

DAVY

White Paper

# Responsible Sourcing in Value Chains

Preparing for the Corporate  
Sustainability Due Diligence Directive



Davy Horizons. **Helping you define sustainable solutions.**

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# Key takeaways



Corporations have growing legal and stakeholder demands to manage sustainability risks and opportunities not just in their operations, but in their value chain. Over 90% of a company's carbon footprint is typically in the value chain and where exploitative labour practices can occur.



An effective Responsible Sourcing System integrates environmental and social responsibility into supply chains, safeguarding against risk, reputation damage and meeting legal requirements on modern slavery, human rights and environmental protection.



The incoming Corporate Sustainability Due Diligence Directive (CSDDD) expected from 2025 is a game changer and will mandate sustainability due diligence for companies. Requirements include responsible sourcing in the value chain, supplier engagement, traceability and 1.5°C aligned Climate Transition Plans with progress linked to directors remuneration.



The demand for using third party verified benchmarking schemes like EcoVadis, ISO 26000 (social responsibility) and ISO 26400 (sustainable procurement) is growing as they provide supplier due diligence and traceability.



Companies across multiple sectors and geographies are leading the way on responsible sourcing. Case studies in this insight highlight different sectors and their approaches to managing sustainability risks and opportunities in their value chains.

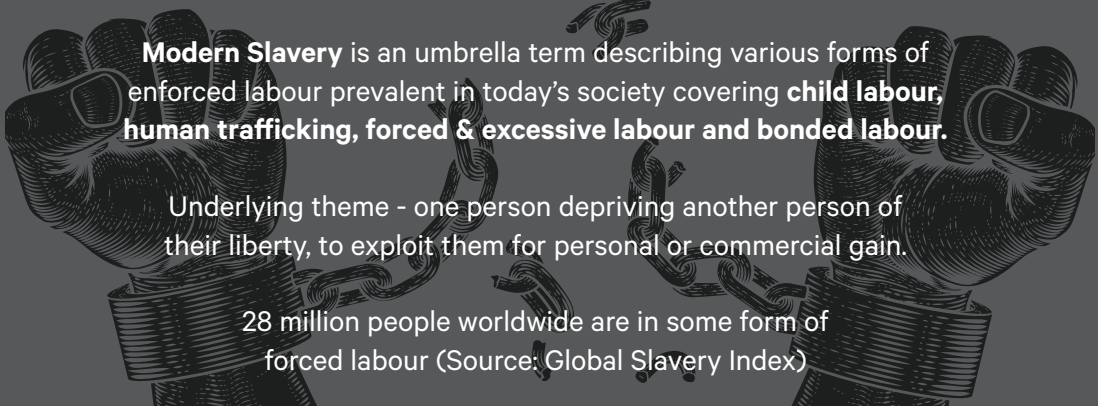


A growing range of tools are supporting automated data collection, traceability and can save time and resources for organisations.

# Introduction

Companies can no longer ignore the impact of their operations across all tiers of their supply chain. It is common for companies, regardless of their location or industry, to have limited knowledge about the deeper tiers of their supply chain, which is where the primary risks of modern slavery and environmental issues often reside. Reputational risks are particularly high for organisations that are traditionally associated with modern slavery, such as Fast-Moving Consumer Goods (FMCG) companies. For instance, many fast fashion brands and retailers worldwide source cotton and yarn through forced labour camps in the Uyghur Region in China<sup>1</sup>. Additionally, electronics and solar panel manufacture have been linked to indications of forced labour<sup>2</sup>. Modern Slavery laws are in place in many countries now, and with the impending **EU Corporate Sustainability Due Diligence Directive** (CS3D or CSDDD) and **Green Claims Directive**, it is crucial for companies to take action now. Organisations should map their suppliers across all tiers using a risk-based approach, conduct comprehensive risk assessments, implement due diligence measures, establish traceability and report on progress. While many companies have made strides by implementing responsible sourcing systems considering social and environmental risks and opportunities, the available data indicates that there is still work to be done.

