

# The State of ESG in Manufacturing



**Assent**

| **IndustryWeek**

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# Introduction

When you think about the key to business success, is sustainability top of mind? Probably not — and it's not on the mind of many of your peers either. However, sustainability is fast becoming an essential part of doing business. Stakeholders such as consumers, investors, and regulators are thinking more and more about the environmental, social, and governance (ESG) maturity of the companies they work with. They want to see manufacturers, like you, making a positive impact on the world through their operations, and they want to do business with companies that want to do good things.

Where does your business stand on sustainability? This report uncovers the state of manufacturing ESG maturity, so you can figure out where your company sits among your peers, and provides insight on how to start building a sustainability program that scales.



## Our Partnership With IndustryWeek

Assent worked with Endeavor Business Media, a well-respected publication company covering the manufacturing space, to survey manufacturers on the state of ESG. Endeavor includes more than 80 media brands and 40 conferences and exhibitions, making it one of the largest B2B media companies in North America. With a heavy focus on industry and manufacturing, Endeavor helps businesses optimize their supply chains to serve the world. *IndustryWeek's* deep industry knowledge and stellar reputation made the publication the obvious choice to help produce this report.

The results of our collaboration will give you insight into the ESG landscape and the common pain points you and your peers experience, allowing you to better assess where your company stands with regard to sustainability. The findings indicate that ESG will continue to gain importance and come under increased scrutiny in the coming years, making it an issue that manufacturers can't afford to ignore.



# Survey Participant Breakdown

**152**  
respondents participated  
in the survey

**89%**  
of respondents are  
located in the U.S.

**11%**  
of respondents are  
located in Europe

**81%**  
are managers, or  
hold higher positions

## Summary of Key Findings

- ▶ **76%** of manufacturers are at the planning or foundational stages of supply chain ESG maturity
- ▶ **69%** expect their supply chain ESG/sustainability investments to increase in the next year
- ▶ **80%** say their organizations are somewhat to extremely dependent on partners and suppliers to help them achieve supply chain sustainability/ ESG goals
- ▶ **59%** expect this dependency on their partners and suppliers to increase in the next year
- ▶ **25%** of respondents reported having high confidence in the capabilities of their partners and suppliers to support their ESG/sustainability goals
- ▶ **31%** said they are highly confident in the quality and accuracy of their organization's supply chain data



Industrial Equipment	39%
Automotive	16%
Electronics	13%
Aerospace	9%
Medical Devices	5%
Other Industries	17%

\* Data numbers have been rounded up to the nearest whole number percentages. Chart totals may be just under or over 100% due to this factor.

