



ESG risk assessment in supply chains

Preparing for future opportunities



“The megatrend of sustainable business offers huge opportunities, but the risks, if realized, could cripple the entire current business of many companies. This applies also to the supply chain.”

- Anne-Maria Flanagan, Climate and Sustainability Partner, Deloitte Finland

Emerging stronger

The rise of sustainable and resilient supply chains

Expectations for companies' ESG awareness are increasing. To increase supply chain resilience, companies need to pay more attention to ESG risks across their supply chain.

We have conducted our latest third-party risk management (TRPM) survey that reveals how organizations are responding to increasing expectations related to environmental, social and governance (ESG) areas in the supply chain.

Our survey shows a greater level of awareness and focus on ESG in the extended enterprise, as organisations focus on more sustainable and resilient supply chains.

For a deeper understanding of our survey, you can access the report [here](#).

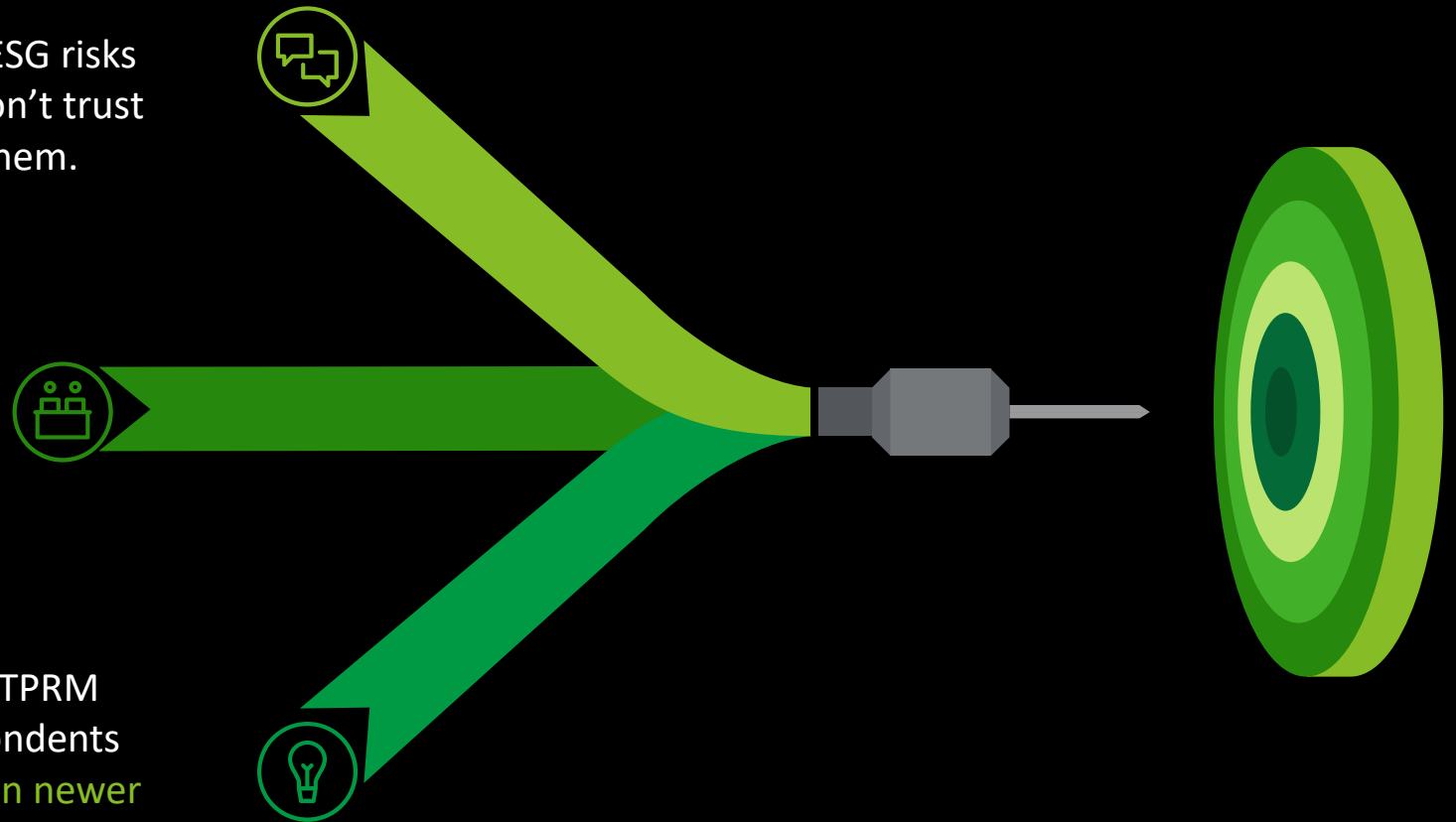


Some key findings of the survey

Organisations need formal mechanisms to prioritise third-party ESG risks. Many organisations don't have the formal mechanisms to assess or prioritise ESG risks in their extended enterprise, and don't trust internal/external data available to them.

