

Guide

How to Uncover Hidden ESG Risks in Your Supply Chain

Introduction

Supply chains were never built with sustainability in mind, which means manufacturers with complex supply chains face unique challenges when it comes to environmental, social, and governance (ESG) management. For most manufacturing verticals, the supply chain contains the majority of ESG impacts. That's why you need to collect ESG data from — and about — your suppliers to create meaningful insights about your total risk and performance.

One of the biggest challenges manufacturers face when it comes to ESG is that they don't have the deep visibility into their supply chain that is required to capture hidden risks or the ability to translate that information into actionable ESG business intelligence. Most ESG solutions deliver minimal, shallow information, and are not designed for the specific needs of manufacturers.

This guide gives you best practices to improve your ESG risk management and protect your business from the biggest threats to your sustainability. You'll learn:

- ▶ Which hidden risks to prioritize
- ▶ A method for proactively uncovering and mitigating those risks
- ▶ What a strong ESG risk monitoring program looks like



Hidden Risks Are the Costliest

Your supply chain holds the majority of ESG risks and impacts, spanning a wide range of topics. However, not all of these topics should be weighed equally — some ESG risks pose more of a threat to your compliance and reputation than others, including human rights violations like the use of forced labor, modern slavery, and child labor. Governance and code of conduct risks are also more common in manufacturing supply chains, including corruption, bribery, money laundering, and criminal activity as well as environmental impacts such as greenhouse gas (GHG) emissions.

Part of what makes these risks so dangerous is that they are hidden in the supply chain — your direct suppliers may not even be aware of bad actors and may not have the deep visibility to identify and report these hidden risks. It's also possible that suppliers will choose not to disclose this information in order to protect themselves. For example, a supplier using child labor is not going to self-disclose that information.

Even if you have an ESG management solution in place that collects data from suppliers, without a specific process for reviewing suppliers' ESG risk levels beyond direct surveys, you are exposed to serious legal, financial, and reputational consequences.

In many cases, even if your company is not found fully culpable for the environmental or human rights impacts of your supply chain, the costs of inaction are significant:

- ▶ Months (or years) of market access loss, often costing millions in lost revenue
- ▶ Cost of replacing suppliers, which may require reengineering your product
- ▶ Irreparable brand and reputation damage
- ▶ Legal fees
- ▶ Time and resources spent completing due diligence to collect missing ESG data and demonstrate compliance
- ▶ Inability to meet customer and investor expectations, leading to lost revenue and access to capital

No matter how strong your internal ESG programs and technologies are, you need strategies and services dedicated to revealing hidden risks to eliminate surprises.





The Real-Life Costs of Hidden Risk

Automotive Manufacturer Subsidiary Allegedly Uses Child Labor in the U.S.

In July 2022, a major automotive original equipment manufacturer (OEM) was accused of using child labor in a metal stamping plant in Luverne, Alabama. A Reuters investigation alleges that children as young as 12 were employed by the plant, which is now under investigation by the U.S. Department of Labor and Alabama Department of Labor. The employer has denied allegations it knowingly employed minors, pointing to a lack of due diligence by temporary worker agencies as the root cause of the labor violation. It is yet to be seen how much this investigation will cost the plant, the OEM, and the work agencies.¹

Mining Company Loses Millions in Investment Dollars After Slavery Lawsuit

A mining corporation headquartered in North America, settled out of court after facing legal allegations of slavery and torture at mining operations in Africa. The Canadian Supreme Court ruled that even though the human rights violations occurred in its international supply chain, the parent company could still be held responsible. Following the lawsuit, BlackRock Inc. divested millions in investment dollars from the company.²

U.S. Food & Beverage Brands Face Backlash Over Child Labor Allegations

A group of seven American food and beverage corporations were named in a lawsuit alleging they benefitted from child labor on third-party coca farms in their supply chains. Although the U.S. Supreme Court dismissed the case, the brands named in the case faced public backlash, including boycotts and investigative journalism reporting. These companies have collectively spent millions in dollars in damage control and publicized sustainability programs to combat child labor in their supply chains.³