According to the International Labour Organisation (ILO) fifty million people were living in modern slavery in 2021, of these 28 million were in forced labour. More than half of all forced labour can be found in upper-middle income or high-income countries, with women and children being disproportionately vulnerable. Unfortunately instances of modern slavery have only increased, with 10 million more people in modern slavery in 2021 compared to 2016.<sup>3</sup>



**Modern Slavery** is an umbrella term describing various forms of enforced labour prevalent in today's society covering **child labour, human trafficking, forced & excessive labour and bonded labour**.

Underlying theme - one person depriving another person of their liberty, to exploit them for personal or commercial gain.

28 million people worldwide are in some form of forced labour (Source: Global Slavery Index)

According to the Global Rights Index 2022, violations of workers' rights, including restrictions on collective bargaining, access to justice, and the right to strike, reached record levels in 2022. A recent example of this is Amazon's opposition to a union drive in the US, where employees have reported threats of suspension or termination for those associated with the union.

1 Fashion Revolution statement on Uyghur forced labour : Fashion Revolution. Coalition to End Forced Labour in the Uyghur Region (enduyghurforcedlabour.org)

2 <https://www.greentechmedia.com/articles/read/solar-industry-pushed-to-examine-supply-chain-after-reports-of-forced-labor-in-china>

3 [https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_855019/lang--en/index.htm](https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_855019/lang--en/index.htm)Fashion Revolution statement on Uyghur forced labour : Fashion Revolution. Coalition to End Forced Labour in the Uyghur Region (enduyghurforcedlabour.org)



Guidance already exists for companies regarding responsible business practices and their ability to meet minimum safeguards. This guidance is provided by reputable international bodies such as the United Nations, the International Labour Organization (ILO), and the Organization for Economic Co-operation and Development (OECD). Their guidance includes the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the Declaration of the International Labour Organization on Fundamental Principles and Rights at Work, and the International Bill of Human Rights. Additionally, countries have their own laws to address these issues, which companies must comply with. Examples include Ireland's Criminal Law (Human Trafficking) Act 2008 and (Amendment) 2013, the UK's Modern Slavery Act 2015, and California's Transparency in Supply Chains Act 2010.

Additional pressure is also coming onto companies with the introduction of a range of policy and legal instruments from the EU Green Deal. Most notably the incoming CSDDD which was approved by the European Parliament on 1st June 2023 and will transform companies' responsibilities and approach to responsible sourcing. The introduction and approval of this legislation highlights that the current voluntary code of conduct approach taken by many companies is not sufficient to ensure sustainable corporate business practices within the EU.



# The Corporate Sustainability Due Diligence Directive

The CSDDD, approved by the European Parliament in June 2023, requires companies to take responsibility for environmental and social impact, not just in their own operations, but along their value chain. For this supplier engagement is essential. The scope of companies covered is shown in the image below.

### Which companies will new EU rules apply to?

		Large EU limited liability companies	Non-EU companies	Small and medium enterprises
Group 1	500+ employees and more than €150 million of turnover*	=/- 9,400 companies	=/- 2,600 companies	Micro companies and small and medium enterprises (SMEs) are not directly concerned by the proposed rules. However, the proposal provides supporting measures for SMEs, which could be indirectly affected.
	250+ employees and more than €40 million of turnover*, operating in defined high impact sectors such as textiles, agriculture, extraction of minerals. The rules will apply to this group 2 years later than group 1.	=/- 3,400 companies	=/- 1,400 companies	

\*Worldwide turnover for EU companies, and EU-wide turnover for non-EU companies  
Source: European Commission<sup>4</sup>

The CSDDD makes in scope companies accountable for corporate sustainability due diligence to address negative human rights and environmental impacts.

Other key features of the legislation include:

- Companies must integrate due diligence into policies and management systems, identify risks and conduct risk management, introduce grievance mechanisms, monitor the effectiveness of due diligence measures, and generate an annual report considering due diligence efforts and targets.
- Implementation of a 1.5°C aligned Climate Transition Plan encompassing Scope 1, 2 and 3 emissions.
- For companies with more than 1000 employees performance against the targets outlined in their Climate Transition Plan will be tied to director’s variable compensation.
- Sanctions and supervisory mechanisms for companies that fail to comply include goods being taken off the market, imposition of fines as high as 5% of company’s global revenue or for non-EU companies, bans from public procurement in the EU.
- For financial services companies, investors must do due diligence to induce their investee companies to bring actual adverse impacts caused by them to an end.

