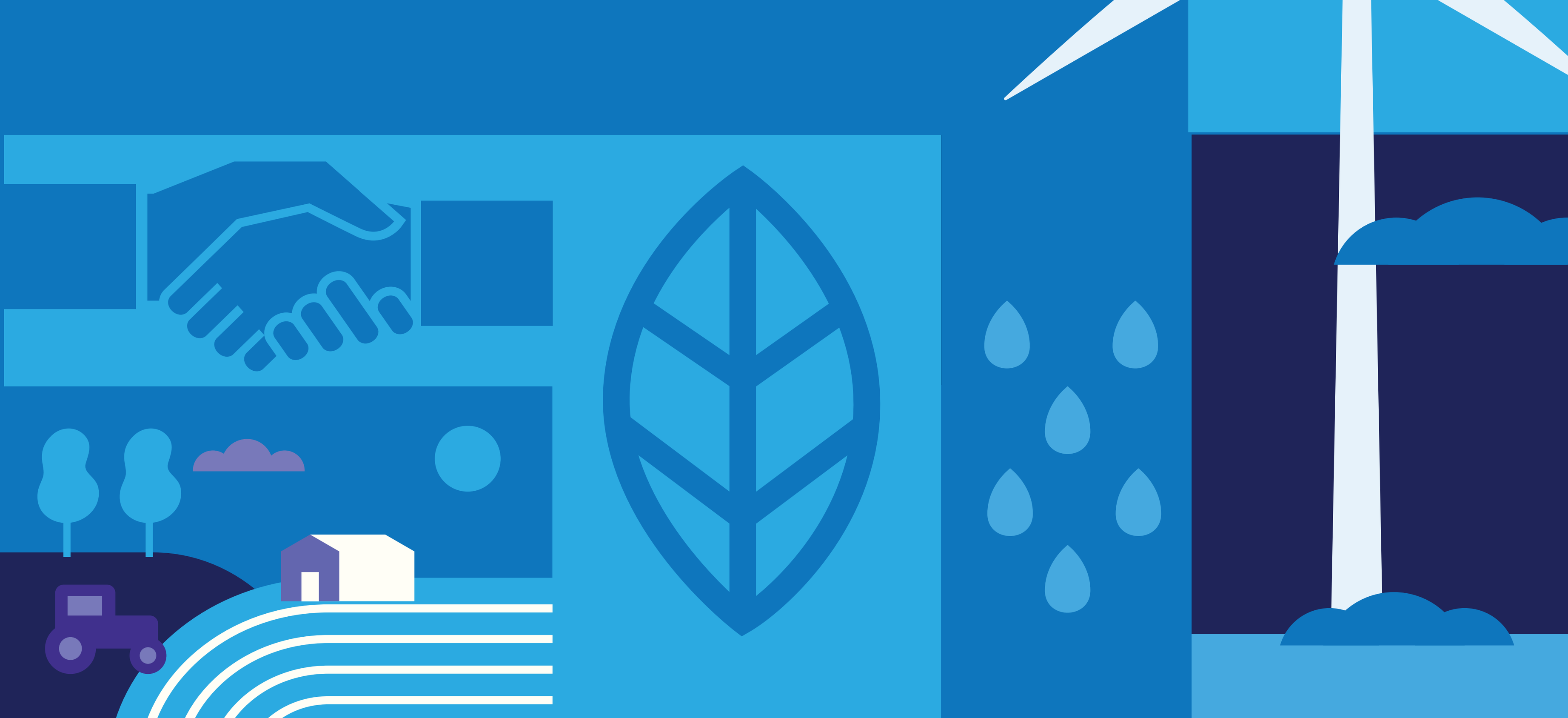
CSR and ESG Highlights for Third-Party Risk Management



Third-party risk management evaluates finances, cybersecurity, and regulatory compliance, but what about ethical issues?

Business leaders are feeling the increasing pressure of practicing corporate social responsibility (CSR) and reporting their progress using environmental, social, and governance (ESG) metrics. And, naturally, these standards of transparency and disclosure extend to their vendors.

The Differences Between CSR and ESG

While it's common to see CSR and ESG used interchangeably, they're not the same.

Corporate Social Responsibility (CSR)

This concept refers to how an organization can be held accountable to its stakeholders. In general, employees, investors, customers, and the public significantly influence how an organization responds to ethical concerns.

Environmental, Social, and Governance (ESG)

ESG refers to the specific metrics used to measure and report an organization's progress against its ethical goals. Investors often consider ESG transparency and reporting when evaluating an organization before they deem it worthy of investment. ESG also incorporates the Triple Bottom Line theory, suggesting that organizations should set equal importance on profit, people, and the planet.

Examples

Environmental
Hazardous waste, toxic emissions, and water consumption

Social
Employee benefits, fair wages and working conditions, donating profits, and consistent values in vendor/supplier relationships

Governance
Risk management, workplace diversity, political donations, and executive compensation

Associated Risks and Regulation

Regulatory agencies have yet to standardize comprehensive CSR and ESG factors and metrics, leaving it up to the organization to set its own standards. With relatively few regulations, most programs incorporate "hard law," "soft law," and ESG ratings.

Hard Law vs. Soft Law

Hard law refers to existing regulations. Many countries have passed legislation requiring an organization's disclosure on human rights, environmental protection, and labor practices within its supply chain.

However, current laws and standards specific to these issues are still limited. Alternatively, soft law is related to the voluntary adherence to ethical standards and norms.

These aren't enforceable by law but generally agreed upon across member entities such as the Geneva Convention, World Health Organization, and the Paris Agreement.

ESG Ratings

These formal ratings established through external third-party firms measure an organization's exposure to ESG risks and its performance related to those issues.

Next Steps

Consider the following areas as you extend your organization's CSR or ESG practices to your third parties:

Stakeholders
Legal, public relations and/or marketing, procurement, finance, compliance, enterprise risk, and human resources should all be included in early discussions as you begin developing a program.

Program expectations
Your organization should determine how CSR or ESG requirements will be incorporated into your existing third-party risk management program and practices. Also, decide how to evaluate program scope either by industry, product type, risk rating, or screening all vendors.

Reporting
After deciding on appropriate ESG metrics, consider how that vendor data will be reported externally and how it might be used to initiate further actions. Incorporating your organization's CSR or ESG program into your third-party risk management practices requires significant input from various stakeholders and a lot of consideration. Still, it's a worthy endeavor that will ultimately influence your organization's sustainability practices and reputation.

There is an immediate need to move away from current business practices that endanger people and the planet, not to mention the global financial system.

Moreover, as organizations willingly commit to more sustainable business practices, vendors in the supply chain must also be scrutinized. Third-party risk management must be considered a key component in driving the transparency necessary to move toward sustainability throughout the supply chain.

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