Organizations recognize the need to improve the resiliency of their supply chains. This need is particularly strong for critical third parties and lower tiers of the third-party ecosystem.

Overall self-assessments of TPRM maturity indicate that respondents continue to be challenged on newer risk domains such as geopolitical and climate change.





Sustainability trends

Taking advantage of opportunities requires business restructuring and rethinking – **supply chain is in the very core of this process.**

- **Aiming for Net Zero** – supply chain plays a critical role typically through Scope 3 emissions.
- **Huge opportunities and risks** – risks, if realized, could cripple the entire current business – supply chain disruptions often related to sustainability issues.
- **Agenda for change** – sustainability is an all-time leadership challenge – requires strategic partnerships and high-quality supply chain management.
- **Human rights due diligence needs to be integrated into the company's operations** – in supply chain the visibility is poor, and control limited.
- **Biodiversity emerging in non-forest sustainable business programs** – impacts originate often from supply chain beyond company's own operations.



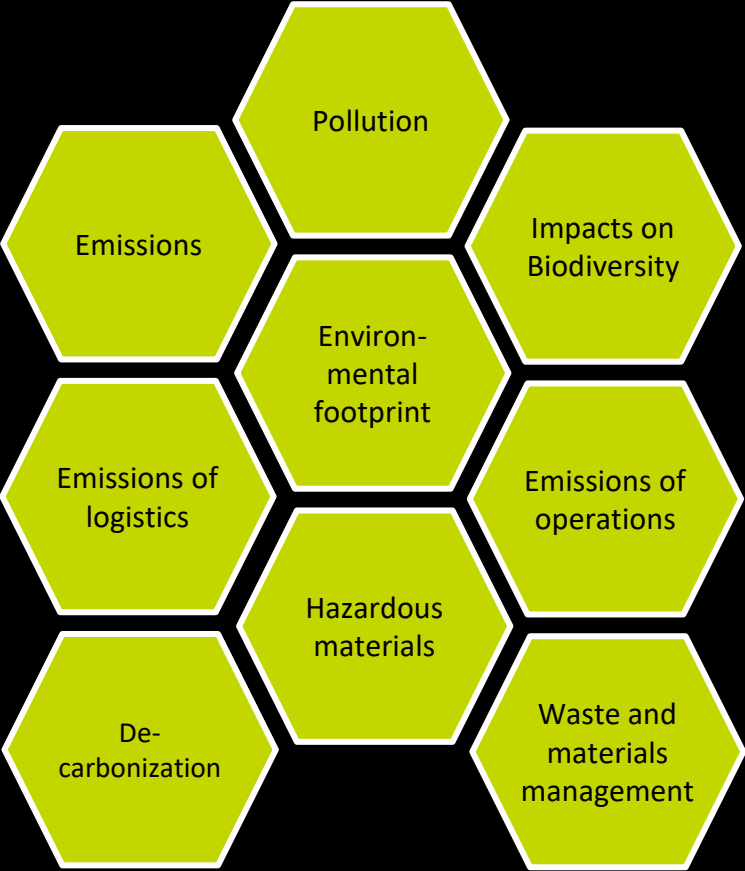
Sustainability trends

Sustainability becomes an essential part of companies' business. – supply chain can be the origin of many risks but also the catalyst of opportunities and value added.