<sup>4</sup> [https://ec.europa.eu/commission/presscorner/detail/en/fs\\_22\\_1147](https://ec.europa.eu/commission/presscorner/detail/en/fs_22_1147) [https://ec.europa.eu/commission/presscorner/detail/en/fs\\_22\\_1147](https://ec.europa.eu/commission/presscorner/detail/en/fs_22_1147)

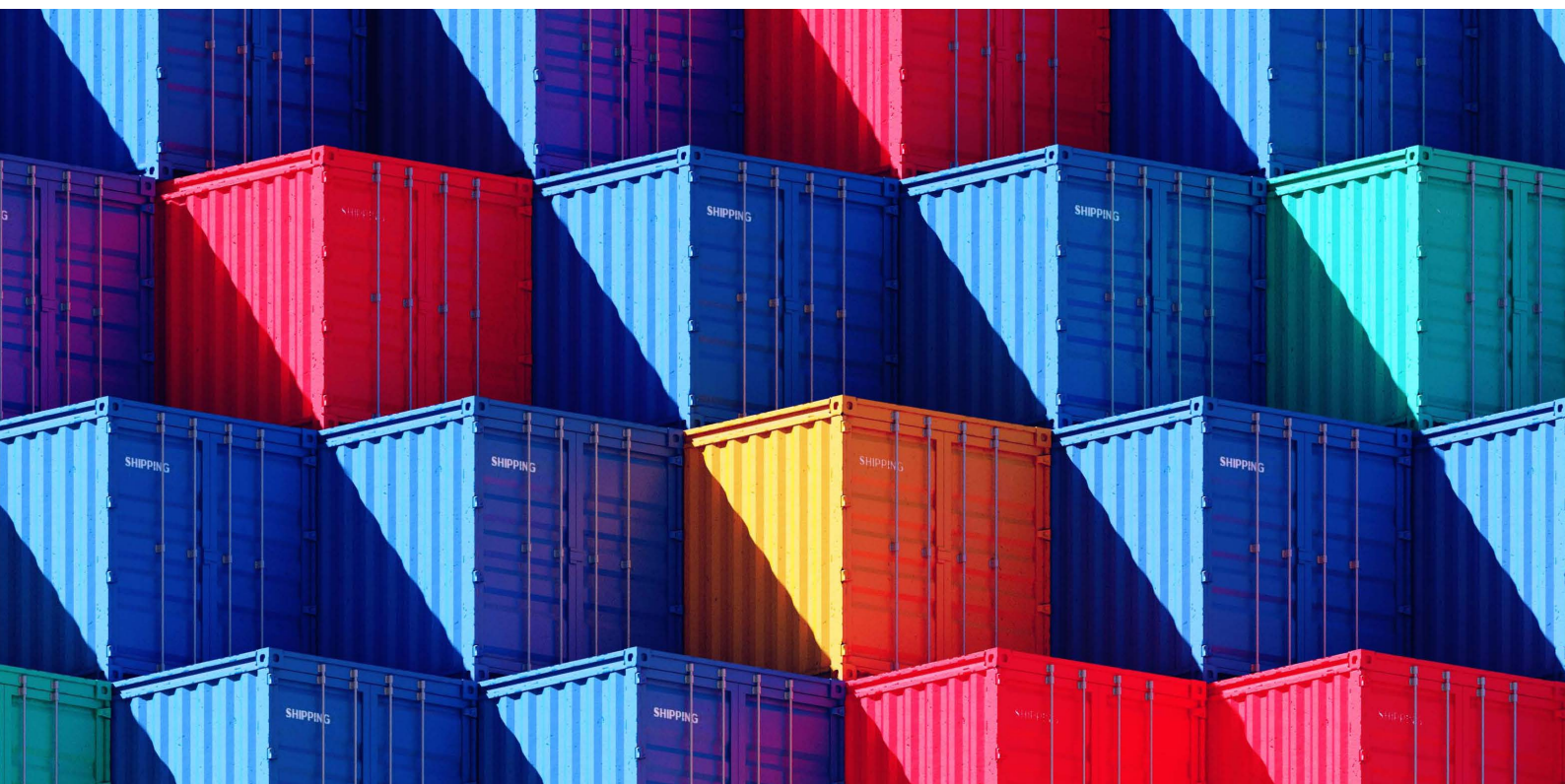


There is alignment between CSDDD and the EU Corporate Sustainability Reporting Directive (CSRD) which mandates companies to publicly disclose information on the way they operate and manage their environmental and social risks. Sustainability due diligence is a core concept required in CSRD compliant reporting on sustainability. The links across the two regulations are illustrated and support alignment with best practice frameworks including the UN Guiding Principles on Human Rights.



