

13-JUNE-2021 | ISSUE 8

DOES INDIA INC. CARE ABOUT ESG IN THIER SUPPLY CHAIN?

ESGDS NEWSLETTER

**SUPPLY CHAINS HAVE FIVE TIMES THE ESG IMPACT OF DIRECT
OPERATIONS**





DOES INDIA INC CARE ABOUT ESG IN THEIR SUPPLY CHAIN?

We reviewed supply chain policies and initiatives of 500 largest Indian companies.

HOW GREEN IS INDIA'S SUPPLY CHAIN?

Written by Ramnath Iyer

Open markets have enabled companies to source materials and outsource production to suppliers in developing and emerging economies. Globalization has reduced costs, enhanced profitability, and percolation of wealth, improving the standard of living for millions of people.

Reliable supply chains have enabled companies to focus on core activities, allowing customers to enjoy the benefits of specialization. The flip side of complex supply chains is the lack of/limited control on partner practices and the direct impact on a company. Many of us vividly remember the price automakers had to pay due to quality issues in Takata's airbags; inspections mandated after Kobe admitted to supplying poor quality steel, and Mattel's toy recall due to excess quantities of lead.

UN Global Compact has highlighted that enhanced public scrutiny and weak implementation of local ESG regulations have forced companies to address issues that have traditionally been outside of their core competencies and responsibilities. Numerous examples highlight supply chain impact and the inadequacy of managing ESG risk and compliance only within the company's own operations. Responsible companies need to evaluate and disclose ESG risk management in their entire value chain, covering suppliers, distributors, and even retailers. Corporate buying practices directly impact suppliers' ability to improve their business conduct. This downward pressure on cost and efficiency can force suppliers to compromise ESG standards to meet buyers' commercial requirements.

ESGDS has an in-depth ESG data taxonomy covering supply chain responsibility. This newsletter focuses on the E in ESG and how the supply chain can affect a company's environmental footprint. We also assess both if and how the top 500 Indian companies evaluate their supply chain on ESG practices.

INDIA'S ROLE IN GLOBAL SUPPLY CHAIN

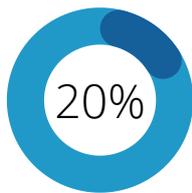
As per the Organization for Economic Co-operation and Development (OECD), India has been consciously developing and enabling the environment to attract investment. India has emerged as one of the investment hot-spots, and its huge market has attracted the attention of various Multinational Enterprises. A relatively young population, a large workforce, and friendly investment policies have helped India integrate into global supply chains.

Some key facts:

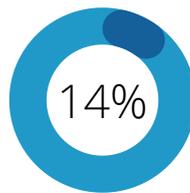
- 70% of all new global business centers are opened in India.
- India is the 4th largest automotive and auto component manufacturer globally and the 6th largest global chemicals exporting nation.
- Indian Pharma companies supply 20% of the global generics market.
- India's yearly imports stand at ~\$474bn of products and ~120B of services, and the top imports of the country include Crude (\$92.7bn), Coal Briquettes (\$24.9bn). India is the world's biggest importer of coal, diamonds, palm oil, nitrogenous fertilizers, and soybean oil.



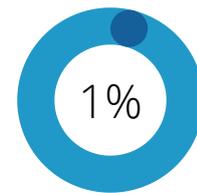
INDIA INC. DOES NOT EVALUATE THEIR SUPPLY CHAIN ON ESG



% of companies having a policy to promote an environmentally responsible supply chain



% of companies having initiatives to promote an environmentally responsible supply chain



% of companies having a target to promote a responsible supply chain

As per OECD's due diligence guidance for responsible business conduct, businesses can play a significant role in contributing to economic, environmental, and social progress, especially when they minimize the adverse impacts of their operations, supply chains, and other business relationships.

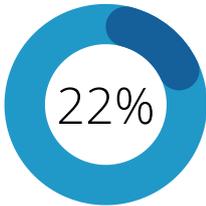
Indian industry still does not evaluate their supply chain performance is amply clear from the above charts. Not many companies in India Inc. have the policy to promote responsible supply chains, and even fewer track their supplier ESG initiatives or seek targets from suppliers on their ESG performance.

SUPPLIER SELECTION AND PERFORMANCE

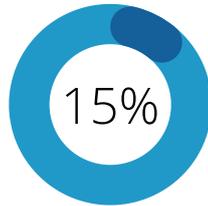
There have been numerous examples worldwide, including in India, where supply chains have caused losses and disruption due to poor ESG practices.

Let's look at some of the adverse impacts around the globe caused due to the lack of importance given to its supply chain impact:

- Major investors turn their backs on Adani Ports as Dow Jones officially removed the company from its Sustainability Index.
- Recently, major companies including Kellogg's, Mars, L'Oreal, Procter & Gamble, and Wilmar have pledged to develop fully traceable, deforestation-free supply chains for sourcing Palm oil.
- Xinjiang is a major producer of fossil fuel and supplies around 20% of the world's cotton and more than 40% of the world's solar-grade polysilicon. The U.S. House of Representatives passed a bill in September seeking to block imports of goods made in Xinjiang province, China, due to forced labor concerns.