1 Reuters. (2022, July 22). *Exclusive: Hyundai subsidiary has used child labor at Alabama factory*. <https://www.reuters.com/world/us/exclusive-hyundai-subsidiary-has-used-child-labor-alabama-factory-2022-07-22/>

2 Business & Human Rights Resource Centre. (2018, May 21). *Campaigners welcome Blackrock's divestment from Nevsun following campaign over alleged use of forced labour in Eritrea; Nevsun denies use of forced labour*. <https://www.business-humanrights.org/en/latest-news/campaigners-welcome-blackrocks-divestment-from-nevsun-following-campaign-over-alleged-use-of-forced-labour-in-eritrea-nevsun-denies-use-of-forced-labour/>

3 The Guardian. (2021, February 12). *Mars, Nestlé and Hershey to face child slavery lawsuit in US*. <https://www.theguardian.com/global-development/2021/feb/12/mars-nestle-and-hershey-to-face-landmark-child-slavery-lawsuit-in-us>





How to Proactively Uncover & Mitigate Risks

There are two methods for discovering ESG risks in your supply chain:

Direct monitoring

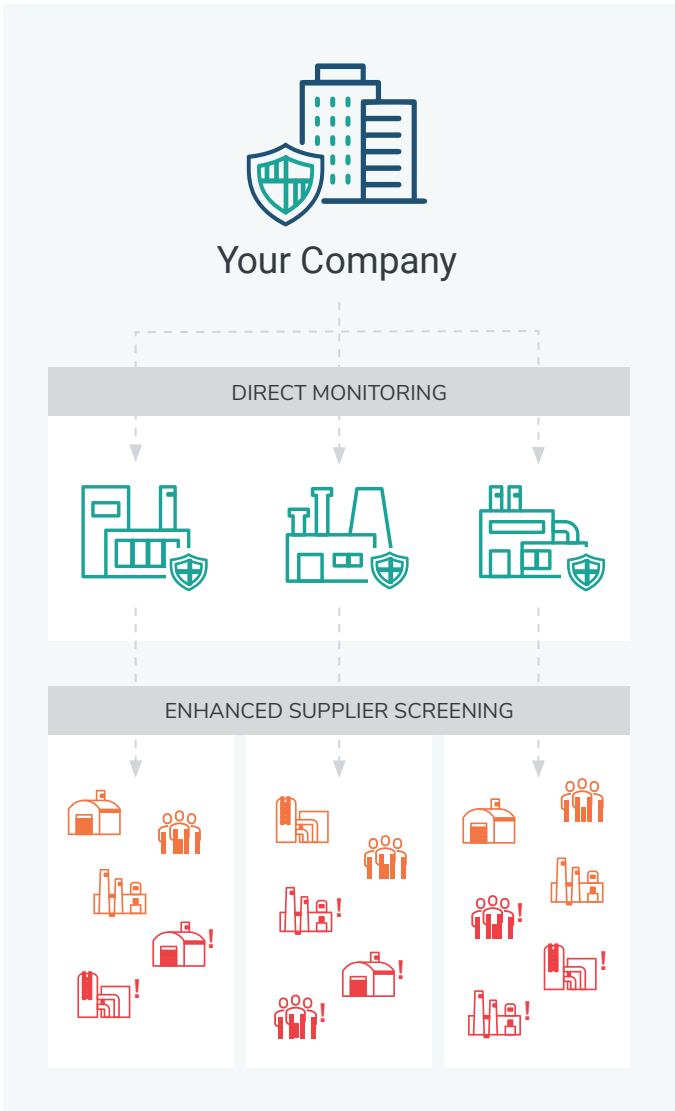
Contacting suppliers directly to gather ESG performance data, typically using questionnaires, industry template surveys, or site visits.

The goal is to capture where your suppliers are strong in their ESG reporting and where they have gaps. Direct monitoring works best when you treat your suppliers like partners in your ESG journey, and where you have more control in your sphere of influence.

Enhanced Supplier Screening

Evaluating supplier performance and detecting risks by monitoring public domain mentions, including adverse media and denied parties screening. The objective is to proactively collect ESG risk data to fill in gaps from direct monitoring and protect you from bad actors that may conceal information.