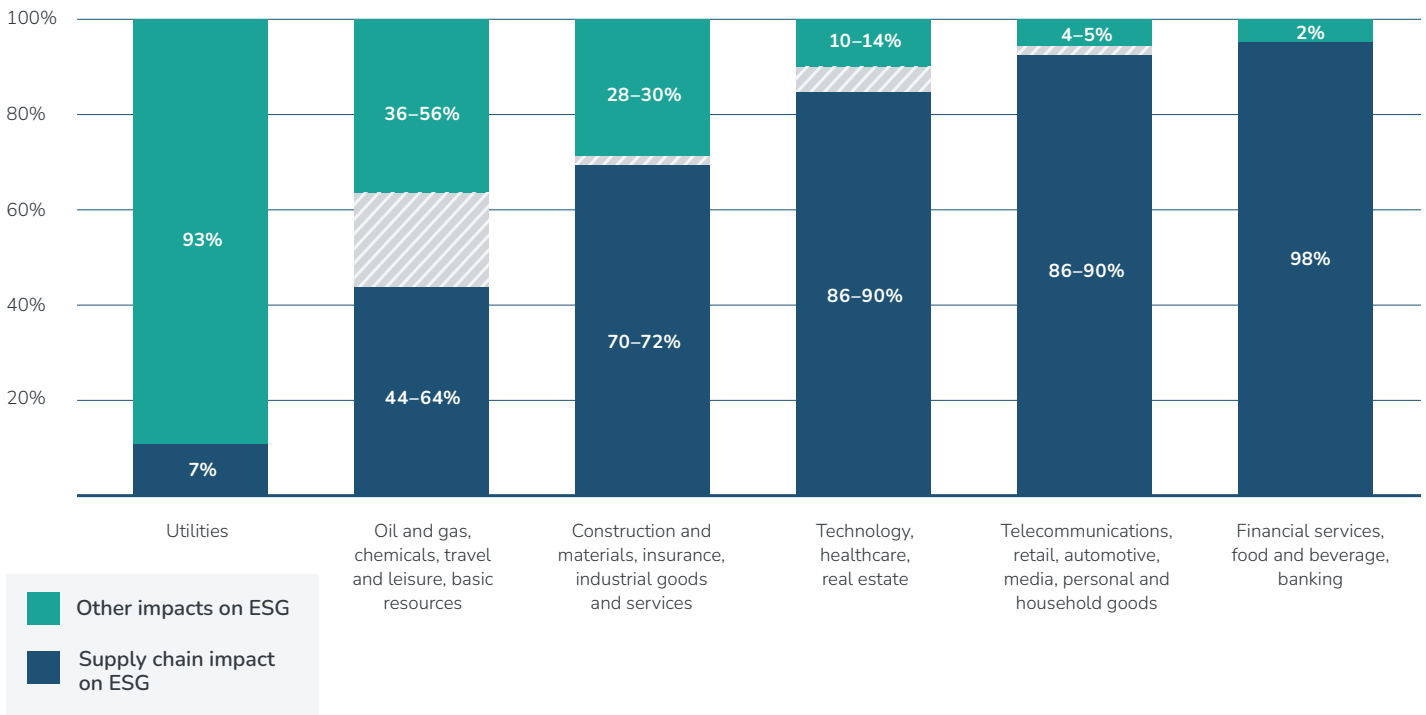




# Supply Chain ESG: An Overview

The majority of a manufacturer’s impact on the environment, society, and its internal governance are hidden deep within its supply chain. In fact, 86% to 95% of a manufacturer’s ESG impact is a result of supplier activities, according to research from the UN Principles for Responsible Investment.<sup>1</sup> The chart below illustrates examples of the environmental impact located in the supply chain in various industries. So, what drives the need for ESG initiatives: companies or their supply chains?

## Portion of a Sector’s Environmental Impact Located in the Supply Chain<sup>2</sup>



1 UN Principles for Responsible Investment. (n.d.) *Managing ESG Risk in the Supply Chains of Private Companies and Assets*. <https://www.unpri.org/download?ac=1894>

2 UN Principles for Responsible Investment. (n.d.) *Managing ESG Risk in the Supply Chains of Private Companies and Assets*. <https://www.unpri.org/download?ac=1894>



# Changing Regulations

Manufacturers face growing pressures from all sides to focus on sustainability, but they lack the supply chain transparency needed to support this demand. For starters, the global regulatory landscape is changing rapidly — for example, the Uyghur Forced Labor Prevention Act (UFLPA) and the German Supply Chain Due Diligence Act (SCDDA). In the U.S., regulatory agencies have increased the scope and enforcement of legislation such as the California Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65) and Section 6(h) of the Toxic Substances Control Act (TSCA).<sup>3</sup>

What does all this mean? As regulations expand, so do legal obligations for manufacturers. Complex manufacturers that don't meet their obligations face heavy fines and damage to their brand, which will scare off investors, customers, and consumers. Their ability to protect their market access is directly tied to their understanding of the products and parts that exist in their supply chain.

## Lack of Visibility Into Global Supply Chains

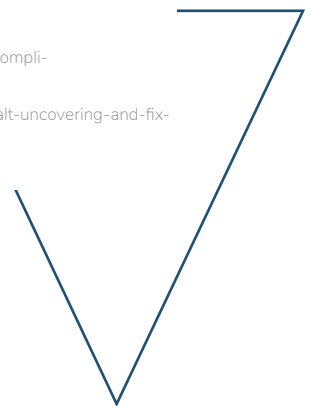
Manufacturers are often unaware of hidden risks in their supply chains. We'll use cobalt as an example.<sup>4</sup> Its mining is associated with child labor, hazardous working conditions, and the exploitation of workers. But, because cobalt's supply chain is so convoluted, it's virtually impossible for manufacturers to know where it originated. As a result, manufacturers could unknowingly support unethical labor practices and could suffer reputational damage and loss of investor confidence if it's uncovered.

Being unaware of what's happening within your supply chain will not protect you from violations if something is found within your supply chain that is made with unethical labor practices. Fines and other penalties are very real and are impacting businesses in every industry.

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<sup>3</sup> Assent. (2022, October 25). *Budgeting For Compliance & ESG: The Regulatory Landscape*. <https://www.assent.com/blog/budgeting-for-compliance-esg-the-regulatory-landscape-chapter-1/>

<sup>4</sup> Zamora, D. (2022, August 3). *Cobalt: Uncovering and Fixing Your Supply Chain's Hidden Risks*. Assent. <https://www.assent.com/blog/cobalt-uncovering-and-fixing-your-supply-chains-hidden-risk/>



For example, Malaysian palm oil producer Sime Darby Plantation Bhd has come under fire after accusations of using forced labor.<sup>5</sup> As a result of these accusations, the U.S. Customs and Border Protection (CBP) barred their goods from entering the country in 2020. Major brands, including General Mills, Hershey, and Ferrero Rocher, announced they had requested their direct suppliers to stop buying from Sime Darby.<sup>6</sup> Those announcements affected Sime Darby's stock price; in April 2022, its shares dropped by 4%.

