

1. McKellop, M. (2022, July 20). Electronic Chip Shortage – July 2022 Update | Sourcengine. Sourceengine.Com.
<https://www.sourcengine.com/blog/electronic-component-shortages-update>
2. Investor, T. I. (2022, December 28). What is Environmental, Social, and Governance (ESG)? Definition & Examples. The Impact Investor | ESG Investing Blog.
<https://theimpactinvestor.com/what-is-esg/>
3. ESG Investing and Analysis. (n.d.). CFA Institute.
<https://www.cfainstitute.org/en/research/esg-investing>
4. Henisz, W., Koller, T., & Nuttall, R. (2021, June 23). Five ways that ESG creates value. McKinsey & Company.
<https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value>
5. ESG risks in supply chain | AGCS. (n.d.). AGCS Global.
<https://www.agcs.allianz.com/news-and-insights/expert-risk-articles/esg-risk-briefing-3-2017.html>

We love to talk about new ideas

Do you have an idea? Book a consultation with an expert - it's free, it's confidential and there are no obligations.

[+44\(0\)117 329 3420](tel:+441173293420)
info@ignitec.com

Ignitec Technology Centre
1 The Powerhouse
Great Park Road
Bradley Stoke
Bristol
BS32 4RU

[Share](#)

[Share](#)

[Tweet](#)

[Pin](#)

Up next



12 IoT in retail technologies that increase sales & improve customer engagement

Last updated Apr 18, 2024 | [HACKS](#), [INNOVATION](#), [INSIGHTS](#), [IoT](#), [PRODUCT DESIGN](#), [RETAIL](#)

Top IoT in retail technologies to drive sales, engage customers, improve visibility, and lower costs. Call us for a quote!

[read more](#)