Source: Levin Sources<sup>5</sup>

5 <https://www.levinources.com/knowledge-centre/insights/eu-csdd-eu-csrd-mining><https://interactivemap.marksandspencer.com/https/>





# Integrating responsible sourcing in corporations

The aims of a Responsible Sourcing System are to:

1. Assess the material environmental & social risks in a supply chain;
2. Reduce or eliminate these risks where possible;
3. Unlock opportunities for improving sustainability with suppliers.

An effective Responsible Sourcing System will integrate social and environmental responsibility into supply chains. It will also safeguard against legislation and modern slavery risks in procurement. Beyond compliance, effective Responsible Sourcing Systems can avoid negative reputational damage and fines.

Responsible Sourcing Systems should be aligned to current best practice and vendor supply chains and typically leverage supplier due diligence and management systems already in place, such as quality and health & safety. They should be designed to support existing buyer and procurement channels.

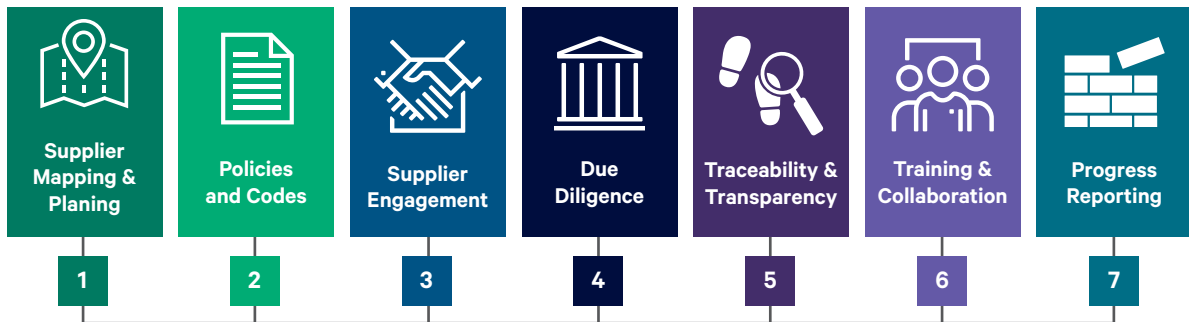
In time, all suppliers should be included in a Responsible Sourcing System. Usually, a phased approach that prioritises supplier engagement is taken with the highest risk/revenue/critical suppliers being risk assessed first. Tier 1 and critical supply partners are the high priorities, and an agreed percentage of these suppliers should be risk assessed initially to manage the workload and avoid engagement fatigue.





# The responsible sourcing playbook

The key aspects of a Responsible Sourcing System are shown in the image below. If a centralised procurement system doesn't exist within a company, a responsible sourcing team should be built to include procurement, buying, quality and sustainability representatives from across the business. The Responsible Sourcing Policy and the Code of Conduct define the supplier requirements, aligned with legal obligations and best practice including Modern Slavery laws, the upcoming CSDDD, Scope 3 emissions and any other material environmental issues, i.e. waste and packaging.



Suppliers will be at different levels of awareness on sustainability and responsible sourcing. To support this, tailored engagement strategies focusing on the business case, responsible sourcing requirements and compliance next steps should be implemented. This can include engagement techniques such as webinars, questionnaires and one to one discussions. Suppliers with mature sustainability programmes can go beyond compliance by agreeing action, for example on Scope 3 for companies that are Science Based Target initiative (SBTi) aligned. To future proof, engaging in suitable collaborations such as Sedex, Ecovadis and/or ISO standards for social responsibility or sustainable procurement (ISO 26000 and ISO 26400) can add value. Supplier engagement can incorporate Materiality Assessment requirements on environmental and social impacts to maximise opportunities.



