



# **IN** **SIGHTS**

**February 2021:**

**Sustainability & Ethics in Business**



***Sustainability and ethics are no longer a trendy topic in business life and consumer behaviour but are increasingly anchored in the reality of consumers. This anchoring in consumer behaviour is forcing industry - across all sectors - to act if it has not yet addressed this in its own value chain.***

***It is no longer enough to act sustainably and ethically in the company's own value creation, but also in the management of the supply chain, i.e. purchased value creation.***

## Supply chain transparency

The prerequisite for this is end-to-end transparency. This transparency is not an end in itself, but an expression of corporate responsibility towards the customer, the company's own employees and society as a whole. For example, companies that want to become climate neutral must be able to actually measure or prove the CO2 emissions for their purchased parts, the supply chain, production, packaging and delivery.

Mirroring this, the customer and consumer demands comprehensive information about the products being purchased, before and after their purchasing decision. It is therefore a price-setting element and the willingness to honour this is growing in parallel with public awareness. In addition, the soon-to-be-applicable legislative requirements, both at the European level and at the national level.

In April 2020, EU Justice Commissioner Reynders announced that a draft for a European supply chain law will be presented in spring 2021. In November 2020, the EU Parliament also repeatedly spoke out in favour of a

corresponding regulation. The aim is to establish a framework for corporate due diligence for the protection of human rights and the environment (e.g., but not only, with regard to the so-called carbon footprint of companies) in the supply chain at EU level and to demand national implementation by the member states.

## The dimensions of the supply chain law

At the level of e.g. German politics, the demand for a supply chain law is present and, according to the assessment of all political parties, it is no longer a question of if, but rather of when. A corresponding law is expected in 2021, but this legislative process has also been initiated in other EU countries.

In summer 2020, the Federal Ministry for Economic Cooperation and Development, together with the Federal Ministry of Labour and Social Affairs, drew up proposals for the cornerstones of a supply chain law.

According to the will of the two ministries, the law should:

1. define what obligations companies have in protecting human rights and how companies can comply with these in their supply chains.
2. oblige companies to report on their efforts.
3. strengthen workers' rights in court and open a way to claim damages in Germany.

A few key figures to demonstrate the dimension of supply chains for Germany alone and thus get a vague idea of the task ahead, which will mean comprehensive transparency on this:

In 2018, the approximately 320,000 German export companies generated a turnover of €1.32 trillion.

Approximately 775,000 German import companies generated a turnover of €1.09 trillion in the same period.

Since the Supply Chain Act also focuses on the obligation of German suppliers to behave ethically and sustainably abroad, it is noteworthy that the following sectors in Germany have a significant share of imported inputs:

- Textile industry 63 %
- electronics 45 %
- Chemical and pharmaceutical industry 39 %
- Food industry 37 %
- automotive industry 29 % and
- mechanical engineering 28 %

(Source: BMZ)

## Corporate responsibility

In the short term, therefore, those responsible for purchasing and supply chains will have an even greater entrepreneurial responsibility to select suppliers according to sustainability criteria and, crucially, also the obligation to monitor these supply chains transparently throughout.

This is a mammoth task, but one that can be accomplished without additional overhead if the appropriate processes and tools are set up in a structured manner at an early stage.

For the entrepreneur, critical self-reflection therefore raises the question:

- How comprehensively transparent are our supply chain and the supply chain of our sub-suppliers?

- How do we continuously collect and process the necessary data and how do we efficiently ensure that our supplier and supply chain management is „sustainable“ in the truest sense of the word?
- Is there a roadmap for our company on how and by when we will have implemented these requirements?
- Are the concrete objectives for our company resulting from the upcoming Supply Chain Act defined and formulated, and are these objectives communicated throughout the company?

Those who cannot answer these questions, or can only answer them inadequately, should act now. Because neither the legislator nor the customer (whether B2C or B2B) will tolerate omissions here in the near future. What is at stake is nothing less than the long-term competitiveness of one's own company.

In conclusion, it is relieving to note that almost all companies are currently facing this challenge, regardless of whether they are large corporations or medium-sized businesses. And there are solutions that, if tackled in time with the help of appropriate experts for value and supply chains, give the company sufficient leeway to implement them successfully in day-to-day business operations.

### Author

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