## Investor & Consumer Demand

There are two other major factors driving supply chain ESG: investor and consumer demand. Investors see the cost of ESG risks to the supply chain — environmental damage, supply chain delays, and poor brand image all decrease the value of their investments. In the next five years, institutional investors representing \$25 trillion USD in assets are predicted to double their sustainable assets under management.<sup>7</sup>

Consumer demand also heavily affects supply chain ESG. A PwC survey showed 83% of consumers think companies should actively shape ESG best practices, and over three-quarters would stop doing business with organizations that treat the environment, employees, and their communities poorly.<sup>8</sup>

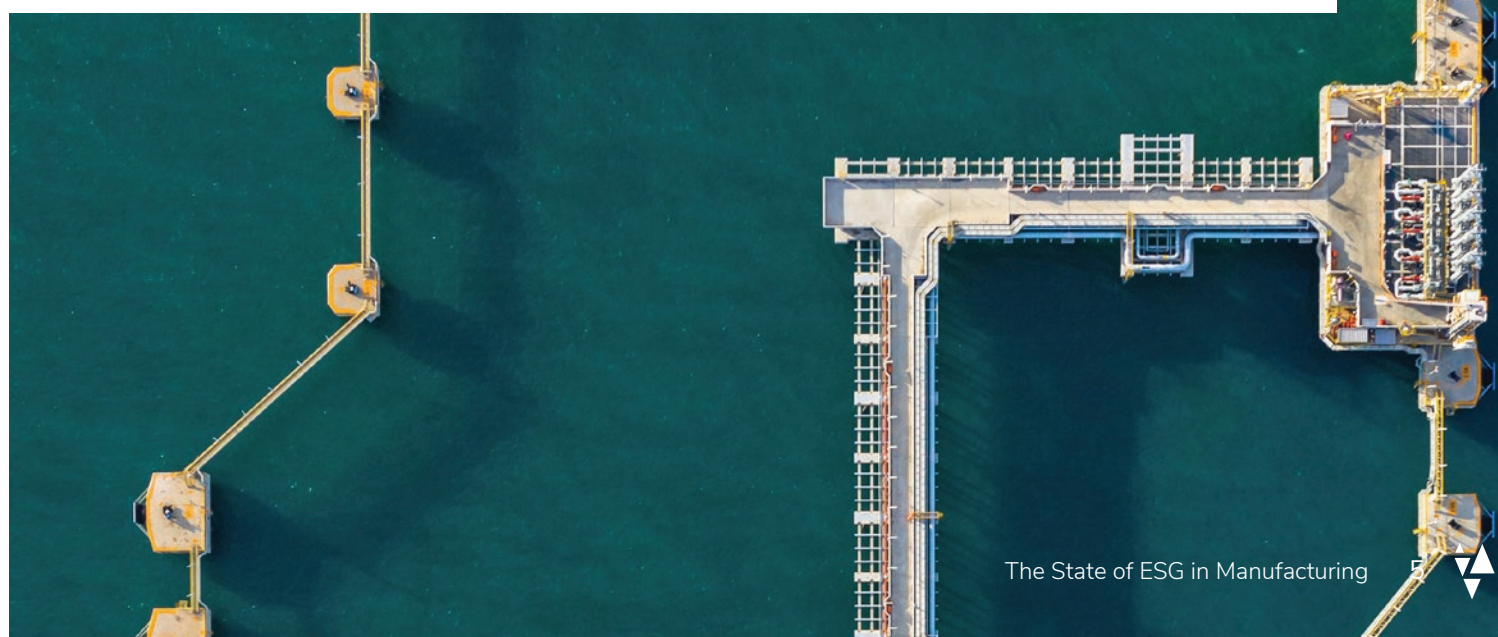
Considering these factors, it's unsurprising that 69% of survey respondents expect their supply chain ESG and sustainability investments to increase in the next year.

5 Reuters. (2022, January 28). U.S. Says Sufficient Evidence of Forced Labour at Malaysia's Sime Darby Plantation. <https://www.reuters.com/world/asia-pacific/us-says-sufficient-evidence-forced-labour-malaysias-sime-darby-plantation-2022-01-28/>

6 Chu, M. (2022, April 15). Exclusive: Ferrero to Stop Buying Palm Oil from Malaysia's Sime Darby over Labour Concerns. Reuters. <https://www.reuters.com/business/retail-consumer/exclusive-ferrero-stop-buying-palm-oil-malaysias-sime-darby-over-labour-concerns-2022-04-15/>

7 BlackRock. (n.d.) The Tectonic Shift to Sustainable Investing. <https://www.blackrock.com/institutions/en-us/insights/investment-actions/sustainable-investing-shift>

8 Herman, C. (n.d.) How Much Does the Public Care about ESG? PricewaterhouseCoopers. <https://www.pwc.com/gx/en/services/sustainability/publications/cop26/how-much-does-the-public-care-about-esg-pwc-cop26.html>





# Key Findings

## Program Maturity

Where do companies stand when it comes to their ESG programs? This survey shows that over three-quarters of respondents' supply chain ESG or sustainability programs were at the planning, beginning (basic compliance), or foundational (moderate) maturity stages.

