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RISK & Resilience

YOUR SOURCE FOR TODAY'S THIRD-PARTY RISK INSIGHTS

Environmental

Social

Governance

A Focus on the "S" in "ESG": A Conversation with Rani Hong

ESG Roundtable: Emerging Compliance Landscapes

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ESG Management Through Your Extended Enterprise – The Time to Act is Now

It gives me great pleasure to welcome you to the very first edition of Risk & Resilience.

It is fitting that this inaugural issue focuses on Environmental, Social and Governance (ESG) topics, because they include some of the greatest risks and threats to businesses, to society, and to the world today.

The World Economic Forum Global Risk Report, which sets out the perceived impact and likelihood of global risks in a quadrant, is sober reading. The top right corner – of global risks posing the greatest impact, and most likely to occur - are almost all ESG-related risks. They include: climate action failure, biodiversity loss, human environmental damage, extreme weather, natural resource crises and involuntary migration.

The time to act is now.

The more urgency we apply to addressing these and other ESG related risks, the greater chance we have to make the world a better place – for today and for our future generations.

This is why every organization should be focused on ESG and integrating it into their third-party and supply chain management strategy. By ensuring greater transparency in our extended enterprises, and shining a light on our supply chains – we collectively drive out unethical and unsustainable practices. Performed at scale, this is extremely powerful.

In this issue we speak to a wide range of experts in ESG to help you better understand what ESG is, the latest regulations driving it, and the freshest thinking about how to best embed ESG into your third-party and supply chain management strategy.

I would like to thank all our contributors for sharing their expertise. This kind of knowledge sharing is incredibly important to our community, and is what makes us better together.

And we should never lose sight of the very real human cost of criminal and unethical practices like modern slavery and human trafficking. We are very humbled to have had the opportunity to speak to Rani Hong, CEO of the Freedom Seal Global. Rani herself was a victim of child slavery and human trafficking. Her resilience and brilliance shine through in her tireless work to help companies recognize and combat modern slavery and human trafficking.

Finally, I hope every single reader takes something away from this issue. I hope that it can ignite important conversations with your senior management teams. I hope that you find practical applications and intelligence for managing ESG risks that you can embed into your programs. And I hope that we can all continue to advance and elevate ESG management as a fundamental part of our business goals, so that we can together build a better world.

Michael Saracini

Michael Saracini
CEO
Aravo Solutions

"The more urgency we apply to addressing these and other ESG related risks, the greater chance we have to make the world a better place – for today and for our future generations."

ESG - It's Time to Up Your Game

Michael Rasmussen
GRC Pundit & Analyst at
GRC 20/20 Research, LLC

ESG – Environmental, Social, Governance – is a dominant focus in organizations right now getting board-level scrutiny and attention. Organizations around the world and across industries are challenged to define, implement, and report on ESG. These pressures are coming from all directions: investors, customers, employees, regulators, and activists. The reality is that ESG has teeth, and organizations must do something about it.

Previous iterations of ESG were Corporate Social Responsibility (CSR) and Sustainability. These were often passed around the organization like a hot potato and often landed in the lap of marketing as a branding exercise. This is not the case with ESG; the risk exposure to the organization is too great. I find that the Corporate Compliance and Ethics Officer (CECO) is the most common role leading the coordinated/federated ESG strategy in the organization. The goal is to be an organization of integrity to ensure that the values, ethics, statements, commitments, relationships, and transactions are a reality in practice, process, relationships, and transactions.

However, understanding ESG is complex. What is happening in organizations is like the parable of the blind men and the elephant. One blind man touches the tail and thinks it is a rope, another touches the body and feels a wall, and another touches a leg and says it is a tree. The same is happening with ESG as different functions/departments see what impacts them. Some focus on the E for the environmental and think that is the most important since it leads the acronym ESG. Others are focused on the S, and others the G. All three are critical and intersect with each other.

As a guide, but not exhaustive, ESG covers:

- **Environmental**. Climate change, natural resource utilization, pollution and waste, biodiversity, certification, carbon footprint/emissions.

- **Social**. Child labor, forced labor, socio-economic inequality, privacy, personal data use, diversity, inclusion, working conditions, health and safety, product liability.

- **Governance**. Corporate governance, fraud, anti-bribery and corruption, anti-money laundering, internal controls over financial reporting, security, corporate conduct and behavior, anti-competitive practices, tax transparency, ownership, and structure.

The reality is that ESG does not start and stop with traditional brick and mortar walls and employees. To address ESG requires that organizations address ESG in the context of the extended enterprise of third-party relationships.

Martin Luther King Jr stated, "Whatever affects one directly, affects all indirectly. I can never be what I ought to be until you are what you ought to be. This is the interrelated structure of reality." This statement is true in our individual relationships, and it is true in an organization's relationships in the extended enterprise in context of ESG.

That is because the structure and reality of business today has changed. It is not the same as it was a few decades back. The modern organization is supported by an interrelated structure of business relationships. It is an interconnected and interdependent web of suppliers, vendors, outsourcers, service providers, contractors, consultants, temporary workers, brokers, agents, dealers, intermediaries, partners, and others. Business today relies and thrives on third-party relationships; this is the extended enterprise, and it is the challenge of business today to manage ESG across these relationships.

"The actions and behavior of these third parties impact and shape the reputation and brand of the organization. Their risk issues are the organization's risk issues."

The saying "Show me who your friends are, and I will tell you who you are" translates to business: show me who your third-party relationships are, and I will tell you who you are as an organization in context of ESG. The integrity and ability of the organization to comply to act with integrity in context of ESG, comply with investor and regulatory requirements, and ensure that ESG commitments and values are followed through in relationships is no easy task. The actions and behavior of these third parties' impact and shape the reputation and brand of the organization. Their risk issues are the organization's risk issues.

Third-party risk programs are about to change significantly. In the past, there was a dominant focus on information security and privacy risk in these relationships. They also were fragmented where different departments monitored and managed their silos of risk without seeing the big picture of risk across a third-party relationship. This is changing. The focus on ESG is restructuring how organizations define and manage risk in the extended enterprise.

Particularly, there are pending directives and legislation that have an expansive scope that is expected to be passed this summer. This is the [EU Directive on Mandatory Human Rights, Environmental, and Good Governance Due Diligence] alongside Germany's corresponding [Corporate Due Diligence Act].

These laws are more than reporting requirements; they will have teeth. They are not like the United Kingdom Modern Slavery Act and California's Transparency in Supply Chains Act. These new laws are expected to have significant enforcement penalties and sanctions and large administrative fines (similar to anti-trust and GDPR fines). They require thorough and continuous due diligence of third-party relationships in the context of environmental practices, social and human rights, and governance to address corruption.

"Organizations need to move beyond scattered silos of third-party risk oversight to create an integrated third-party governance program that addresses ESG throughout the extended enterprise."

This is going to fundamentally change and restructure TPRM programs to address ESG in the extended enterprise. Organizations need to move beyond scattered silos of third-party risk oversight to create an integrated third-party governance program that addresses ESG throughout the extended enterprise. This unifies a single approach to govern ESG in third-party relationships and delivers a 360° contextual awareness of ESG risk in relationships.

The writing is on the wall, organizations need to fundamentally change how they approach ESG internally and across the extended enterprise. Organizations should start defining an integrated strategy for ESG to address these forthcoming requirements and stakeholder demand in a unified and consistent approach.

Michael Rasmussen is an internationally recognized pundit on governance, risk management, and compliance (GRC) – with specific expertise on the topics of enterprise GRC, GRC technology, corporate compliance, and policy management. With 28+ years of experience, Michael helps organizations improve GRC processes, design and implement GRC architecture, and select technologies that are effective, efficient, and agile. He is a sought-after keynote speaker, author, and advisor and is noted as the "Father of GRC" — being the first to define and model the GRC market in February 2002 while at Forrester.

INTERVIEW

A Focus on the "S" in "ESG": Fighting Modern Slavery & Human Trafficking in Supply Chains

A Conversation with Rani Hong, Social Entrepreneur and CEO of Freedom Seal Global

Rani Hong
Social Entrepreneur &
CEO of Freedom Seal Global

Rani Hong is an Indian-American social entrepreneur and a survivor of child trafficking. She is one of the world's leading voices in the fight against modern-day slavery.

At the age of seven, Rani was stolen from her mom and sold into the slave trade in India. She was finally reunited with her mother in 1999 and began her advocacy work against child trafficking. In 2006, Rani started her philanthropic work and founded the Tronie Foundation, a non-profit global organization focused on driving awareness of child slavery, with her husband Trong Hong, also a survivor of child trafficking.

