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Advances on ESG Could be Undermined By Compliance Failures Within the Supply Chain

As businesses continue to develop the application of robust ESG standards into everyday operations, efforts could be undermined by compliance failures within their supply chain. This is according to new research published today by independent UK law firm Burges Salmon.

In order to gauge how UK companies are reporting on the full ESG value chain of their operations, Burges Salmon surveyed over 360 business leaders across the Energy and Utilities, Technology, Built Environment, Transport and Healthcare sectors, to shed light on how prepared businesses are to meet their supply chain-related ESG disclosure obligations, set to be further tightened by a raft of new legislation, including the EU Corporate Sustainability Reporting Directive.

The report –***Supply chain ESG disclosure – is your business ready?***– reveals that 32% of all businesses surveyed are completely unprepared to meet their ESG supply chain disclosure obligations and among those, only 29%, fewer than 3 in 10, believe their organisation fully understands the legislative and regulatory landscape governing ESG corporate disclosure.

Michael Barlow, partner and Head of ESG at Burges Salmon, says: *"UK companies must first prove their commitment to ESG by complying with a range of mandatory disclosure obligations. Ensuring business partners meet ESG standards requires investment, resources and constant monitoring, and it is clear from our research that most companies still have some way to go."*

Notably, the report shows that it is large companies that are not as prepared as they should be, with only 45% of respondents confirming that they have a dedicated team that deals with ESG related matters. Similarly, only 43% of respondents in these companies say their organisation fully understands the legislative and regulatory ESG risks their supply chain may give rise to.

By contrast, evidence from the research shines a light on small and medium sized businesses as those able to provide greater levels of influence in successfully meeting their ESG compliance obligations, with 75% of respondents from this group claiming their organisation fully understands the legislative landscape.

"A small organisation might have more limited disclosure obligations and can be quite on top of it. For large organisations, obligations are more complicated, particularly if they operate across different jurisdictions. What's more, if ESG teams are too remote from day-to-day operations, there is a danger that ESG remains on the periphery of business priorities" adds Barlow.

With research insights from across five sectors, the findings seem to position the Energy and Utilities sector firmly as the leader of the pack, with 68% of those surveyed saying their company's ESG commitments and those of its supply chain are well aligned, and two thirds of respondents also claiming to have someone at senior level monitoring ESG policies, procedures, and compliance with regards to the supply chain.

James Phillips, partner and Head of Energy at Burges Salmon, comments: *"In terms of the larger established energy and utilities companies, I think there is a high level of sophistication, expertise and understanding of what it is they need to be doing, and how to approach implementation."*

That is not to say the sector isn't facing challenges and the data points to a number of areas where sharper focus is needed – in fact, 46% of respondents in the sector say their company has developed a code of conduct in respect of ESG matters that is adhered to by the supply chain, and only 47% say their organisation has detailed procedures in place to assess the ESG compliance of prospective supply chain companies.

Conversely, the Healthcare sector is the one at most risk of non-compliance and the least prepared of all sectors surveyed. Indeed, almost a third of respondents, 31%, say their organisation doesn't fully understand the legislative and regulatory ESG risks their supply chain may give rise to, and over a quarter, 27%, say robust verification of the ESG data provided by the supply chain isn't always taking place.

Meanwhile, research data from other sectors surveyed show that some are in a good position to meet corporate disclosure obligations in relation to their supply chain, but more work needs to be done. In fact, only 22% and 14% of respondents from the Technology and Built Environment sectors respectively say their supplier contracts have been adapted to enable them to gather the required ESG information, and nearly 25% of those surveyed in the Transport sector say their organisation doesn't fully understand the legislative and regulatory ESG risk its supply chain may give rise to.

Highlighting Scotland as the UK nation that is most prepared, the report goes on to explain that it is factors such as the size of the Energy sector, particularly renewables, low carbon industries and the traditional oil and gas sector, that is accelerating its transition, which are all driving this upward trend.

Malcolm Donald, a partner in Burges Salmon's Edinburgh office says: *"Through the conversations I've had with clients based in Scotland, I've noticed that much of the ESG focus has always been on the environment, but there's certainly much more focus on social and governance now and I think that has been driven by internal stakeholders. The other thing that clients are recognising, is that it is no longer just about what they do, but it's about making sure that their supply chain is doing the same thing in a demonstrable way."*

Leveraging its market leading ESG expertise, Burges Salmon has developed a number of practical tools to consolidate all ESG guidance, legislation and other useful resources into interactive and intuitive platforms. Amongst those is the firm's ESG Corporate Disclosure Tool, where clients can seamlessly navigate between the law, ESG disclosure obligations, best practice and training guidance, to help them identify potential risks and unlock the opportunities so they can derive real value from it.

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