### Low Supply Chain ESG Maturity Level

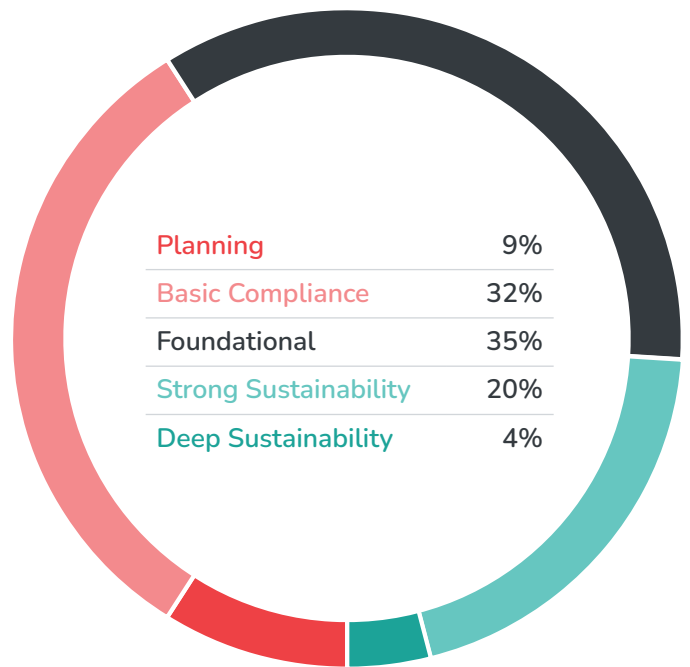
**Planning:** We do not yet have any established ESG/sustainability practices in place related to our supply chain

**Basic Compliance:** We are risk-aware and have identified relevant ESG/sustainability topics to address in our supply chain

**Foundational:** We are establishing supply chain ESG/sustainability objectives and risk mitigation practices; we have identified KPIs; our organization has developed full-time supply chain ESG/sustainability roles

**Strong Sustainability:** Our company has achieved our supply chain ESG/sustainability goals and uses enterprise-level analytics to demonstrate KPIs; we have reduced risks and are approaching net-zero emissions

**Deep Sustainability:** ESG/sustainability is embedded throughout our enterprise, it is industry-leading and gives us competitive advantage; we have achieved net zero, improved our brand reputation/pricing power, and can proactively manage risk





# Is Low ESG Maturity a Bad Thing?

Low ESG maturity may initially sound like a liability. After all, low maturity coupled with a lack of supply chain visibility means that manufacturers face greater risk and will likely struggle to meet investor or consumer demands for more sustainable products or practices.

And it's true.

However, low ESG maturity also represents an opportunity. Companies that are in the early stages of developing their ESG program are far from alone. In fact, those that implement their programs now will be able to meet investor, consumer, and c-suite demands for greater sustainability, creating a competitive advantage and establishing themselves as sustainability leaders.

Manufacturers that are transparent about their low maturity and have a credible plan to address it are much better positioned than those that make unsupported claims about sustainability in a report that's full of fluff.



## The Dangers of Greenwashing

The term “greenwashing” refers to fraud in ESG disclosures.<sup>9</sup> Greenwashing comes in several forms:

- ▶ Deliberately using misleading or deceptive environmental claims to increase a product or service's value
- ▶ Inaccurate sustainability claims based on a lack of defensible ESG data
- ▶ Claims that can't be verified because of missing due diligence practices

Greenwashing can damage your brand, create market access issues, and lead to lawsuits.

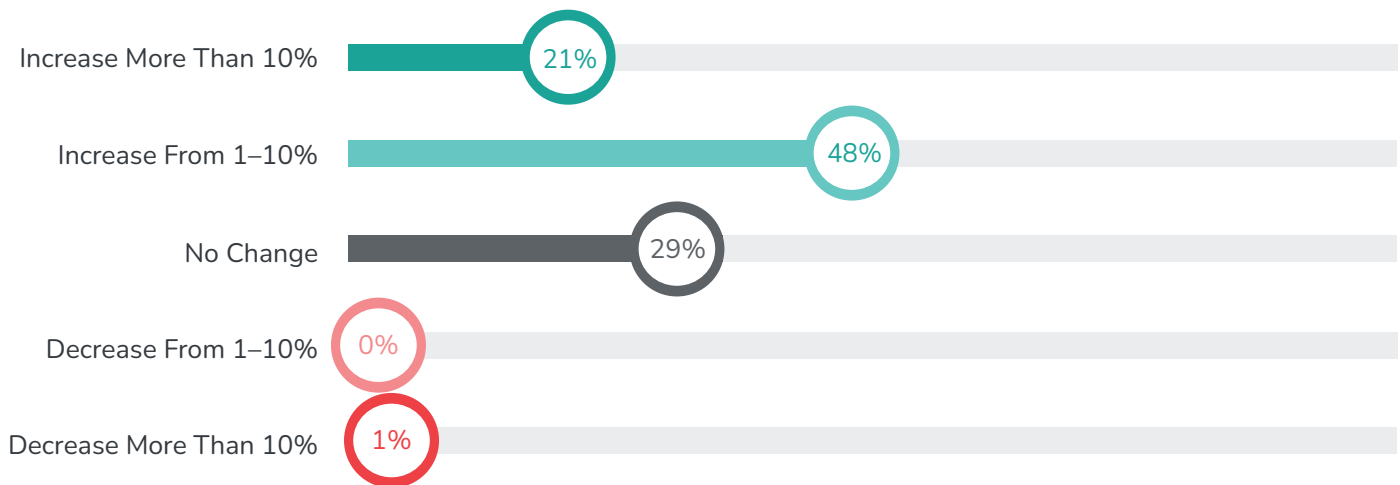
<sup>9</sup> Edgren, C. (2022, August 10). SEC Cracking Down on ESG Greenwashing. Assent. <https://www.assent.com/blog/sec-cracking-down-on-esg-greenwashing/>



# ESG & Sustainability Investments

Over two-thirds of respondents expect their investments in ESG/sustainability to increase.