Since 1999, Rani has advised many governments and has been at the forefront of an international effort to protect women and girls. Her most recent focus has been to eradicate the use of slave labor in all aspects of business. She has worked on behalf of people at risk of exploitation – protecting and empowering vulnerable groups and educating businesses and consumers about modern-day slavery.

As a social entrepreneur, Rani created the Freedom Seal, a certification for companies fighting against Human Slavery by committing to mitigating Financial Crime & Modern Slavery. The Freedom Seal symbolizes a future marketplace where forced labor has been reduced. It represents a dream come true for the estimated 40.3 million people, mostly children and women, still trapped in slavery.

Thank you for joining us, Rani. Could you introduce yourself and the work you do at Freedom Seal Global?

I am the CEO of Freedom Seal Global. When I look at the issue of supply chains and risk management systems I come from a different perspective. I was stolen from my family at the age of seven in India, and the criminals that were involved in my situation were directly related to a company that was conducting financial crimes. Today, I'm here to bring a face to the issue - there are human costs associated with financial crimes such as forced labor.

I have been working with the United Nations for the past seven years and realized that the private sector can have a huge influence in fighting human trafficking. I believe they have an incredible opportunity to leverage their supply chains to help lead the way to give freedom to millions of other little girls, who like me, were imprisoned, silenced, and unable to speak. Today I speak for those without a voice.

From your experiences, why is ESG, and in particular Modern Slavery/ Human Trafficking (MSHT) important?

We know ESG is a hot topic in today's environment which is good because we now can move forward on these initiatives to bring real change. Most companies are focusing on the "E" - the environmental issues. At Freedom Seal, we prioritize the social "S" within ESG. I believe we need to start shifting as a culture to really focus on the social elements. There are true human costs associated with these crimes.

Today at Freedom Seal we have an emblem, a Seal, to show which companies are taking proactive steps to fight financial crime and modern-day forms of slavery using ESG practices. If your company can show us how you're preventing modern slavery, and how you're committed to this issue, then you can earn our Freedom Seal. Freedom Seal recognizes that this issue is a continuous improvement process. We cannot fix everything overnight, but I want to encourage companies to apply and commit to doing better and together we can help prevent forced labor in supply chains. We can measure progress on what we're doing and how together we can accomplish the mission of being a voice for millions of children around the world.

In addition to the social elements, sometimes companies think in terms of bottom lines - are there going to be financial and competitive advantages to having a Freedom Seal?

Yes, I do believe there will be a revenue increase when companies adopt these best international practices, and by having a symbol, the Freedom Seal, to tell the world they are committed to doing their part. In addition, consumers are watching what companies are doing in the "S" of ESG. We know organizations really do care about reputational risks; therefore, we wanted the Freedom Seal to be rewarded to those who take concrete actions. Our label will help to protect your brand for years to come, and therefore bring an ROI to your organization.

"In many cases if we follow the money within financial organizations, like banks, we can see where it intersects with human trafficking. The key is to find those red flags."

How is MSHT related to financial crime? Where is that connection?

When we talk to those in financial institutions, we often talk about anti-money laundering (AML) and there is the perception that modern slavery isn't involved. However, there is a key correlation between AML and these practices. In many cases, if we follow the money within financial organizations, like banks, we can see where it intersects with human trafficking. The key is to find those red flags – the Freedom Seal has a training program that is specifically able to train your staff to look for indicators of modern slavery practices. It's not easy, but with the right tools, we can help you detect some of these red flags within your supply chains.

If a company is looking to eliminate these practices or apply for a Freedom Seal, how can they get this process started?

Just starting the conversation is an important step forward. We help companies start this conversation within their operations and then we take them through Freedom Seal criteria which are based on international best practices that are stated in the UNGP and OECD Guidelines for Multinational Enterprises. Our modern slavery standards are first in the world: we look at how you are managing your supply chains. Are you conducting ongoing monitoring? Or is it just a once-a-year check, which in my opinion, is not enough in today's risk climate.

Criminals are taking advantage of loopholes in a company's supply chains so we need to monitor these more closely - one way is to work with us and use our technology tools and platform. Freedom Seal's specific criteria are aligned with the United Nations Guiding Principles in which international countries agreed on what needs to be met. At Freedom Seal, we're measuring against those criteria and looking at legislation (specifically within the EU) that is starting to make mandatory requirements to perform human rights due diligence. And that's where Freedom Seal comes in. Our third-party solutions help to make sure you are meeting those regulations and are prepared for future challenges when it comes to social compliance.

> **"More than ever, we need senior management and boards to get involved in identifying and eliminating [modern slavery] practices."**

These regulations require more thorough supply chain due diligence, and understanding not just your third parties, but your fourth parties and beyond. This must create challenges for some companies?

It can be very difficult to see down the supply chain. Our proprietary software we built has a risk assessment tool specifically for forced labor. This, in turn, helps companies be more confident when it comes to preventing forced labor in their supply chains and make sure you are seeing every component where modern slavery may exist. We also realized the challenges of being a smaller enterprise, so we also offer a small/medium enterprise certification, which is for those companies who are below $10 million in gross revenue.

And education is so important. Being able to recognize the signs is an important piece of beginning to address these issues.

We take that first step to educate our customers because I think that's often a challenge for those who may want to turn a blind eye. But today's consumers are not going to allow you to do that anymore. If you want to be in the business, you have to address these issues and we're here to help you along the way. Our Freedom Seal Certification framework can assist you in your journey to improve operations.

Another important step is showing proof that you are following regulations. Here in the U.S., we have the California Transparency Act, and in the UK, there's the UK Modern Slavery Act which both require training, due diligence, and transparency. Building resilience is key, but we take it on a step-by-step basis. Back to my personal story, I had to learn how to be resilient in navigating life and navigating through the challenges of being trafficked as a seven-year-old little girl. But today I'm so proud to bring solutions such as the Freedom Seal to help the private sector to build their resilience story.

How connected are Boards in understanding that there could be human trafficking and modern slavery in their supply chain?

More than ever we need senior management and boards to get involved in identifying and eliminating these practices. Increasingly, regulations require the board chair to sign off in saying their company is in compliance with legislation; however, we found many need Freedom Seal's tools to help senior management demonstrate their evidence to regulators. When our customers sign up to #EarnTheSeal they take advantage of many of the benefits offered to them through professional services.

It's not a checkbox exercise anymore - if you see anything in your supply chain, you now have to do something about it.

Absolutely. We also provide a consulting gap analysis and gap assessment tools. And I'd like to make it clear that we're not asking for a hundred percent slave-free supply chains. That's impossible. However, I (and regulators) am asking companies to show us the steps

“Companies need to start taking concrete steps today - it’s about progress, not perfection. Let’s tell the world we’re committed to this issue and to building a better world for our children.”

they’ve taken that align with regulations. And we need to be able to utilize all tools and resources to help us to get there.

This is not something that you can wait three years to do - if you wait too long, it will be too late. Companies need to start taking concrete steps today - it’s about progress, not perfection. Let’s tell the world we’re committed to this issue and to building a better world for our children. Transparency is everything.

Are there other benefits companies should know about when applying for the Freedom Seal?

One other thing to consider is the benefit to trade. In the U.S., for example, governments want to know if products imported or exported were touched by forced labor or human trafficking - if so, they can deny these products entry. This is a strong statement and encourages positive change. With Freedom Seal, we’re aiming to have an emblem for products that proves companies have done their due diligence. This way, customs and border patrol will instantly know this product or this company is committed to preventing these crimes. This will help the products be accepted in the US quicker, but also increase company revenue. In fact, the U.S. Senate just passed a bill to ban all products from China’s Xinjiang region. There is an urgency for companies to start applying for The Freedom Seal now. One can go to www.thefreedomseal.com to take the first step of their application.

Five years from now, what conversations do you hope we’ll be having and what milestones do you hope we’ll have achieved?

Our vision in the next few years is to stand with the private sector and organizations to do better when it comes to preventing forced labor in their supply chains. Consumers are demanding action. I know today’s conversation is more on the “E” in ESG, but in the next few years I’m here to help shed light on the “S”. I believe the “S” will be the next big focus in ESG and I would love to lead the way on this innovation and find partners that are willing to help us lead the way together. That will be a huge focus for us at Freedom Seal, and we’re right here to partner with you to help you through that journey.

What are the first steps companies should do to apply for a Freedom Seal? Visit the website?

If you are are interested in applying for the Freedom Seal go to the website, there’s a wealth of information there. And from there we take you through the process every step of the way. Again, it’s not about ticking a box. We’re equipping you to build a business of the future and one that is transparent and one that ends up making the world a better place.