## Case Studies



**Walmart:** Walmart's sustainable products and sourcing requirements necessitate suppliers across food and other Fast Moving Consumer Goods (FMCG) to meet environmental and social standards. This is a prerequisite to doing business and the aim is to incentivize and build capabilities to produce more sustainable products tackling climate change, nature, waste and social issues. Sourcing requirements are built into contracts, The Walmart Sustainability Hub and Supply Chain Training Academy are some of the elements of this approach to support suppliers improve their sustainability performance.

Project Gigaton™ launched in 2017 focuses on enabling Walmart's Scope 3 suppliers to reduce energy use, GHG emissions, improve working conditions and environmental management. Suppliers must set and report progress against annual emissions reduction targets in one or more of six key areas - Energy, Waste, Packaging, Nature, Transportation or Product Use. To date, more than 4,500 suppliers have formally signed on, making Project Gigaton™ one of the largest private sector consortiums for climate action.



**Patagonia:** Patagonia was an early innovator on supply chain traceability working with suppliers to ensure materials, manufacturing, packaging and transport meet high social and environmental standards. Responsible Purchasing Practices is Patagonia's strategy on working with a factory over the life cycle of a product, from designing and developing products to costs. Their ethos is to establish and implement policies that consider the needs of the brand and the supplier to create a fair and mutually beneficial partnership. As a founding and accredited member of the Fair Labour Association (FLA), Patagonia's Responsible Purchasing Practices program is audited and evaluated by a third party.

Engagement is a key part of Patagonia's success and they have moved from an internal supplier feedback program to a strategic partnership with the Better Buying Institute (BBI). Using reports from BBI and open dialogue with suppliers, Patagonia are working towards continuous improvement by strengthening their Responsible Sourcing targets.





**Tony's Chocolonely:** Tony's Chocolonely has a premise as a B-Corp to make 100% slave free the norm in chocolate. Tony's Open Chain is an industry led initiative based on 5 Sourcing Principles used to build more equal business relationships with suppliers in West Africa. The 5-sourcing principles are based on traceability, fair pay, supporting farmers, longevity, and better quality. All five must be applied together.

Recently, Tony's introduced a 'golden share' mechanism to prevent shareholders from weakening its sustainability commitments in the future. It created a new governance structure and those with golden shares carry the powers to veto any changes to its ethical strategy.

The screenshot shows the 'Who's in' section of the Tony's Open Chain website. It features a navigation bar with 'Home', 'Who's in', '5 Sourcing Principles', 'News', and 'Join'. The main content area has a yellow background and includes a 'Mission Allies go beyond certification...' text, a 'Mission Ally or Enabler?' button, and two featured partner cards: 'Enabler Baronie & Cémoi' and 'Ally Ben & Jerry's'. A 'who's next?' callout box contains text about the volume of cocoa beans needed to change the industry system.

Source: <https://www.tonysochain.com>



**Microsoft** has leveraged its procurement processes to meet its GHG emissions reduction targets by introducing new tools and processes to enable and incentivize their suppliers to reduce their Scope 1, 2 and 3 emissions. Microsoft have been operating an internal carbon shadow price since 2012 as a way to accelerate their decarbonisation efforts. They engage with their suppliers to encourage them to understand their carbon contributions and how to reduce them.

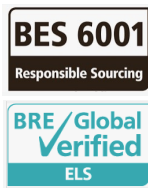
# Best practice standards and collaborations

Alignment to third party best practice standards and collaborations can allow an organisation to undertake their due diligence responsibilities more efficiently. Third-party certification shows that suppliers are aligned to a certain standard and are getting regularly audited as part of the certification. There are numerous industry groups and collaborations considered to be best practice covering several industry sectors.

A few of these are outlined below:



**PEFC (Program of the Endorsement of Forest Certification), FSC (Forest Stewardship Council) , CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora) and FLEGT (Forest Law Enforcement, Governance and Trade):** All timber products placed on the EU market must be sourced in compliance with legislation to prevent deforestation and trafficking of endangered species. These schemes and laws support that and are widely used in the EU.