- Data is one of the world's most valuable business raw materials – supply chain data is critical to run operations sustainably.
- Accurate and up-to-date supply chain data ensures the ability to provide value adding sustainable products and services to customers.
- The role of new technologies – it has the potential to increase transparency and trust in complicated processes. Supply chain is very much in the center of attention.
- The importance of social impact is rising – social and governance performance data from the supply chain is currently very limited.
- The regulation of reporting through legislation will facilitate the comparability of reports between companies and different measures – supply chain is also in scope.

Sustainability risk beehive

Environmental risks



Social and Human rights risks



Governance risks



ESG risks in supply chains

- ESG risks appear across all the stages of the supply chain, from development to delivery.
- Each risk type - environmental, social and governance - includes a number of sub-areas under its umbrella.
- Diving into each of the sub-areas allows your organisation to build the most comprehensive understanding of the ESG risks your supply chain is facing.



Environmental risks



Social risks



Governance risks

Develop	Plan	Source	Make	Deliver
Climate Change and GHG emissions				
Waste				
Pollution				
Loss of biodiversity				
Natural resources				
Diversity, Equality & Inclusion				
Employee relations				
Health and Safety				
Working conditions				
Customer / local community relations				
Corporate social responsibility reporting				
Human rights risk management				
Governing purpose				
Governing body				
Promotion of ethical behavior				
Risk management and oversight				

Example of environmental risk drivers in the supply chain

Climate change & greenhouse gas emissions

Climate change
& GHG emissions



Develop

Compromising environmental impact for production cost.



Plan

No clear GHG emission reduction targets which may result in negative views from the stakeholders.



Source

Inability of suppliers to make required financial and procedural investments in climate action.



Make

Lack of product carbon footprint monitoring throughout production.



Deliver

Lack of commitment to climate targets by the logistics service providers (LSPs) engaged into the supply chain.

Risk assessment methods

ESG in the supply chain

How to identify, prioritize and manage the most relevant ESG risks of the organization and its supply chain?



Risk Identification

- When identifying risks, it is beneficial to have a defined risk categorization (risk map, risk universe) supporting the risk identification work.
- In this case the **ESG risk map may be utilized to facilitate the risk identification** and point out the relevant risks for the organization and its supply chain.



Climate change & GHG emissions	Develop	Plan	Source	Make	Deliver
	Compromising environmental impact for production cost.	No clear GHG emission reduction targets which may result in negative views from the stakeholders.	Inability of suppliers to make required financial and procedural investments in climate action.	Lack of product carbon footprint monitoring throughout production.	Lack of commitment to climate targets by the logistics service providers LSPs engaged into the supply chain



Risk Assessment and Management

- After the relevant risks have been identified, the criticality of the risks may be assessed. Commonly, this is done by evaluating the risk impact and likelihood.
- When considering the risk impact, there is an opportunity to assess **different types of impacts the risk may have when realizing**. In case of ESG risks, it may be relevant to assess both the **impact to company** and **impact to society**.
- Based on the risk assessment results, the organization may **decide the relevant risk management activities per each risk and allocate the resources for the most relevant areas**.

Risk assessment methods

ESG in the supply chain

Deloitte Risk Force

A collaborative web browser-based software to support assessing and prioritizing risks

- Collaboratively identifying relevant ESG risks.
- Examining and engaging the external and internal stakeholder expectations regarding sustainability.
- Prioritizing and valuating on the topics together with key stakeholders.
- Possibility to re-perform the survey and monitor changes with ease in the future.



ESG in the supply chain

How can we support you?

Supply chain risk assessments

- We support you in facilitating the supply chain risk assessment process (as presented in previous slide) with an objective to identify and prioritize the key risks for the organization.
- The assessment may cover only the ESG risk perspective, or a broader view to all relevant supply chain risk categories.

Risk assessment process enhancements

- We support you to integrate ESG risk perspective to existing risk management frameworks. This is done by developing risk language, risk categorization and impact scoring criteria that considers ESG risks with appropriate level of detail.
- This may cover the supply chain risk management perspective, or may also be performed from the enterprise risk management perspective.

Reviews and audits

- We conduct different types of reviews, gap-analysis and audits for supply chain related areas with a special focus on ESG topics. By doing this we provide insight and recommendations on current shortcomings and relevant best practice approaches.
- We also perform audits for clients' suppliers to ensure they are complying with applicable requirements defined in supplier code of conduct.

At your service



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