Being certified by The Freedom Seal will help in key aspects of your business:

- Visibility of your efforts in social matters in front of the market
- Establish more robust control and compliance policies for risk management and reputational risk mitigation
- Compliance with legal obligations in regulated markets
- Meet requirements from international clients and partners that are certified by The Freedom Seal
- Revenue increase
  - Diversify and increase your customer portfolio
  - Attract investors

More About Rani:

Rani’s tireless efforts include several speeches before the UN General Assembly and has met with various world leaders, including Presidents of the world. In 2011 Rani was appointed by the UN as a special advisor to the United Nations Global Initiative to Fight Human Trafficking, helping to establish the Sustainable Development Goal 8, and establishing the first-ever World Day Against Trafficking in Persons. Rani has appeared in numerous broadcast and media interviews including The Oprah Winfrey Show, CNN, BBC, Euro News, and other international media. On November 6th, 2017 Rani joined the Press Office of the Holy See to ask for concrete action against human trafficking, in which over 25 journalists helped carry her message around the world and speak for those without a voice. In 2018, Rani was named Woman of the Year for her home country of India.

Today, Rani dedicates her time and energy to efforts that lead toward a greater global understanding of human trafficking and continues to speak for those without a voice and for those who are imprisoned, enslaved, silenced, and unable to tell their own stories.

Rani’s ability to overcome trauma, loss, and grief has inspired leaders from all over the world to join the global movement against human trafficking. Rani lives in Olympia, Washington USA with her husband and children.

Follow Rani on LinkedIn

Apply for the Freedom Seal today

INTERVIEW

Knowledge is Power: The Pandemic, Reputational Risk, and What We're Missing

An Interview with John Bree, Chief Evangelist & Chief Risk Officer at Supply Wisdom

John Bree
Chief Evangelist & Chief Risk Officer at Supply Wisdom

John Bree is recognized as a global financial industry executive and risk subject matter expert in developing and managing vendor/third-party risk management, AML/CTF, KYC, and anti-fraud programs.

John is Chief Evangelist & Chief Risk Officer at Supply Wisdom, a leading patented continuous risk intelligence and monitoring solution for third parties and locations. Before joining Supply Wisdom, John held senior positions globally for Citi and Deutsche Bank covering corporate, investment, commercial, and consumer banking for both internal and vendor operations.

John is a member of the Shared Assessments US and UK Steering Committees and Co-Chair of the Financial Industry Vertical Strategy Group.

> "There's an increased consumer awareness that is requiring companies to have visibility into all the links in their chain to make sure that everyone in that chain is compliant."

How have you seen the priority of ESG initiatives rise over time?

Companies have looked at ESG in sort of a narrow focus. They talked about their carbon footprint, their own electrical usage - those kinds of things. Now, we're realizing this needs to be part of the overall supply chain risk companies track for products and services.

When you look at ESG now, it is not only your enterprise that exposes you to reputation risks, it's your entire supply chain. What's happened now is that there's an increased consumer awareness that is requiring companies to have visibility into all the links in their chain to make sure that everyone in that chain is compliant.

It seems like there's a lot to consider. What are some successes you've seen?

Well, what we're seeing with our clients who use our system to enhance or increase their focus on ESG is creating internal policies and programs. The challenge is the ESG standards and recommendations are constantly being updated and expanded. Supply Wisdom's solution enables companies to measure their ESG efforts against leading standards and recommendations. At the same time, ESG is moving up the awareness chain in many companies. So, documentation of internal ESG efforts and progress will increase in importance for presentation to senior leadership and boards.

How has the pandemic affected how we view sustainability priorities?

What the pandemic did is it showed us that you can have a global issue where everybody is in the same boat. When the power went out in remote service locations like India, Manila, and other areas, they had their own generators to keep operations running. When the pandemic hit and everybody worked from home, the infrastructure in many of these jurisdictions was incapable of meeting the needs. So, this is where resiliency really came into play. And people started saying, we have to rethink our model.

With the pandemic, there was also the realization that you need current risk information. If you think back to the early days when the pandemic first emerged, conditions were changing and evolving so rapidly and companies realized that data collected during point-in-time assessments was stale and counterproductive.

Current information also applies to location knowledge. Many companies realized knew very little about the conditions in the places where services were being provided from. Weather and environmental challenges are very different around the world. I wrote an article called, “Mother Nature, the Ultimate Regulator” that discusses this topic. All of a sudden, 18 months ago, it was realized that each location has its own unique challenges with regard to local regulations and infrastructure.

How has ESG affected reputational risk?

In the past, if you were the primary, you looked to your third party and relied on them to pay attention to the fourth party and they pay attention to the fifth party. That’s all gone now - you’re responsible for the entire supply chain. Reputation risk has a big impact on this. For example, look at a company that has a reported use of a conflict mineral in their batteries. The headlines are not going to be about the Nth party that mines and supplies the mineral, the story will be that this company uses conflict minerals. Social media adds more complexity to this.

What do you think people are missing if they don’t consider ESG a priority?

We can no longer make decisions in an ESG vacuum. We have to understand who our clients really are. If you’re a bank lending to someone who is violating child labor laws or modern slavery or conflict minerals, that increases your reputation risks that could negatively impact your bottom line. If a company is polluting, you’ll be asked, “Why did you lend them money? Can’t you see their carbon footprint is atrocious?” The regulatory impact of this is going to be that companies that weren’t concerned about ESG practices will need to get up to speed. Otherwise, they won’t get financing.

What advice would you give to empower early ESG adopters?

I think people have to realize the value of intelligence. I don’t mean intelligence on how smart you are. I mean risk intelligence. Knowing in real-time what’s going on in your vendor population, supply chain and having up-to-date information about your third parties and the locations where they are providing service lets you determine where there are weaknesses, gaps, who’s doing well, who’s not doing well. So, I think having good, solid, curated risk intelligence is a critical step. Knowledge really is power.

“We can no longer make decisions in an ESG vacuum. We have to understand who our clients really are.”

INTERVIEW

ESG & TPRM: The New Relationship to Embrace

A Conversation with Julie Gaiaschi,
CEO and Co-Founder of TPRA

Julie Gaiaschi
CEO and Co-Founder of TPRA

"Third-party risk is not new, but a lot of people feel like it is... it's such a growing and exploding field."

Risk and Resilience sat down with Julie Gaiaschi, CEO and co-founder of the Third-Party Risk Association. TPRA is a not-for-profit, professional association for third-party risk practitioners and service providers, where they work to further the profession through knowledge sharing and networking. TPRA is the only vendor-agnostic professional association for third-party risk and provides in-depth conversations around topics, and generates guidance, research, and templates as a community. Julie has a demonstrated history of working in the information security and third-party risk management industries and is skilled in Enterprise Risk Management, Internal Audit, CISA, Leadership, and Security." after templates as a community.

Thanks for sitting down with us, Julie. To start, can you share how you have seen ESG evolve?

With regards to third-party risk, ESG is a new concept. Traditionally, ESG assessments and ratings are used by investors in their decision-making processes when investing in new companies. Now, we're seeing them used more frequently in the third-party risk realm. ESG assessments and ratings are primarily being incorporated into organizations' risk models, a portion of which focus on third-party risk. This means that organizations are deciding how ESG risk exposure (at both a micro and macro level) impacts their organization and what they need to do to strengthen their TPRM programs.

Have you seen challenges to getting board buy-in on ESG initiatives and adoption?

Since ESG is new to third-party risk, it may be hard to get executive buy-in. Leadership will want to understand where the value for assessing ESG risks comes from. To do this, you need to do homework on how ESG risk impacts your own organization. We're noticing that the risks that third parties pose do impact organizations from both a reputational and financial standpoint. We're also seeing some of these ESG concepts hit the supply chain, especially following COVID-19. It's important to do your research and determine what impacts ESG has on your organization before starting the conversations with executives.

I'm sure this challenge goes beyond executives, as well. How can internal stakeholders collaborate on ESG for a productive future?

In addition to the top-down approach mentioned, the third-party risk team needs a seat at the table. This is especially important if you're a public company that already discloses certain items. You should question what disclosure requirements are currently required by your organization, as well as your vendors. If your third party must disclose an ESG material risk, you may also have to disclose the same risk since they are one of your vendors. So, understanding what the existing process for your organization is, and trying to get a seat at the table is vital.

> **"I think ESG activities are only going to grow and, as we gain a better footing on how third-party risk programs will incorporate this, there will be more to come."**

You've talked about third parties. How is ESG affected by third parties or vice versa?