**BES 6001 and BES 6002:** Both standards are from the BRE Group who create products, standards and qualifications for the built environment. BES 6001 is an internationally recognised standard for Responsible Sourcing of Construction Products. It focuses on the individual materials or products, which means it's the materials that the company submitted for evaluation that are covered by the certification, not the organisation itself. BES 6002, Ethical Labour Sourcing Standard, is a way to demonstrate your company's commitment to eliminating any possibility of trafficking or modern slavery in your supply chain.



**Roundtable on Sustainable Palm Oil (RSPO):** RSPO are working to develop and implement global standards, to include environmental and social criteria that companies must comply with to produce RSPO Certified Sustainable Palm Oil (CSPO).



**Fair Wear Foundation:** are working towards improving labour conditions in the garment industry and supporting workers rights to safe, dignified, properly paid employment.



**International Labour Organisation:** ILO brings together governments, employers and workers of 187 member states to set labour standards, develop policies and devise programmes promoting decent work for all women and men. The ILO Declaration on Fundamental Principles and Rights at Work is an expression of commitment to uphold basic human values.



## Tools, resources and ratings

Software tools are an important consideration for a Responsible Sourcing System as they can, in time, save resources on data collection, managing traceability and facilitate benchmarking. With survey fatigue being a growing problem for suppliers and customers, getting onto the front foot ahead of survey overload will save resources and time. When designing the supplier engagement approach, documentation, and compliance requirements this is an important consideration. Some key collaborations, tools and resources are outlined below, but there are many industry specific tools and resources available such as the Supply Chain Sustainability School specific to the built environment sector.



**EcoVadis** provides sustainability ratings services of companies using a cloud based SaaS platform. The rating covers a broad range of non-financial management systems including Environmental, Labour & Human Rights, Ethics and Sustainable Procurement.



**Sedex** is a supply chain management platform allowing customers to manage, assess and report on sustainability performance and supply chain goals and targets. Sedex's suite of tools, data and services allows organisations to identify, manage and assess supply chain risks by analysing supplier data, conducting risk assessments, undertaking audits and providing remediation options.



**United Nations  
Global Compact**

**UN Global Compact (UNGC)** is a non-binding United Nations pact to encourage businesses and firms worldwide to adopt sustainable and social responsibilities and to report on their implementation. It is a principle-based framework, stating ten principles in the areas of human rights, labour, the environment and anti-corruption. 16,000 corporate participants over 170 countries have signed up since its launch in 2000. Many investors will ask for organisations to sign up to the UNGC.



**SAP and Verisk Maplecroft** – Core business tools like SAP, or similar ERM systems, have sustainable supply chain modules already built in. These can speed up the integration of responsible sourcing data for vendors in business processes quicker than manual approaches. Verisk MapleCroft and similar risk mapping resources are valuable for prioritising risk in specific geographies.

Relatively new technologies such as blockchain are being applied to tools in this space as they can provide an immutable audit trail that documents proof of initial ethical production of a raw material and its maintenance at every transfer step. The use of blockchain can also contribute to lower costs as it digitises an often paper-led process and can reduce the requirement for audits. There is great potential for blockchain technology to transform traceability in the supply chain.

Many companies develop their own bespoke tools for responsible sourcing. These tools can help them to communicate their process and be transparent with their stakeholders. A good example of a bespoke tool is Marks and Spencer's supplier map, outlined in the following case study.

