

SUPPLIER ESG DUE DILIGENCE FOR SMEs

QUICK REFERENCE GUIDE

Supplier ESG due diligence for SMEs

Quick reference guide

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This guide is provided to support the MY FIRM. MY FUTURE eLearning module **ESG in Practice**. It provides guidance on key questions to ask your suppliers to understand how they are managing their environmental, social and governance (ESG) risks and how to interpret their responses.

Responsible ESG management with a supplier depends on the risks that are relevant to its:

- industry,
- operations, and
- often location.

Helpful points to consider when comparing and assessing environmental and social claims include:

- Understand what environmental or social impacts matter for the product or supplier being considered. You may wish to do some additional research into the sector or product.
- Look for transparency and specific, detailed responses – suppliers with strong ESG management are likely to talk about specific actions they are taking and resulting performance, rather than motherhood statements and policies.
- Look for third-party certification and quantitative figures – independent verification provides a strong signal that the product or supplier applies robust, industry-leading practices. Be sceptical of vague or unsupported claims such as ‘environmentally friendly’, ‘low carbon’ and ‘natural’.
- Provide feedback to suppliers on why the answers to these questions are important for your business and how well they performed. If an existing supplier performs poorly, identify alternative suppliers and consider ending the business relationship or creating a plan to switch in the future.

USING THIS GUIDE

Questions in the supplier information section (below) can be applied to all suppliers to better understand their business.

Questions in the supplier ESG impact and risk management section can be applied to all suppliers, but it is best to select and adjust them based on the relevance to that particular supplier and risk exposure.

These questions should be in addition to, not in place of, any existing due diligence questions. The questions and supporting information are a guide only – users should apply their own judgement in selecting questions and interpreting responses.

SCORECARD QUESTIONNAIRE

QUESTIONS TO ASK THE SUPPLIER

1. How many years have you been in business?
2. How many operational sites do you have locally (within the country) and globally?
3. What are the locations of operations that will contribute to delivery of goods or services under this contract?
4. How many full-time equivalent (FTE) staff work for the organisation?
5. Do you engage any subcontractors?
 - If yes, please list those organisations and locations.
6. Has your organisation been audited by another customer or third-party?
 - If your organisation has been audited, please confirm the aspects covered, e.g. Labour Practices, Ethical Business, Health and Safety, Environment, Food Safety (HACCP), etc. (You may consider requesting further information on these audits.)
7. Has your organisation been convicted or subject to penalties for non-compliance with legal frameworks?
 - If your organisation has been convicted for non-compliance with legal frameworks, please confirm legal framework that was violated e.g. Labour Laws, Crime and Corruption, Environmental, Worker Health and Safety, Consumer/Product Safety and remedial actions taken to prevent recurrence.
8. Does your organisation have any environmental or social certifications? E.g. B Corporation, Social Traders, Supply Nation, Climate Active, etc.
9. Do your products have any environmental or social certifications or credentials? E.g. Fairtrade, Rainforest Alliance, Marine Stewardship Council, Forest Stewardship Council, Good Environmental Choice Australia, Climate Active, etc.

SUPPLIER ESG IMPACT AND RISK MANAGEMENT

The below is designed to help you assess supplier risk and provide guidance on questions to ask your supplier.

Section	Risks	Questions to ask	Interpreting responses
Carbon (greenhouse gas) reduction	<p>Suppliers with high carbon footprints (e.g. high energy use from fossil fuel sources, direct emissions from industry and agriculture) contribute to the buyer's own indirect (scope 3) footprint.</p> <p>They may also become more expensive due to carbon pricing mechanisms and variability in energy costs.</p>	<ol style="list-style-type: none"> 1. What actions has your organisation taken to measure, reduce and mitigate its carbon footprint? (e.g. product and organisational footprinting, switching to renewable energy, electrification, efficient processes, equipment and buildings, carbon offsets and neutrality, setting reduction and net zero targets) 2. Do you publicly disclose your performance? If so, please provide a link. 	<p>Suppliers should address the first two actions in question 1 (measure and reduce) at a minimum.</p> <p>Suppliers in the identified categories who do not address these are considered less desirable.</p> <p>Suppliers who demonstrate significant reductions, mitigation (i.e. offsets) and public disclosure are considered best practice.</p>

Section	Risks	Questions to ask	Interpreting responses
Environmental management	<p>Suppliers with poor environmental management practices can cause pollution of local waterways and land contamination.</p> <p>This can reflect poorly on their buyers or even directly cause pollution and human health hazards on the buyer's land and neighbouring properties.</p>	<ol style="list-style-type: none"> 1. How does your organisation minimise its impact on the environment? (e.g. environmental management systems [EMS] and plans as well as specific preventative and mitigation actions) 2. Does your organisation use any potentially harmful chemicals in its processes, products or service delivery? If so, how do you minimise human exposure to these chemicals and prevent their transmission to the environment (via wastewater, air emissions, leaks, spills etc)? 	<p>Suppliers should demonstrate robust environmental management practices, such as EMS, preventative and mitigation actions including technologies, procedures and training, and potentially actions taken to reduce the use of those chemicals by changing product design or switching to less harmful alternatives, or provide sufficient justification why such expectations are not applicable to their operations.</p>
Waste and packaging	<p>Waste is a misuse of resources, which goes into landfill rather than those resources being reused. This is an unnecessary expense (both the cost of wasted goods and paying for disposal) and contributes to numerous environmental and human health impacts, both in the disposal and in the production of new virgin materials.</p> <p>Packaging of products delivered to the buyer directly impact the buyer's own waste generation.</p>	<ol style="list-style-type: none"> 1. How does your organisation reduce waste to landfill? (e.g. avoiding waste generation, avoiding single-use and disposable items, maximising recycling) 2. If your organisation produces organic and food waste, how is this managed to reduce greenhouse gas emissions and capture nutrients for reuse? 3. What actions has your organisation taken to ensure its packaging is sustainable? (e.g. minimising volume, recycled and renewable content, returnable, refillable, recyclable or compostable) 	<p>Suppliers should provide details on specific actions being taken unless they can justify why they are not applicable to their operations.</p> <p>Any suppliers in the identified categories who provide little detail on actions taken are less desirable.</p> <p>Suppliers who demonstrate significant progress toward zero waste through reductions and reuse of resources and who provide public disclosure are considered best practice.</p>