Regulators are starting to ask public companies to disclose when their third parties have ESG related impacts/disclosures through TPRM programs. This is why there is an increased importance in asking ESG-related questions, because it ensures that you have a good supplier code of conduct and proper language in contracts to allow you to evaluate and assess ESG. I think ESG activities are only going to grow and, as we gain a better footing on how third-party risk programs will incorporate this, there will be more to come.

How do you think the public perception is shifting with regards to ESG and sustainability initiatives?

This is a new topic for many of us. We are seeing third-party risk professionals work with their compliance teams to determine how to look at and evaluate ESG from a third-party risk perspective. An example of this trickledown effect is that now when an organization evaluates one of their international vendors, not only do they ask questions about data protection, but they also inquire about the working conditions and the local communities they operate in.

Are there any best practices you can offer for companies that are looking to adopt ESG?

I would suggest researching what standards are already out there and talk about what companies need to publicly disclose based on the material risk presented. You can also research ratings providers, which take publicly available information and create an ESG score for companies. This is targeted towards the investor side, but they also receive a lot of questions from non-investors, including the third-party risk side.

You may also review your suppliers to see where you could potentially look at certain ESG topics and uncover ways they could be incorporated into your own assessments, such as questionnaires. If you have a database on a vendor, providing additional information within that database related to ESG could be worthwhile. Finally, it could be helpful to do more site reviews and have increased focus on news alerts that look at aspects other than cybersecurity, to then establish an expectation with your vendors on what they need to adhere to.

ESG is a new consideration for TPRM. With your experience at TPRA, as a risk manager and as an auditor - how have you seen TPRM develop as a field of practice?

Wow, I love this question as this is such an exciting field. Third-party risk is not new, but a lot of people feel like it is. This is especially true in the finance and healthcare industries. We are now starting to see TPRM practices develop within other industries, such as manufacturing, retail, hospitality, and entertainment. I've seen it start in the audit field, where they review vendors from an internal audit perspective.

Organizations have then seen (based on breaches, cyber incidents, and other things that have happened in their supply chains) that there needs to be more focus on third-party risk. So, they're now starting to create specific TPRM teams. As a result, in the TPRA we've had several new industries join and ask general "Third Party Risk Management 101" questions, such as how to start a program or what tools to leverage. I'm glad that we have the finance and healthcare industries to be the models, because there has been a lot from a third-party risk perspective that has been worked out through them and continues to be worked through them. It's such a growing and exploding field.

Follow Julie Gaiaschi on LinkedIn

Learn more about TPRA

TPRA
THIRD PARTY RISK ASSOCIATION

Exploring ESG's Compliance and Ethical Landscapes

Experts discuss ESG's meteoric rise and how to get programs started effectively

Alison Taylor
Executive Director of
Ethical Systems

Lisa Beth Lentini Walker
CEO and Founder of
Lumen Worldwide Endeavors

Mary Shirley
International Ethics and
Compliance Generalist

How has ESG become a top-of-mind topic for each of you? What has that journey looked like?

Lisa Beth Lentini Walker (LBLW): I started out my career with the Securities and Exchange Commission, working for the Division of Corporation Finance. One of the amazing opportunities that I had was to work on shareholder proposals. Shareholders have the opportunity to submit proposals for inclusion in a company's proxy statement which can potentially result in a vote of the shareholders at an annual meeting. I got to see the things that shareholders were interested in and cared about. Governance has always been a very hot topic because shareholders are often concerned about how the company is run and who's making decisions. The environmental and social elements have been gaining strength over time. If you look back 10, 15, 20 years ago, there absolutely were proposals that would fit into the ESG space. Shareholders have been talking about these topics for a long time.

Alison Taylor (AT): I started working in ESG and around 2015 we started to see a huge rise in momentum. I would say there was a real tipping point with Larry Fink's letter to CEOs in January 2018, where he said that he expects companies he invests in not only to make a good profit for shareholders but also to show how they made a positive contribution to society. That was a really big sea change. Another huge step up in terms of mainstream media debate in August 2019 was the Business Roundtable. This was a similar statement in that they believe businesses should provide value to all stakeholders. And I think the third tipping point was the pandemic, combined with the reckoning over racial justice in the US which ramped up concern over the social responsibility of businesses to take care of their workers.

Mary Shirley (MS): ESG has become one of the hottest topics in the compliance world. Hiring for ESG-specific roles has ramped up - there has simply been a lot of buzz about the subject. At my company, we have dedicated ESG staff members that sit outside of compliance, but compliance often has responsibility for Code of Conduct training so content such as ESG needs to be something staff members in that position have a basic understanding of.

What are some of the challenges you've seen companies face when they consider implementing ESG?

AT: I think one of the big challenges is coming up with where to focus. You can't do everything. Coming up with focused priorities where you can make a difference out of all this external pressure is very challenging. Second, you can't just delegate this to one team or department. You need to think about the business as a whole. That requires thinking and organizing in a different way - so there's a need for education and confidence.

MS: At the moment there is competing demand for experienced ESG resources. Staffing an ESG function with experienced and knowledgeable staff in this area can prove to be challenging. Then comes the question of where to house relevant ESG staff. Should they form a new arm of compliance, should compliance or other staff be given the ESG hat to wear, or should there be a new and dedicated ESG function? Much of the decision-making around this will depend on the size and profile of the company, as well as the existing skillset and interests of colleagues.

"As I've learned in a compliance role, unilaterally pushing out initiatives, even if you're a subject matter expert in the area, is not the best way to roll out a program. It's important to get feedback and input early and often from key stakeholders."

– Mary Shirley

What does the relationship between ESG and compliance teams look like? How are they related in companies that are doing it well?

LBLW: Every company that I have seen is handling ESG a little differently. Some of this comes down to what are the skills and talents that you have within your organization and which groups of people within your organization are best suited to connecting with people, working cross-functionally, and leading the charge. Compliance professionals in general have an innate understanding of how to set proper foundations and work cross-functionally. These are really valuable skills, particularly as ESG programs mature. So, there's a lot of opportunities to bring the best out in each other.

MS: I work in a large organization that has ESG focus areas operating outside of compliance. We've had a collaborative approach whereby ESG colleagues have appointed compliance team members as stakeholders that they consult with regularly. I think this model makes a lot of sense. As I've learned in a compliance role, unilaterally pushing out initiatives, even if you're a subject matter expert in the area, is not the best way to roll out a program. It's important to get feedback and input early and often from key stakeholders.

Speaking of compliance, what does the regulatory landscape look like for ESG? How do you see it evolving?

LBLW: I don't know that there is one unified, agreed-upon definition for what is included or not included within this concept of ESG. I think that we are working towards having a more common understanding, but right now there isn't agreement about what standards to use for reporting. I think that there will be more clarity within the next few months around some of the expectations in Europe. There's already clarity around the types of disclosures for certain entities using the TCFD standard, and there's a pending rulemaking coming up in the fall from the SEC. And if I had a nickel for every time that SEC commissioners or staff members mentioned ESG I would be very wealthy indeed. But the bottom line is that this is a rapidly evolving area. And one of the things that I think we will see in the very near term is a defined approach in terms of disclosures and other requirements that will help companies align to standards with that in mind.

Related to that, how do we work to ensure that companies see ESG as an ethical consideration, rather than just checking a box?

AT: With the rise of ESG investment, we've obviously seen a lot of checklists, taxonomies, questionnaires, and debate over whether ESG is financially beneficial or not. There is a business case, but it's very much a big-picture business case about your values and how you exchange perceptions with society. And I think that misses the bigger opportunity to build public trust and a better reputation, attract and motivate young people, and become better at anticipating collective risks like climate change.

If a company was getting started with ESG what recommendations would you give to help them off the ground?

AT: Getting Board buy-in is very important. The world has changed very dramatically - there is far more transparency and social media exposure, which means that you have social and environmental impacts. These can't be treated as externalities that you can ignore anymore, and your impacts are likely to kick back and become your risks. I would frame all of this in terms of being more resilient and more innovative to future changes. This is about staying competitive and staying in business. So, I would say that paying attention to these issues is about having some regard for what's going on in society and a good way to anticipate the changes that are yet to come.

LBLW: The first thing I always say is when you're looking at how to solve any challenge in front of you, the most important thing to do is to stop digging. If you're in a hole, you stop digging. When we're talking about ESG, taking just a moment to pause and understand who your stakeholders are. Companies get this wrong many times because they consider stakeholders to be synonymous with shareholders, and that's not the case with ESG impact. Understand the landscape first, know who your audiences are, and understand as an organization where you are most likely to have an impact. Every company is a little bit different with different geographic footprints, products, services, et cetera. Once you understand these factors you can start gathering information about what are you doing, where you may have easy wins, and where you can have longer-term goals that you need to put in place to be able to make a difference.