## Planned Technology Investments

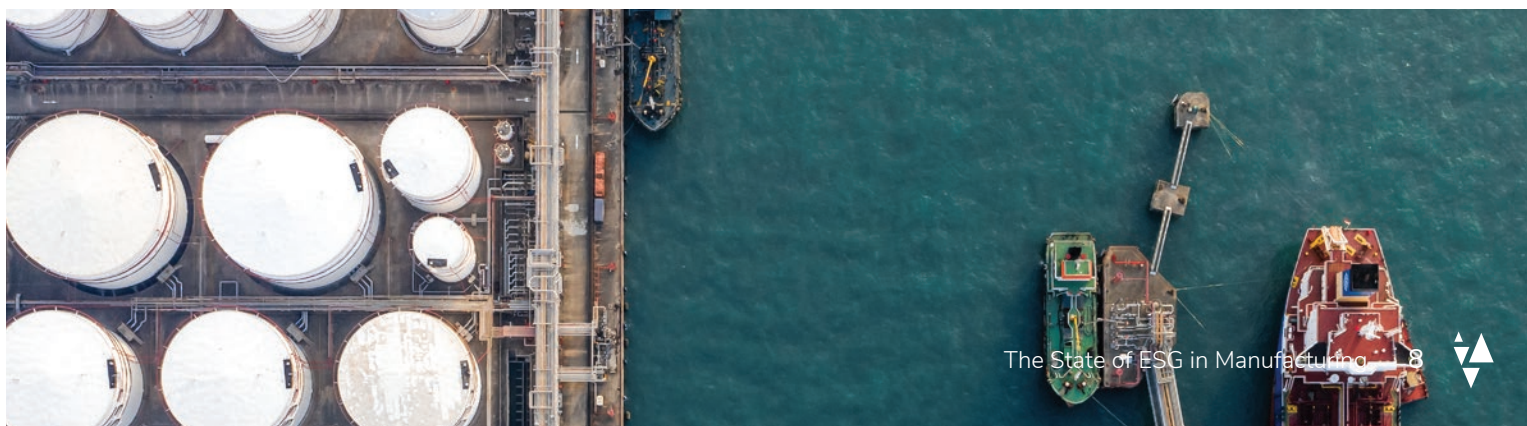


## More Investment Is Good News for Manufacturers, But...

Manufacturers dedicating more resources to ESG and sustainability demonstrates that they are taking growing demand seriously. However, as manufacturers invest more time and money in sustainability and ESG, they should expect increased scrutiny.

Specifically, non-governmental organizations (NGOs), investors, customers, consumers, and regulators will ask for defensible supply chain sustainability data. How should companies prepare for this increased scrutiny?

Achieving deep supply chain visibility with a centralized supply chain sustainability management platform is the most efficient means of ensuring you have data to back up your claims.

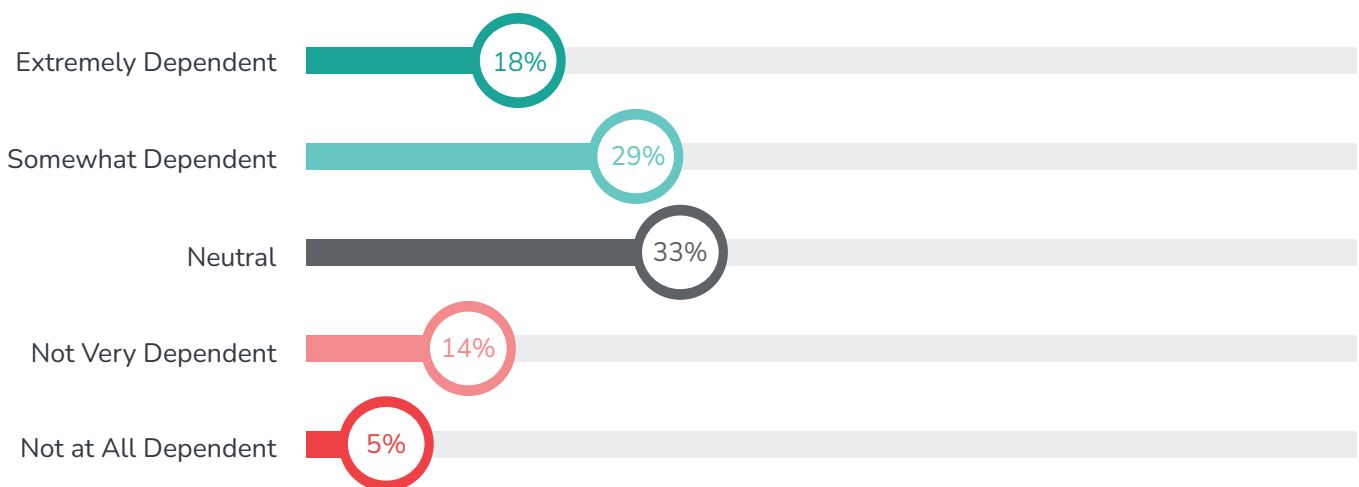




## The Supply Chain: Critical to Sustainability Success

When asked about the importance of partners and suppliers to supply chain ESG, 80% of respondents said their organization was somewhat to extremely dependent on third parties to achieve sustainability goals.