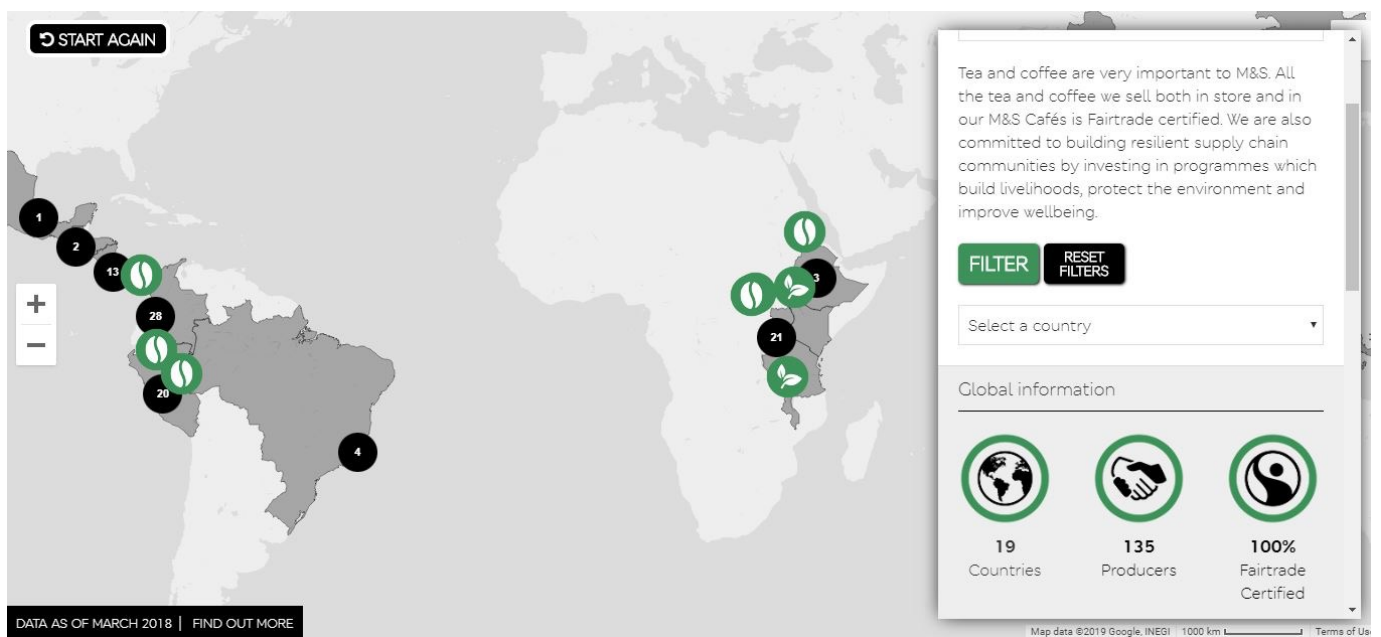
# M&S

EST. 1884

## Marks and Spencer Mapping tool

British retailer Marks and Spencer has a mature Responsible Sourcing System that centres on upholding their Global Sourcing Principles. These principles set out their minimum global supplier ethical and environmental standards. These standards are contractual and apply across the entire business.

Marks and Spencer are innovative and transparent in their approach to responsible sourcing and have a supplier map publicly available online wherein stakeholders including customers can understand more about their supply chains. Users of the map are able to drill down to both a country and individual-factory level to engage with a range of analytics. At a country level, users can see the geographic spread and number of suppliers for the region, while selecting an individual factory shows the business name, address, number of staff and their gender split.



Source: M&S Supplier Map<sup>6</sup>

6 <https://interactivemap.marksandspencer.com/>





## Next step actions

Below are the next steps for integrating responsible sourcing in your business and complying with the incoming CSDDD.



Map your supply chain and engage with your top tier suppliers to identify & mitigate any actual or potential human rights and environmental impacts.



Integrate due diligence into your company's policies and processes including a separate due diligence policy that is updated annually.



Develop plans to prevent & mitigate potential adverse impacts.



Create a clear climate change policy consistent with the Paris Agreement goals.



Provide an easily accessible grievance mechanism for those affected by impacts.



Identify collaborations specific to your sector that offer third party certification and/or assurance.



Collect and manage responsible sourcing data, to include Codes of Conduct, questionnaires and evidence. Software tools can automate data collection saving time and resources.



Report on your progress in your annual report and be transparent about any instances of non-compliance that are identified during the due diligence process.

## How Davy Horizons can help



Davy Horizons offers a range of services to support organisations develop, implement and report on due diligence and responsible sourcing in value chains to meet regulatory, shareholder and wider stakeholder requirements. We support organisations to assess risk and maximise the opportunities effective supply chain management brings.



### Are you ready to take the next step?

Talk to us today.

Email [sustainability@davy.ie](mailto:sustainability@davy.ie) or visit [davy.ie/horizons](https://davy.ie/horizons)

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