"You can't just delegate [ESG] to one team or one department. You need to think about the business as a whole. That requires thinking and organizing in a different way... there's a need for education and confidence."

- Alison Taylor

If we were to look into our crystal ball, what will the ESG landscape look like five years from now?

AT: I think in five years we'll see more professionalization about the kind of metrics and the things that companies are required to report on - and I think there will be far more scrutiny about the relationship between business and governments. We saw this a little bit after January 6 with people looking not just at what companies say about their ESG commitments, but whether that is reflected in their political spending. And I think you'll see a lot more pressure on things like tax and CEO pay. This means not just having a bunch of greenwashing initiatives and glossy brochures, but what the company is doing to be responsible in terms of wider society. I think we'll see this conversation evolve very quickly.

MS: As standards and best practices are developed, I think we can expect to see more meaning being given to ESG commitments, similar to what we saw in the evolution of compliance programs and functions. That will involve questions such as, are we making more than just check-the-box efforts? How effective are our ESG initiatives? How can we monitor, measure, and evaluate? Relatedly, regulators and other stakeholders setting ESG reporting standards and shareholders are likely to take further interest in the accuracy of the reporting.

LBLW: I also believe that there will be a standard that people are aligning their programs to that's relatively well accepted, and I think that there are going to be ESG programs for both public and private companies. Public companies will have obligations to gather data from their suppliers, which will be included in contracts. So, I think there's going to be a lot more transparency about the impact on ESG, whether you are private or public. And I think that we will see a continuing trend towards investors and consumers to make more thoughtful decisions based on their own values when it comes to supporting or not supporting organizations based on their alignment to ESG strategy.

Are there any final words of ESG wisdom you would like to convey to readers?

AT: I would really want to emphasize is that ESG is a really great career opportunity if you're in compliance. It's not just about regulations, it's a real opportunity to position yourself in a more strategic role over ethics, to get more traction with senior leadership, and really to think about these issues in the context of a healthier organizational culture.

> **"As human beings on this planet and as consumers we can't have any situations where people are just putting their heads in the sand. We need to understand what ESG means for our generation and for future generations."**
>
> – Lisa Beth Lentini Walker

LBLW: I think one of the most important things for people to know is that ESG is something that everyone needs to learn about and make part of their vocabulary. You don't have to be an environmental scientist or have a Ph.D. to understand some of the basics around ESG. As human beings on this planet and as consumers we can't have any situations where people are just putting their heads in the sand. We need to understand what ESG means for our generation and for future generations.

Lisa Beth Lentini Walker is the CEO and Founder of Lumen Worldwide Endeavors, which helps to guide companies with sophisticated, innovative solutions to their most difficult decisions. Lisa Beth is a legal and compliance leader who has found success in public and private companies by connecting, advising, and educating diverse populations while aligning them with a common purpose, furthering the enterprise vision.

Connect with Lisa Beth on LinkedIn

Learn more about Lumen Worldwide Endeavors

Mary Shirley is an international Ethics and Compliance generalist, currently working at a multi-national healthcare company. She holds 16 years of experience with in-house with government regulators and in compliance consultancies. Mary is co-host of the podcast, Great Women in Compliance which amplifies the voices of women in the field, covers in-depth topics, and seeks to empower women in Risk, Compliance, Ethics, Privacy, and Cybersecurity fields.

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Check out the Great Women in Compliance Podcast

Alison Taylor is the Executive Director of Ethical Systems, a research collaboration based at the NYU Stern School of Business between leading academics working on behavioral science, systems thinking, and organizational psychology. In addition, Alison is an Adjunct Professor at NYU Stern School of Business, and she holds Senior Advisor roles at BSR and Wallbrook. Alison is currently writing a book for HBR Press on how companies can build a more holistic, and considered approach to corporate integrity beyond functional silos.

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Learn more about Ethical Systems

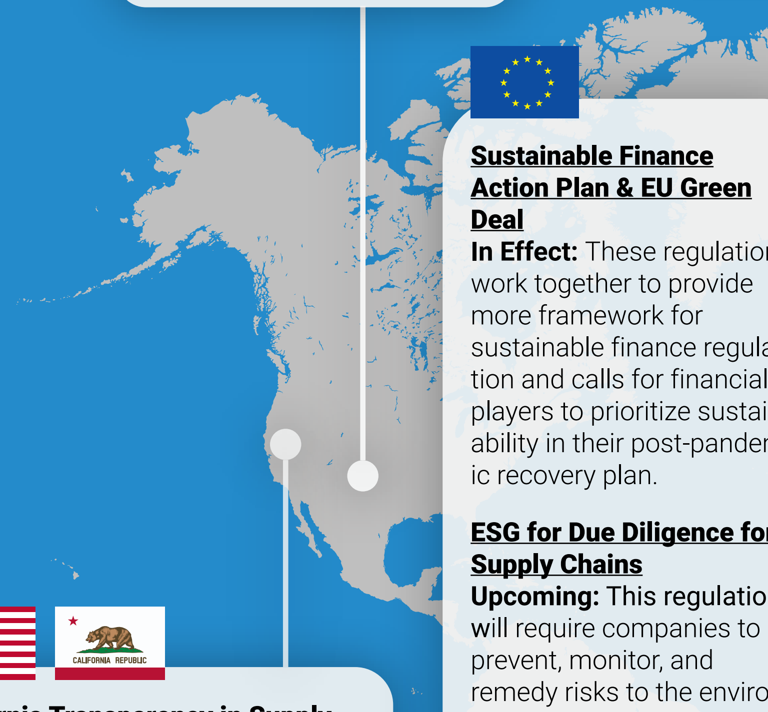
INFOGRAPHIC

About ESG Regulations

Unlike some laws in effect that seek to shine light on modern slavery and human trafficking in supply chains, many new acts are not just a reporting requirement. These will require organizations to conduct the appropriate risk-based approach to due diligence and address issues, or face penalties.

Some key considerations of new and upcoming regulations include:

- Global implications: Many of these new acts and guidance will not only affect companies headquartered within the region of the legislation, but also those that have operations or third parties there.
- Liability: These regulations have teeth. The new EU ESG regulation, for example, will give victims of human rights violations the right to take EU companies to court and that remediation proposals by companies cannot prevent stakeholders from bringing civil proceedings to court.
- Increased Due Diligence: Extensive due diligence, initial, and continuous monitoring of all activities are a key component to many new ESG-related regulations on the horizon. Having an effective TPRM program will be critical in addressing issues.



Section 307 of the Tariff Act
In Effect: Bans importing of any product produced, manufactured, or mined by forced labor, including indentured child labor.

California Transparency in Supply Chains Act
In Effect: This Act ensures that large retailers and manufacturers are required to disclose information to consumers regarding their efforts to eliminate slavery and human trafficking from their supply chains.

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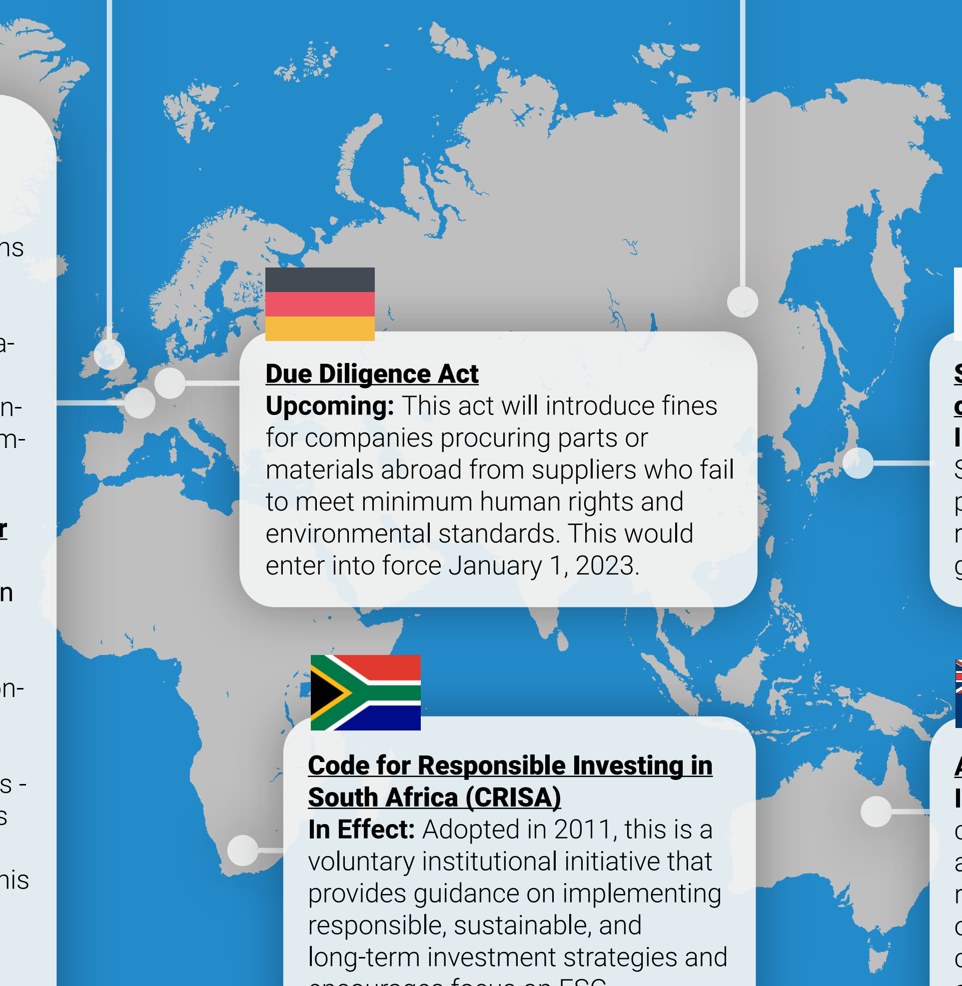
Sustainable Finance Action Plan & EU Green Deal
In Effect: These regulation work together to provide more framework for sustainable finance regula tion and calls for financial players to prioritize sustai ability in their post-pander ic recovery plan.