### Suppliers & Sustainability Goals



## You Are Responsible for Your Suppliers' Actions

Manufacturers bear the responsibility for their suppliers' actions, and relying on third parties in your supply chain for data can put you at risk. Many suppliers don't understand ESG regulations or standards, or don't know why those regulations and standards are relevant to them. As a result, they might be using substances or engaging in practices that create risk for manufacturers.

For example, if a supplier is using forced labor or hazardous chemicals to produce components, the manufacturer will face the fallout, affecting market access, regulatory compliance, and even brand reputation.



# Improving Outcomes

It's critical to build partnerships with suppliers to achieve sustainability goals and minimize supply chain disruptions. Strong supplier partnerships offer several benefits to manufacturers, including streamlined regulatory compliance, secure market access, and defensible ESG data.

Working with suppliers toward your sustainability goals also helps maintain the supplier's business continuity. Suppliers are becoming subject to the same ESG demands as manufacturers. When they're able to demonstrate sustainable practices, they can provide goods without disruption due to recalls or shipment seizures.

Developing a mature program means that you and your suppliers will engage in a mutually beneficial system that protects the business continuity, market access, and reputations of all parties.



## Supplier Education

To understand their responsibilities and provide effective data, suppliers must first understand why they are being asked for information and how it helps their clients achieve compliance.

## Reduce Supplier Fatigue

Addressing supplier fatigue from the start of your ESG program can dramatically increase the quality of your data.<sup>10</sup> As companies focus on hitting their goals, suppliers face more and more surveys asking them for ESG and sustainability data.

Streamlining the process for your suppliers will increase the odds of you getting the data you need. One method of streamlining the supplier experience is to send out standardized surveys, such as the industry-standard Slavery and Trafficking Risk Template (STRT), or aligning survey questions with existing standards such as the Global Reporting Initiative (GRI). Another is sending out surveys that combine product compliance and ESG topics.

## Make It Relevant

Surveys should be relevant to your suppliers. For example, they should not receive conflict minerals surveys if there are no relevant minerals in the product.

## Speak Their Language

To build an effective partnership, make an effort to communicate with suppliers in their own language. By removing barriers to completion, your company will receive the data it needs, in a format you can use.

<sup>10</sup> Schneider, M. (2022, October 12). ESG Surveys: Top 3 Tips to Overcome Supplier Fatigue. Assent. <https://www.assent.com/blog/esg-survey-supplier-fatigue-tips/>

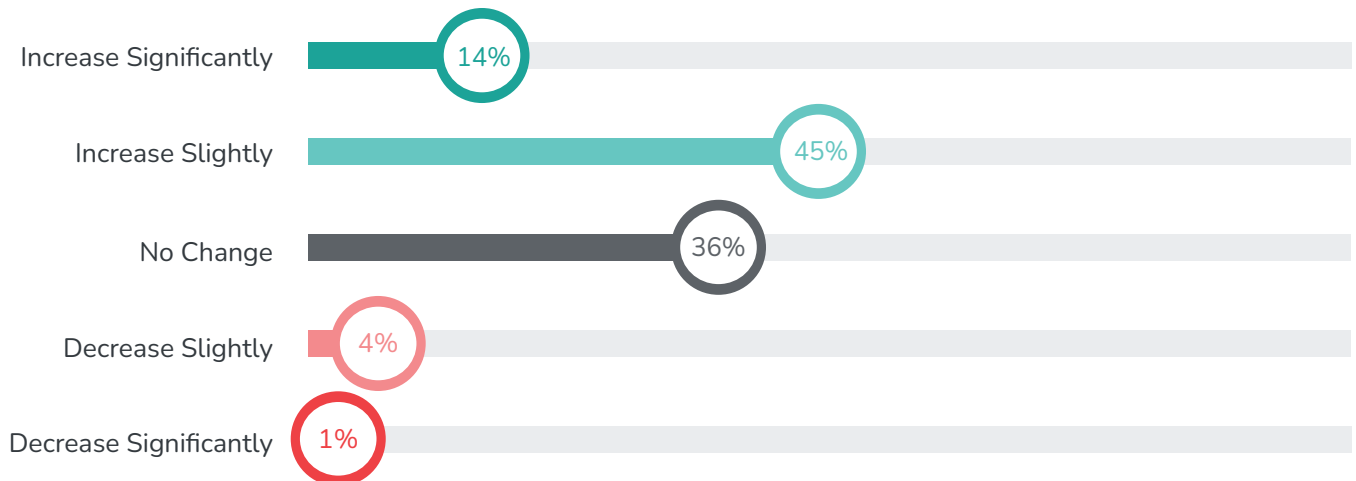




# The Downside of Increasing Dependency on Suppliers

In the coming year, 59% of manufacturers expect they will be increasingly dependent on suppliers and partners to meet ESG/sustainability goals.

## Growing Dependence on Third Parties to Achieve Goals



## Reduce Supplier Risk

As mentioned above, heavy reliance on suppliers to meet ESG goals can actually increase the risks manufacturers face.