Section	Risks	Questions to ask	Interpreting responses
<p>Materials sourcing</p>	<p>The production of raw materials can involve significant impacts, such as modern slavery and child labour, destruction of ecosystems and biodiversity, reduction of carbon sinks e.g. forests and peatland, and reduced availability of scarce resources.</p> <p>These impacts often lead to media and activist scrutiny of downstream users of these materials and consumer boycotts.</p>	<ol style="list-style-type: none"> 1. How are the materials used by your organisation sourced to ensure they are harvested sustainably and with minimal environmental impact? (Note any certifications) 2. What percentage of the product or materials are made of recycled content? 3. How does your organisation minimise risks of modern slavery and child labour in the production of raw materials (including transparency to source)? 	<p>Suppliers of the identified categories should provide details on the provenance of their materials and specific details on practices to minimise environmental impact and labour exploitation.</p> <p>Certifications and high percentage of recycled content are considered best practice.</p>
<p>Labour practices</p>	<p>Poor labour practices can be indicative of significant impacts, such as modern slavery, child labour, and exploitative working conditions.</p> <p>These impacts often lead to media and activist scrutiny of downstream buyers of these suppliers and consumer boycotts. Even in cases that don't lead to these extreme impacts, poor labour practices can create high turnover, ineffective operations, timeline delays and poor-quality outputs.</p>	<ol style="list-style-type: none"> 1. How does your organisation ensure its staff are treated fairly and in compliance with labour legislation? 2. Do you have a significant proportion of migrant workers? If so, how do you ensure they are treated fairly, including understanding their work rights and not being indebted to migration recruitment and housing agents? 	<p>High quality responses will provide specifics on local labour requirements (minimum wage, award rates, working hours) and how the supplier's practices compare.</p> <p>Those that articulate how they make their organisation more attractive to employees through competitive pay and benefits are considered best practice.</p>

Section	Risks	Questions to ask	Interpreting responses
Health and safety	<p>Poor safety practices can lead to disability and even death. Similarly, poor hygiene and personal protection practices can lead to long term health impacts, and psychosocial hazards such as bullying and harassment can lead to long-term mental health issues.</p> <p>All these can lead to poor performance and unreliability of suppliers, as well as scrutiny of their downstream buyers, especially when services are delivered on the buyer's premises.</p>	<ol style="list-style-type: none"> 1. How do you ensure the health and safety of your employees? 2. How do you ensure your workplace is free from bullying and harassment? 	<p>Suppliers should demonstrate robust health, safety and wellness practices, such as a health and safety management system (HSMS) and preventative actions such as those noted, or provide sufficient justification why such expectations are not applicable to their operations.</p> <p>Suppliers should be able to demonstrate what training and compliance processes are in place within the organisation.</p>
Diversity and inclusion	<p>Diversity and inclusion are not only increasingly important to society and the commitments of large buyers and investors, but they also lead to a more productive and innovative workforce.</p> <p>Suppliers with discrimination issues can reflect poorly on their downstream buyers, especially when providing outsourced services, and can encounter disruption from poor risk management.</p>	<ol style="list-style-type: none"> 1. How do you enhance diversity and inclusion in your organisation, and prevent discrimination? 2. Do you collect workforce diversity statistics, such as gender balance and number of First Nations employees? If so, please provide these and any targets to improve. 	<p>High quality responses will provide specifics on diversity and inclusion initiatives, statistics and targets.</p> <p>Those that have achieved benchmarks such as 50/50 or 40:40:20 gender balance at senior and board levels, or more than 3% employment of First Nations peoples, are considered best practice.</p>
Anti-corruption	<p>Bribery and corruption within an organisation not only cause negative impacts to a fair and competitive economy, but can also cause significant reputational damage, litigation, closure of the business and insolvency.</p>	<ol style="list-style-type: none"> 1. How does your organisation ensure its business is conducted ethically, including prevention of bribery, conflict of interest and fraud? 	<p>High quality responses will provide specifics on programs and initiatives to prevent and detect bribery and fraud.</p> <p>Those that have specific focus on building an ethical culture including leadership, training and recognition are considered best practice.</p>

Section	Risks	Questions to ask	Interpreting responses
<p>Supply chain management</p>	<p>If a supplier is not applying similar due diligence and risk management practices to its own supply chain, it may encounter any of the above impacts.</p> <p>This can lead to disruption of supply or even the direct supplier's business, as well as potential scrutiny of the downstream user of the products they on-sell from the impacted supplier.</p>	<ol style="list-style-type: none"> 1. How does your organisation manage ESG risks in its supply chain and contracted parties? 2. Do you publish a modern slavery statement? If so, please provide a link. 	<p>Suppliers should provide details on the due diligence conducted, at a minimum including screening and risk assessment, and preferably site auditing and tracing to tier 2 and beyond.</p> <p>They should also refer to documented supplier requirements rather than generic, preferably publicly available.</p>

This guide was prepared by Small Mighty CSR on behalf of CPA Australia.