ESG for Due Diligence fo Supply Chains
Upcoming: This regulatio will require companies to prevent, monitor, and remedy risks to the enviro ment and human rights in operations, supply chains and business relationship including third parties. It is expected that companies will be required to adopt t legislation by the end of 2021.

Dutch Child Labor Due Diligence Act
In Effect: This Act require companies to enact suppl chain due diligence and reporting in order to addre the presence of child labo in supply chains.

n Slavery Act
t: Requires organizations parently publish annual ents confirming steps to that slavery and human ng are not present within iness or supply chain.

First Green Investment Guidelines
In Effect: The Asset Management Association of China (AMAC) issues voluntary guidance on approaching green investing, as well as reports on building a system to measure ESG performance of listed companies.



Due Diligence Act
Upcoming: This act will introduce fines for companies procuring parts or materials abroad from suppliers who fail to meet minimum human rights and environmental standards. This would enter into force January 1, 2023.

Stewardship Code and Revision of the Code 2020
In Effect: Japan's Financial Services Agency (FSA) sets principles for investors to fulfil their responsibilities for sustainable growth, including ESG factors.

Code for Responsible Investing in South Africa (CRISA)
In Effect: Adopted in 2011, this is a voluntary institutional initiative that provides guidance on implementing responsible, sustainable, and long-term investment strategies and encourages focus on ESG.

Australia Modern Slavery Bill
In Effect: This bill requires companies with a minimum annual revenue of $100 million to report on the risks and presence of modern slavery in their supply chains and operations and address these risks and issues.

UN Guiding Principles on Business & Human Rights
In Effect: These bills recognize States' obligations to respect and protect human rights and that businesses are required to comply with applicable laws and protect human rights.

International Capital Markets Association (ICMA)'s "Principles"
In Effect: These Principles include the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, and Sustainability-Linked Bond Principles. These are voluntary guidelines that encourage disclosures and transparency, and integrity when evaluating the environmental impact of green bond investing.

INTERVIEW

Driving Sustainable Procurement into the Future

A Conversation with EcoVadis

David McClintock
Director of Content Marketing
at EcoVadis

We sat down with David McClintock, Director of Content Marketing at EcoVadis to discuss the importance of sustainable procurement. **DM:** I'm David McClintock, Director of Content Marketing at EcoVadis. EcoVadis provides business sustainability ratings for companies of all sizes, used in value chain and financial relationships. Our goal is to innovate on several axes to help companies mitigate risk and build resilience by driving performance improvements. Our ratings methodology quantifies sustainability management systems/performance into a 0-to-100 score range and transforms sustainability into a highly scalable performance management approach. Our technology, through AI, machine learning, natural language processing and more accelerates scalability and boosts the quality of our ratings. We are constantly innovating new ways for companies to improve performance and create value.

Can you explain how you've seen sustainable procurement (SP) evolve?

First of all, the pressure and demand for SP has grown exponentially. There's been a huge increase in stakeholder pressure – putting procurement/supply chain in the 'spotlight' for brand risks. This is partly due to the fact that the value chain accounts for an average of over 80% of negative environmental, social and ethical impacts and natural capital costs for most industries.

In terms of the relationship with ESG, sustainable procurement is an activity that almost any company can undertake, and is one of the four themes integrated into our Sustainability Ratings methodology. The four themes include Environment, Labor and Human Rights, Ethics, and Sustainable Procurement. All of these are essential elements in any sustainable strategy, so there's a lot of intersection with ESG.

What are the benefits companies can see by embracing SP initiatives?

In addition to creating positive impact and supporting corporate sustainability goals, SP programs produce benefits across the whole organization. We've analyzed several key levers of measurable value creation possible with a successful SP program. These include factors such as resilience and risk mitigation, improved procurement metrics, increased sales revenue, brand differentiation, fostering innovation, and more.

What are some of the challenges?

A big challenge in recent years was the lack of executive support, although this has shifted somewhat recently. Now we're trying to figure out how to align and get the value chain engaged in the sustainability improvement journey. Historically, companies tried to manage SP as a compliance exercise, which usually does not result in enduring change.

Another challenge is resistance from key suppliers, partly from lack of understanding or maturity, but also due to poor previous experiences with receiving many redundant "self-assessment" questionnaires. These may have often had a large portion of questions that were not "material" or relevant for their category or region. And complexity plays a part in this as well; it's difficult and complicated to try to measure the performance of thousands of suppliers/vendors/trading partners in such a diverse range of categories, geographic regions, sizes, etc.

There are some other factors at play, as well. One is the availability of internal expertise and resources (such as CSR and sustainability expertise) within procurement. Without the proper expertise and reliable indicators about supplier practices, it's tough to make better procurement decisions. There can also be some resistance to adoption among buyers and category managers – it can be perceived as a burden or nuisance, or even a threat to objectives and relationships. Change management, in general, is a challenge, but definitely not an insurmountable one.

> **"Without the proper expertise and reliable indicators about supplier practices, it's tough to make better procurement decisions."**

How can companies interested in implementing SP avoid getting overwhelmed at the outset?

I think the first step is to rally support within your executive team; you can do this by recruiting internal champions who are passionate about sustainability to help you. Another important point is to build a business case and win support not only from your CEO but also from your peers in other departments who will benefit and help drive the initiative.

Another key step is to really define your strategy. Align with your corporate sustainability team, do a risk mapping and materiality assessment of your value chain sustainability risks and opportunities. Also, meet with your biggest suppliers (and possibly customers) and include them in the dialogue as you develop your goals and strategy. Take time to select the best combination of tools and define a rollout plan that works for your procurement topology (group/centralized, decentralized, or hybrid, etc.) and a plan for integrating procurement processes and decisions – this should include digital/data integration into procurement tools.

What are some successes you've seen at EcoVadis over the last few years?

There are some great examples that have emerged over the last few years. One is the integration of sustainability indicators into digital procurement tools, such as the EcoVadis API integration to Aravo's platform. We are also seeing an integration of supplier sustainability performance indicators into procurement marketplaces (IBM, Chainyard, Beroe, etc.) where suppliers who are high performers have a chance to get visibility with their medal in the marketplace. We are also integrating new data sources, such as through our partnership with Ulula who do "worker voice" capture of feedback directly from workers – this can act as a validation point for labor practices.

How is EcoVadis working to drive and support sustainable procurement into the future?

We have a few ways we're looking to do this. One is to push transparency to Tier 2 suppliers and beyond. A part of this is asking Tier 1 suppliers' help to engage their own suppliers. A main industry initiative is doing a pilot program on this.

Another initiative is in carbon action, to drive reductions in GHG emissions in the supply chain. Our strategy is to help companies go beyond predictive models, to primary data collection to drive measurable reduction, via a three-phased approach. This requires tools and indicators to engage directly with suppliers, assess their readiness and potential for carbon reduction to prioritize who to engage and when, create a baseline of emissions activity, help suppliers make improvements, and track progress on these reductions against company goals.