% of companies considering environmental criteria when selecting suppliers



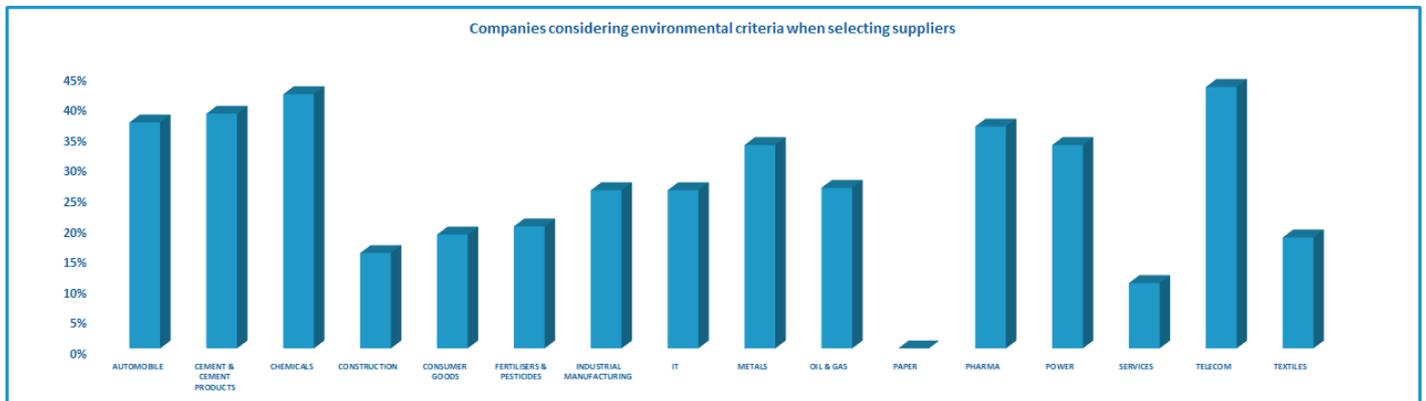
% of companies monitoring its suppliers environmental performance

Despite these stark examples, India Inc. does not evaluate suppliers' environmental performance or even use environmental yardsticks in supplier selection. The metrics clearly show that the industry needs to make a considerable effort to improve.

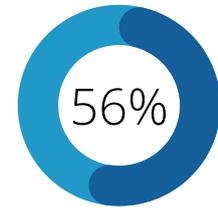
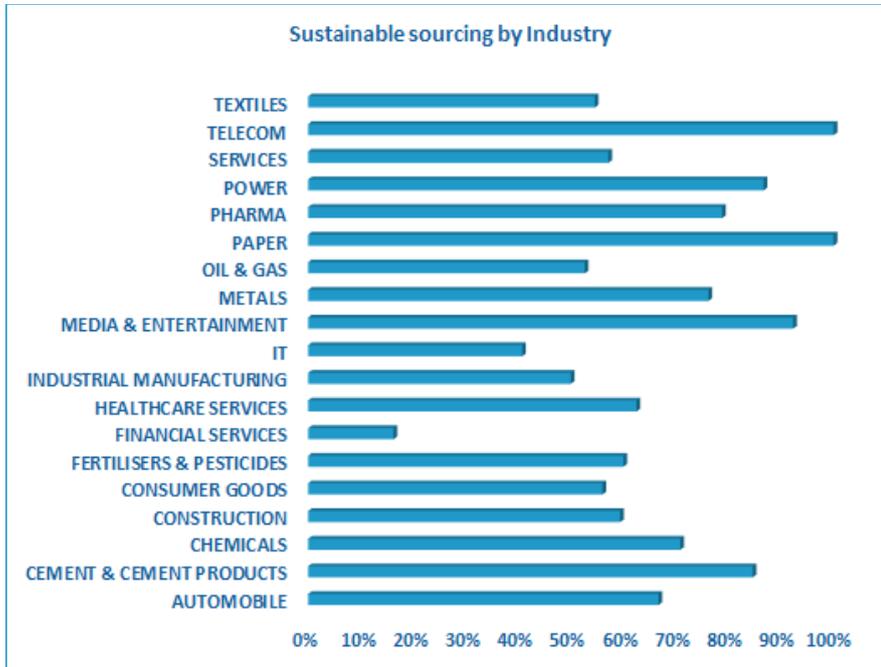
Fortunately all is not bleak with 40% of companies in the Chemicals, Telecom, Cement, and Automobiles industry consider environmental criteria when selecting suppliers.

However Paper, Fertilisers, Industrial manufacturing, and Construction sectors have a higher environmental impact, but very few companies regard this as necessary criteria for supplier selection.

Industry-wide performance



SUSTAINABLE SOURCING



% of companies having programs in place for sustainable sourcing

Our data reveals another positive aspect of India Inc. It shows that absence of a cogent supply chain strategy has not impacted sustainable sourcing practices. 56% of India Inc. has sustainable sourcing programs in place and this will at the least reduce their product life cycle impact and goad their suppliers in turn to focus on sustainability.

CONCLUSION

While conscious consumers, significant environmental regulations, and an active investor community have pushed companies to adopt good ESG risk management practices, this has not extended to supply chains. India is a significant part of the global supply chain, and hence India Inc. cannot overlook the ESG practices of its suppliers.

Evaluating supply chain performance is well researched; for example, the OECD's Responsible Business Conduct (RBC) already has a detailed framework required for Multinational Enterprises and Investors to align and integrate due diligence of their operations and supply chains. In India, the Business Responsibility and Sustainability Reporting (BRSR) considers organizations' value chains as both upstream and downstream activities. It includes entities with which the organization has a direct or indirect business relationship.

Each company/business should ask their supply chains the same questions they have started asking within their organizations; implementing strong ESG practices requires companies to work closely and collaboratively with their suppliers. Investors also have a role to play as they press for increased transparency, accountability, and reporting on progress by companies. We all know that ESG is not a trend, but it is here to stay. Only companies leading ESG adoption will be here to stay; on the other hand, companies ignoring ESG risks may not sustain over the long run.