However, manufacturers can reduce supplier risk. Deep visibility into the supply chain and accurate, timely supply chain data allow manufacturers to meet customer, investor, and regulatory demands to maintain market access and ensure business continuity.

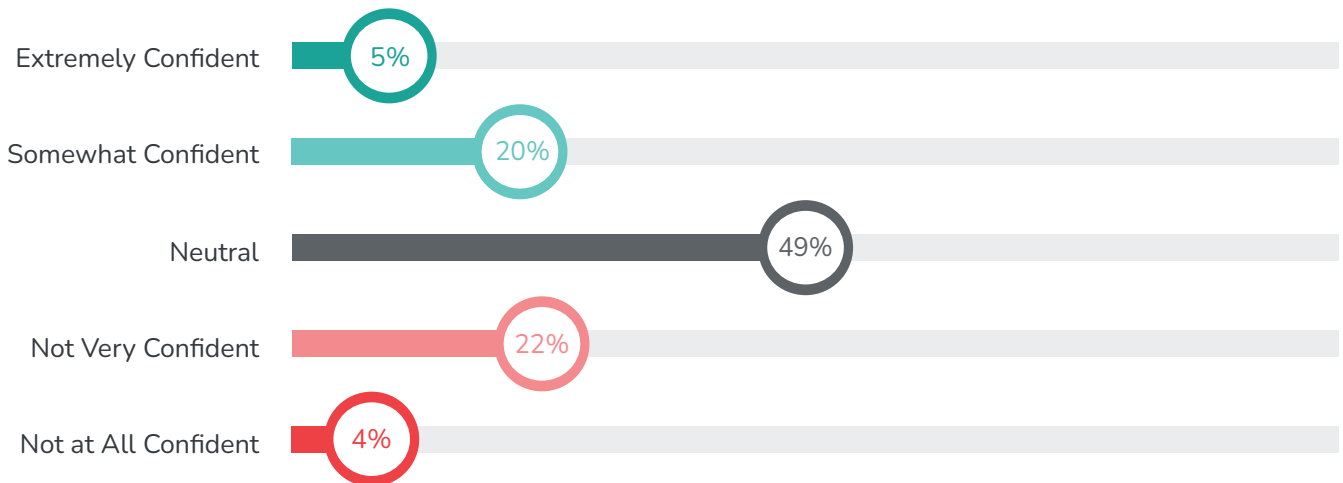




# Confidence in Partners

Only a quarter of respondents reported having high confidence in their partners' and suppliers' ability to support their ESG/sustainability goals.

## Confidence in Partners



## Maturity of Sustainability Programs

A low level of confidence in partners and suppliers is just one part of the problem. The majority of surveyed manufacturers also have low maturity with regard to ESG and sustainability, making it difficult to support their suppliers and build trust. To break this cycle and achieve the level of knowledge needed to guide their suppliers, it's essential manufacturers focus on increasing ESG program maturity.

Part of the process of maturing an ESG program is sharing what you've learned with your suppliers. An engaged and educated supply chain results in suppliers that actually reduce risk for their clients. When suppliers understand the importance of sustainability and the role they play, companies receive better data to support their ESG program goals.

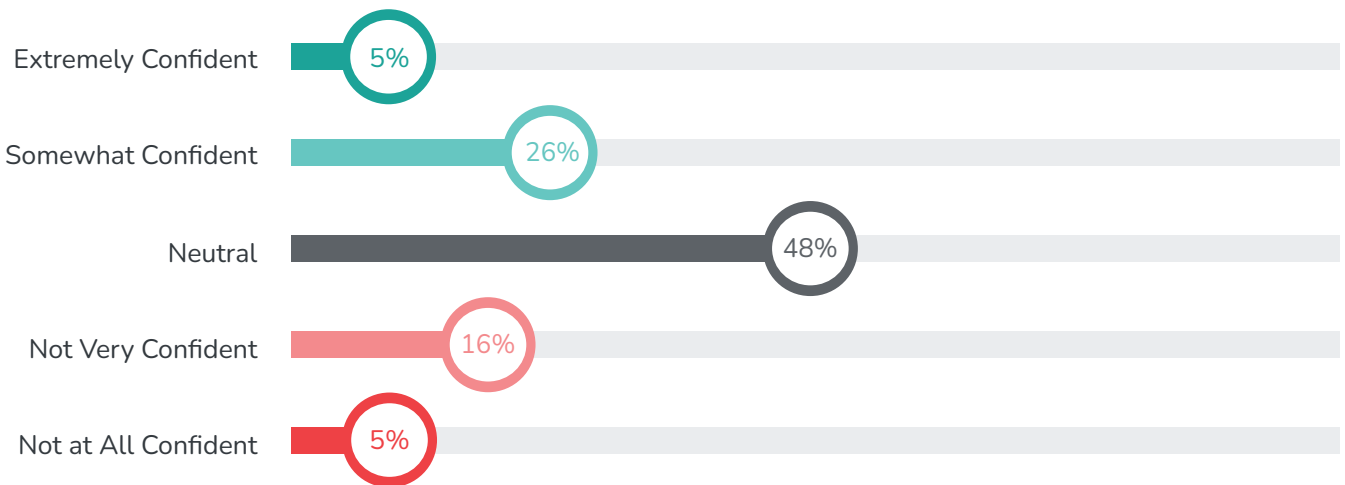
Effective supplier engagement will also boost manufacturer confidence in suppliers' data and makes it easier to meet investor, consumer, customer, and regulatory demands.