Another area of focus is to expand the use of our ratings to scale up Sustainability Supply Chain Finance. We are partnering with global financial partners and our customers to innovate new solutions that combine cash flow improvement with incentives for sustainable practices. Key success factors will be the use of common, broadly adopted digital sustainability indicators (ratings) as the SP programs, as well as sustainable loans, etc.

> **"Build a business case and win support not only from your CEO, but also from your peers in other departments who will benefit and help drive the initiative."**

Connect with David on LinkedIn

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Exploring ESG Frameworks

There are several ESG frameworks in effect for the standardization of disclosing and reporting on ESG initiatives and metrics.

VALUE REPORTING FOUNDATION

Designed to help businesses identify ESG initiatives and report them to the SEC. Also provides guidance on "integrated reports" for performance data.

*This framework was originally two frameworks by Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) but was merged in June 2021.

Learn More

CDP

This framework is used when companies seek to reduce greenhouse gas emissions. The framework helps capture environmental data including climate change, forestry, and water initiatives.

Learn More

GLOBAL REPORTING INITIATIVE (GRI)

This is used when companies seek to inform stakeholders when a variety of ESG-related initiatives are underway with comprehensive reporting.

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TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

This framework is applied when companies address climate-related initiatives, and encourages transparency and disclosure of these risks.

Learn More

TASK FORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD)

This framework is due to launch in 2023 for nature-related disclosures, and when companies are addressing climate-related topics.

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FEATURE

A Story of Survival: Business Continuity and ESG

Barbara-Ann Boehler
Product Marketing Director
at Aravo Solutions

"While we need to plan for the expected risks facing our specific industries, we need to have an eye towards the unexpected. "

Twenty-one years ago, "The Worst-Case Scenario Survival Handbook: Expert Advice for Extreme Solutions" was first published. The book sold 10 million copies and informed a generation on how to escape from quicksand, wrestle alligators, and land a plane. The book spawned countless iterations as well as games, calendars, and even tv shows. The premise was a bit cheeky, although it would certainly seem helpful know "how to tell if a clown is murderous" (see Chapter 3: The Best Defense). The handbook was published in October of 1999 when we were on the brink of Y2K (which turns out was just another day) and the unknown was terrifying. A plan for the unexpected was in many ways a welcome relief. The corporate corollary to the worst-case scenario handbook is our modern corporate business continuity plan, albeit with less advice on jumping from moving vehicles (see Chapter 4: Leaps of Faith).

Corporate business continuity planning at its most basic is an attempt to wrap our corporate arms around the organization's potential risks and develop strategies and corporate policies for managing risk should the worst happen. We have witnessed just how critical continuity planning was to the continuation of some organizations and the demise of others over the last year and half. While we need to plan for the expected risks facing our specific industries, we need to have an eye towards the unexpected. Most organizations are unlikely to need to provide guidance on "how to survive if your parachute fails to open" (see Chapter 7: Adventure Survival) however being prepared for when the metaphorical parachute will not open is essential.

An emerging focus area for the compliance community is the rise of environmental, social, and governance or "ESG". While not at all a new corporate concept, as the conversation turns to issues of governance, ESG has in turn caught the attention of compliance and risk practitioners. Shareholders, investors, and consumers now more than ever demand and expect that organizations focus on how their businesses impact the world around them.

From goals surrounding net zero emissions to the promotion of ethical investing to the focus on social justice and diversity and inclusion, the governance of these initiatives will become inextricably linked to reputations and the ethos of the organization and even their continued viability. Organizations and more specifically their boards of directors need to consider about ESG concerns when assessing their corporate risk and as part of the whole of their continuity planning initiatives.

The governance aspect of ESG (or the failure to enact governance around these matters) has developed a set of teeth behind it. While a guide for managing cannot be found in our "Worst-Case Scenario Handbook" (see Chapter 2: Tooth and Claw, How to Survive a Shark Attack) there are recent corporate examples where we might look for guidance.

Behemoth financial services firms Blackrock and State Street Global Advisors (SSGA) have recently taken strong positions on the importance of ESG when assessing investment options for their clients. In March 2021 Blackrock released its annual engagement priorities report, the Blackrock Investment Stewardship ("BIS"). The BIS provides an evaluation of Blackrock's investment management relationships and sets forth its goals for how it will vote its corporate proxies. This proxy voting block represents a powerful voice in the investment community.

In the introduction Blackrock specifically states, "*Our conviction is that companies perform better when they are deliberate about their roles in society and act in the interests of their employees, customers, communities and shareholders. We use or voice as a shareholder to urge companies to focus on important issues, like climate change, the fair treatments of workers, and racial and gender equality, as we believe that leads to durable corporate profitability*."

The BIS sets forth a set of engagement priorities based on new and emerging risks and encourages company boards and management to use these priorities as a way to assess internal gaps. The March 2021 BIS specifically lists the following five areas of focus, which may a good starting point or check up for your own firm's internal assessment or its consideration of ESG:

1. board quality and effectiveness;
2. climate and natural capital;
3. strategy and financial resilience;
4. incentives aligned with value creation; and
5. company impacts on people

Organizations that fail to consider ESG issues when reviewing their risk matrix or when designing their business continuity plan will find it difficult to compete, thrive, and even survive in the coming years or even in the short term. It's not only important to consider ESG risks, but to actually embed and account for those risks with a firm's business continuity plan. We all know that sometimes the worst-case scenario actually happens (see 2020). Developing a handbook to manage and mitigate those risks will see your organization through all extreme situations.

"Organizations that fail to consider ESG issues when reviewing their risk matrix or when designing their business continuity plan will find it difficult to compete, thrive, and even survive in the coming years or even in the short term."

BEST PRACTICES

Integrating ESG into Your TPRM Programs

As consumers turn attention to companies' sustainability the need for ethical practices in production and distribution is no longer an option. In addition to the consumer and reputational considerations, regulators are focusing on ethical practices and are developing new Environmental, Social and Governance (ESG) legislation. With these factors in mind, companies must closely examine their supply chains and recognize unethical practices within their production and distribution networks.

A More Socially Conscious Consumer Landscape

Ethical consumption, a type of consumer-based activism through supporting companies with ethical practices, is on the rise. In a 2020 study by professional services firm, Accenture, data showed that 60% of participants were making more sustainable, ethical, or environmentally-friendly purchases since the start of the COVID-19 pandemic.

As this data shows, consumers are paying attention to where they shop and what they purchase. Many of these decisions are made based on how sustainable a company's procurement, production, and supply chains are. And this information is easy to access as companies become more transparent due to increased consumer focus and demand.

Such transparency, while increasingly necessary, can also expose reputational vulnerabilities. If a company's third party does not meet the sustainability expectations of an organization's customers, shareholders, regulators, or local community, the company can face reputational risk and damage. An example of reputational risk caused by unsustainable practices is negative news coverage due to harmful environmental or human rights practices within your supply chain.

"As companies move forward, they must have the capabilities to understand and deliver on consumers' wants and needs and strive to outmaneuver uncertainty in this new era."

– Accenture's COVID-19 Consumer Pulse Research: Wave 7

SEC's Key Steps for Boards to Maximize ESG Opportunities

Embracing new initiatives is not always easy, and must come from the top down. In a speech presented on June 28, 2021, the U.S. Securities and Exchange Commission's (SEC) Commissioner, Allison Herren Lee, emphasized the importance of board buy-in for ESG initiatives.

While CSR programs were historically considered separate from revenue-generating efforts (and thus, not seen as the responsibility of boards of directors), this has since changed. Stakeholders, suppliers, company employees, and investors are looking to organizations to design sustainable policies that address these issues, and they are placing more pressure on corporations to provide transparency into these initiatives.

In her speech, Commissioner Lee provided recommendations for boards to begin embracing and enacting ESG programs:

Increase Board Diversity:

A 2019 report stated that only 6% of corporate directors in the US identified climate change as a primary area of focus for the upcoming year and 56% of directors thought attention on sustainability issues was overdramatized. In part because of this, investors expect companies to diversify their boards. This presents opportunities through bringing in new thinking, allowing for "more current and proactive approaches to climate and ESG governance."

Increase Expertise of the Board:

To keep up with the demand for these types of programs, boards must broaden their knowledge on ESG and sustainability measures. This can be done by including ESG considerations when nominating new board members and directors, providing ESG training to increase board knowledge, and engaging outside experts to offer guidance.

Promote Management Success:

Providing executive compensation for embracing ESG efforts can be a powerful tool for executing new company goals. Compensation can be tied to reducing carbon emission and embracing workplace diversity, but also through committing to new strategic priorities that matter to customers and investors.