Risk Severity & Difficulty Uncovering

- Your Facility
- Tier One Supply Chain
- Deep Supply Chain

Enhanced supplier screening helps you see deeper into your supply chain and understand the relationships between your tier one suppliers, enabling you to proactively detect those hidden risks you can't directly control or easily get data on.



Understanding Enhanced Supplier Screening

Enhanced supplier screening is a continuous process that involves reviewing the public domain for any mention of your suppliers or their related partners, filtering results for any negative sentiment or news stories that would prompt action from your organization. Importantly, enhanced supplier screening aims to get ahead of the story rather than reacting to legal or regulatory actions. Enhanced supplier screening is a combination of AI and manual effort, requiring expertise in ESG, supply chain management, and product compliance. Because it requires time and expertise, many generic ESG solutions do not provide any form of enhanced supplier screening.



Let's look at Assent's enhanced supplier screening service to understand the fundamental components of a strong program:

Monitor a Broad Range of Sources

Assent's team of experts uses advanced AI and machine learning tools to monitor over 2 million digital sources and more than 2,000 live media channels, covering media from 182 countries and numerous languages. These include:

- ▶ Denied and debarment lists, to prevent you from partnering with a forbidden supply chain entity
- ▶ Print, radio, and television mentions that publish industry news, including paywalled content from industry journals
- ▶ Social media
- ▶ Publications from non-governmental organizations (NGOs), watchdog groups, and legal offices
- ▶ Government publications and notices



Focus on Actionable Intelligence

A robust monitoring program will turn up a vast number of search results, but only a fraction of them are important. Without expertise to help determine what's relevant, supplier screening can become overwhelming and inefficient.

Assent screens all hits and flags for negative sentiment, extracting unnecessary information pertaining to positive or neutral information. We solely focus on negative sentiment to give you a clearer picture of ongoing risks and what situations would negatively impact your company and supply chain initiatives. In addition, we assign risk categories (e.g., human rights or serious litigation) and a risk score to help you prioritize responses and deliver thorough, comprehensive information. Having an expert-led program helps cut through the noise of the public domain to get to what's urgent and useful for you to obtain your ESG goals.



Make Risks Visible

Collecting all this ESG risk data from deep in your supply chain is only useful if you can see it and act on it. Once Assent has collected your risk data, we roll it up into ESG dashboards that show you exactly where in your supply chain the major risks lie, which suppliers are a weak link in your ESG strategy, and what types of risks require the most attention. Assent also helps support the linkages of different entities back to the initial supplier, to clearly label who is connected with you and where the risk truly lies, so you can take action.



Building a Stronger ESG Program

Unlike other businesses, manufacturers require deeper visibility into their operations and the supply chains supporting them for accurate ESG reporting and real risk management. That's why an ESG management program is incomplete without both direct and enhanced supplier screening, providing full 360-degree visibility into your ESG risks.

This is where most generic ESG programs fall short. If you're only relying on an ESG software, supply chain risks that pose the largest threats will remain hidden and unmanaged. And relying solely on ESG consultants means you won't have the internal business intelligence from directly engaging with your supplier partners. The best option is to combine software and services into a comprehensive ESG solution.

Assent's ESG solution for manufacturers is purpose-built to provide an ESG foundation for businesses with complex supply chains by delivering a powerful software platform paired with expertise-driven services for ESG consulting, enhanced supplier screening, and supplier education and support. Unlike ESG software tools built to simply store data, the Assent solution delivers a complete ESG management system that sees deeper into your supply chain, letting you work smarter and proactively address ESG risks.

Get a demo of our ESG solution to see how you can protect your brand from the most costly dangers in your supply chain.

[Book a Demo](#)





Meet the Expert

Jamie Wallisch

**Regulatory & Sustainability Expert,
ESG & Responsible Sourcing**



Jamie's area of expertise is media monitoring, with a specialization in enhanced supplier screening and responsible sourcing. She helps companies proactively analyze their supply chains for adverse media mentions, denied parties, and human rights issues. Jamie has worked closely with the U.S. Department of Labor, focusing on conflict minerals, child labor, CSR, and ESG initiatives.



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