# Accuracy & Quality of Supply Chain Data

Less than one-third of manufacturers surveyed said they had high confidence in the quality and accuracy of their organization's supply chain data.

## Accuracy & Quality of Supply Chain Data



## The Bad News?

The prevailing lack of confidence in supply chain data is concerning. If manufacturers are not confident about the ESG and sustainability data their suppliers provide, they're at risk for several undesirable outcomes, including product recalls and loss of market access.

Product recalls are expensive. They shake the confidence of investors, customers, and consumers, and if your product contains a hazardous chemical and you don't know about it, you're at high risk.

The outcomes of losing market access are equally dire. Let's take the UFLPA as an example, which came into force in June 2022. The UFLPA creates a rebuttable presumption that goods made wholly or in part in China's Xinjiang Uyghur Autonomous Region (XUAR) are made with forced labor and excludes them from entry into the U.S.





The first enforcement report following the enactment of the law revealed that the CBP targeted 838 entries valued at more than \$266.5 million USD for suspected use of forced labor in the production of imported goods, including goods subject to the UFLPA and withhold release orders.<sup>11</sup> For context, the value of the CBP's enforcement actions for the entire 2021 fiscal year amounted to \$485 million USD. In just one month, the value of the CBP's enforcement actions surpassed half of the value of its enforcement actions of the entire previous fiscal year.

## Conclusion

While this report's findings paint a worrisome picture of the progress manufacturers have made with regard to ESG and sustainability, we challenge you to think of the results as a wake-up call. With an approach based on supplier engagement and education, and deep visibility into the supply chain, manufacturers can boost their ESG program maturity, improve partnerships with their suppliers, and reduce risk.

We are quickly moving into a future where boosting ESG program maturity is crucial. Regulatory requirements related to ESG are evolving, and companies are faced with greater investor demands for sustainability, more challenging customer requirements, and greater consumer scrutiny.

In short, manufacturers are under more pressure than ever to demonstrate not only compliance, but also to make a positive impact with responsibly-produced products.

## Best Practices to Boost Sustainability Programs

To improve sustainability programs, manufacturers need strong supplier relationships, built on best practices, that allow them to collect defensible ESG data within their entire supply chain.

One best practice is to use a supply chain sustainability management platform that mitigates risk by streamlining supplier outreach, improving data collection and creating greater visibility into what's happening within the supply chain. In the next section, we'll explore the top-four must-have platform capabilities to ensure you maximize the return on your investment.

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<sup>11</sup> Okpechi, Dr. A. (2022, November 14). UFLPA Enforcement: Why Critics Are Wrong About ESG. Assent. <https://www.assent.com/blog/uflpa-enforcement-why-critics-are-wrong-about-esg/>







## Must-Have Platform Capabilities

- ▶ ESG risk dashboards
- ▶ Automated supplier engagement for effective supplier relationship management
- ▶ Corrective actions
- ▶ Sustainability report templates



The Manufacturer's Guide to Avoiding Greenwashing

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## ESG Risk Dashboards

Visibility is crucial to understanding how your suppliers could negatively affect your business. Interactive ESG risk dashboards provide vital insights into supplier risk by assigning risk scores, so you can tackle these issues before you lose market access, investor confidence, or consumer trust.

## Strong Supplier Relationships Built on Automated Engagement

Automate your supplier engagement with a platform that streamlines outreach, sending out standardized surveys that are material to your suppliers. Such a platform stores information in a central location, making it easy to access. It saves time and improves response rates by ensuring suppliers only answer questions that are relevant to them.

## Corrective Actions

Establishing deep visibility into your supply chain requires you to identify which supplier actions aren't conforming to your ESG standards. As part of your continuous improvement plan, it's essential that your platform is able to identify those deficiencies and suggest corrective actions for suppliers.

## Sustainability Report Templates

No manufacturer wants to be accused of greenwashing. Plug-and-play sustainability reports templates aligned with industry standards and crafted by regulatory experts will help you avoid greenwashing claims. Be sure you're delivering the data investors, regulators, and consumers care about.





# How Assent Helps

Global ESG regulations, compliance requirements, and evolving reporting obligations will only increase in the coming years. To navigate these changes and maintain business continuity, manufacturers need defensible data and expert insights into the changing regulatory landscape.

Assent's ESG Solution allows manufacturers to obtain the data needed to fulfill ESG requirements, allowing them to focus their internal resources on revenue-generating activities. The solution is backed by subject matter experts with decades of experience, who can confidently guide you to your next steps on the ESG maturity landscape.

To learn more about how Assent helps ESG manufacturers, contact us at [info@assent.com](mailto:info@assent.com).





*Real depth. Sustainable growth.™*

525 Coventry Road  
Ottawa, ON K1K 2C5  
Canada

1 866 964 6931  
info@assent.com  
assent.com