Integrating ESG into Your TPRM Programs

Despite the increased focus on ESG as seen in Commissioner Herron's speech, Dun & Bradstreet has reported that 43% of companies struggle to identify ESG factors as part of their due diligence processes. Examining your supply chains, processes, and activities of your vendors is the first step towards eliminating unethical practices.

Steps for how to structure ESG into an existing TPRM program include:

Identify the scope of the ESG program:

The needs of each company are different and each has special considerations in terms of manufacturing, distribution, and supply chains. Your ESG program should be structured around current risk profiles, how third parties are utilized and managed, which regulations apply, and your company's ESG policies.

Identify ESG risks for each third party:

To manage ESG risk as a whole, first identify ESG vulnerabilities in each of your suppliers. Pre-contract, examine how each supplier operates, the risks it presents to your company, and any fourth or Nth parties they engage with that can affect your supply chains. A short initial risk questionnaire can help expose areas of risk that you want covered by enhanced due diligence. It's often a good practice to run potential suppliers through an ABAC screening at this stage, to ensure they are not on any watch or sanctions lists.

Perform initial and ongoing due diligence:

When it comes to onboarding new suppliers, make sure all processes are documented, and that the potential relationship is validated with ESG assessments. This is not a one-time activity, and continuous due diligence should be performed utilizing inspections, assessments, and questionnaires.

> "These developments place even greater responsibility on companies, and therefore boards, to integrate climate and ESG into their decision-making, risk management, compensation, and corporate transparency initiatives."
>
> – Commissioner Allison Herren Lee

Use a combination of risk assessments and risk intelligence data to assess:

- **Bribery and corruption:** Run the supplier through ABAC screening at the entity level, and for beneficial owners. Negative news feeds and corruption ratings can also provide data points to supplement your risk assessments.
- **Data protection and privacy:** ESG includes an organization's approach to how personal information is protected and used. This is an area of regulatory focus, and one of ongoing social focus and activism. Learn how your suppliers address the privacy and data protection of individuals.
- **Environmental practices:** Gain understanding into your suppliers' policies and commitments to environmental matters beyond just climate change. Leveraging sustainability ratings, like those from Ecovadis and Refinitiv, and risk ratings from Supply Wisdom, can provide extra layers of intelligence to assess and score your suppliers.
- **Ethics:** Organizations are being judged by the company they keep, which means your supply chain must be ethical. Identify third parties' codes of conduct (and likewise they should attest to upholding yours). These need to be aligned. If not, you should question whether it makes sense to work with them.
- **Human Rights and Labor:** Take appropriate measures to ensure your supply chain is free of modern slavery and human trafficking (MSHT). Increasingly, regulators are expecting more risk-based supply chain due diligence and documentation of the actions taken to eliminate it. In addition to MSHT, suppliers' work practices (safety, conditions, diversity, equity, and inclusion) should not only be compliant with regulations but also aligned to your values.

"Most companies have existing risk professionals that are dying to talk to board members about ESG risks. Giving these people a voice is a huge part of ESG culture and maintaining an awareness of potential risks is critical to making necessary changes."

– Eric Hensley, Chief Technology Officer at Aravo Solutions

Ongoing monitoring of third, fourth, and Nth parties is important – it's not a one-and-done exercise. Data feeds from ratings services can be used to support ongoing monitoring, and trigger issue management and remediation activity if the rating of your supplier changes or if there's an adverse incident.

Build up your ESG reporting:

Make sure that ESG-related processes, practices, and procedures for all vendors are documented and provide a transparent view into all activities. This will not only complement third-party lifecycle management but also provide the needed documentation and audit trail for compliance, audit, and regulatory reporting purposes.

Foster an ESG culture:

Promote ESG initiatives both internally and externally and make sure this is reiterated to suppliers and internal employees.

Collaborate with your suppliers:

When accessible, share data and ratings with your suppliers. Highlight areas where they can improve, and why these improvements are important in order to do business with you. Transparency and collaboration can push suppliers in the right direction, and the risk that you (and others in the business ecosystem) will not do business with them can be a highly motivating factor for them to improve.

ESG is a greater good that we should all play a part in. A rising tide lifts all boats, and organizations should embrace ESG as part of their TPRM program, rather than view it as a burden.

INFOGRAPHIC

ESG Snapshot

Temperature Check

SURVEY RESULTS

To gain a better understanding into how practitioners and potential adopters are examining ESG priorities and initiatives, Aravo Solutions released a series of survey questions in the summer of 2021.

The results provide insights into where ESG sits on agendas, challenges, and what steps are being implemented first.

They also suggest a wake-up call is required for more attention and focus on ESG as part of TPRM programs and budget.

60%
of respondents stated that there will be no budget increase for ESG this year.

46%
of respondents state that **regulatory and compliance landscapes** are the biggest driving factor in incorporating or growing ESG initiatives.

Of the companies adopting ESG,
42%
are examining the ESG or sustainability within **each or some of their suppliers.**

20%
of respondents said they are unaware of ESG initiatives altogether.

Only
8%
of respondents stated that ESG was a top third-party risk priority for 2021.

INTERVIEW

The Times They Are A Changing: Exploring the Future of ESG Management

Eric Hensley
Chief Technology Officer
at Aravo Solutions

Eric Hensley is the Chief Technology Officer at Aravo Solutions, where he manages all products, product strategy, and technical delivery of their solutions. With a career in supply chain solutions, Eric joined Aravo in 2008 and has championed innovation in managing new risk domains. We sat down with Eric to discuss the importance of embracing ESG initiatives, how ESG management applications have evolved, and where Aravo's solutions are heading to meet these needs.

With your experience in supply chains, how have you seen ESG-related initiatives affect how businesses manage and look at their risks?

As companies have moved up the maturity scale, they start with a risk domain that is most salient to their business. Then they will move out into other areas of risk that are important from a reputational point of view. ESG has become the most recent of this, moving up the maturity scale from reputational risk to likely a compliance risk in the near future.

"I think that the public attention is incredibly strong on ESG issues right now...that wasn't the case as little as five years ago."

What are some key challenges that customers and prospects and prospects are experiencing as they implement ESG?

There are two key challenges - one is corporate buy-in. The need for ESG projects usually doesn't come from board-level directives. Because of this, getting ahold of the appropriate resources can be difficult.

The other big challenge is in the provisioning of data. There isn't a strong regulatory environment around ESG concerns so it's hard to get data about how companies are managing ESG. If there's no regulatory regime then standard measures don't exist. This means that performance data also doesn't exist. But we're starting to see new regulations on the horizon that will hopefully change this.

Why is it important for companies to embrace ESG applications to help them manage risks?

ESG programs are interesting from a risk point of view. It's a business risk - a reputation risk to your business without question. But there's an ethical component to ESG programs, and as such having strong visibility and commitment to ESG, and operating an ESG program at scale can have benefits beyond just mitigating reputation risk. It benefits employee morale and benefits the perception of your business's ethical position in the world.

How do you think the public perception is shifting in regards to ESG and sustainability initiatives?

I think that the public attention is incredibly strong on ESG issues right now. This is where all of the drive behind ESG as a risk domain is coming from, where the desire for a stronger regulatory regime is coming from, and where the idea of ESG as an area of reputational risk is coming from. That wasn't the case as little as five years ago.

Let's talk about Aravo's upcoming ESG application. What unique features will it include?

We have a unique ability to combine years of best practices that we know from running responsible sourcing programs for our early adopter customers, with the extensive automation, and integration capabilities of our platform. The combination of direct assessments, data from providers and automation are what allows companies to run an ESG program at scale, a reputational risk-oriented program where the right answers aren't necessarily cut and dry. Synthesizing this information along with providing automation tools in a capable platform allows you to codify the decision-making process and then automate and run your program at scale.

How do you see ESG evolving in the future and how will tools evolve as well?

As ESG becomes further codified from a regulatory point of view, the risk management process will become more standardized and the generalized quality of information and the outcomes of mitigating that risk will both improve. Because of that, you'll be able to gain even greater automation benefits and manage ESG risks at a greater scale in your business. ESG is just early right now, but we'll see it evolve for sure.

"The general feel amongst partners... and our customers and prospects is that the regulatory regime for ESG needs further improvement."

Connect with Eric Hensley on LinkedIn

Learn more about Aravo Solutions

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Email info@riskandresilience.co to let us know.

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- Labor rights
- Governance
- Health and safety
- Conflict minerals

The Definition of Better Business

Better business is built on acting with integrity.

It commands better performance, delivering better efficiency, collaboration, and financial outcomes.

It inspires trust.

But better business is more than that – it's about lifting the ethical standard of an entire business ecosystem to build a better world.

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