



SUPPLY CHAIN INSIGHTS

## HOW COMPLIANCE PARTNERSHIPS HELP YOU ACHIEVE YOUR ESG TARGETS

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When thinking about governance in the context of sustainability, most people would immediately associate it with reporting frameworks, transparency, tracking ESG targets, and adherence to key policies and regulations. But today, I'd like you to think about governance as an enabler to achieve your sustainability targets. Furthermore, I'd like you to consider how your logistics service provider (LSP) can play a crucial role in achieving those targets.

For a whole host of reasons – increasing calls for transparency, pressure of social media, shareholder activism – stakeholders are keenly aware of what organizations are doing and how they back up their claims to environmental and social responsibility with actions. Sustainability is a top priority for DHL and our customers because their customers demand it. Investors are increasingly scrutinizing the sustainability of their potential investments. Our communities and our ecosystems are calling for immediate action. *Everyone* is conscious of the urgency of the sustainability agenda.

The Governance pillar is deeply intertwined with the Social and Environmental sides of ESG because it provides the framework to demonstrate commitment to the sustainability agenda overall. This framework includes regulatory compliance, risk assessment and mitigation, remedial actions and awareness through training and communication, all of which are crucial influences to facilitate the achievement of all ESG targets.

Studies confirm the critical importance of governance and the systems that deliver it. Indeed, there is substantial empirical evidence that the 'G' in ESG yields better corporate returns. Governance data has been compiled over a longer period than social and environmental, which means the criteria for what comprises good governance and its classification has been more widely discussed and accepted<sup>1</sup>.

By outsourcing some of your business processes along your supply chain, you're also partly outsourcing your brand reputation and expanding the scope of your corporate responsibility program. At DHL Supply Chain, we recognize this and strive to partner strategically with our customers from a compliance perspective in order to have truly robust governance that enables achievements along with hitting ESG targets. These compliance partnerships can strengthen business relationships and ensure the reputations of both organizations are in good hands. Below are some of the benefits of creating compliance partnerships with your LSP.

### **1. Increased knowledge of material and non-material sustainability issues**

Solution and sector expertise is a crucial differentiator for LSPs to deliver efficiencies in the customer's supply chain. When your provider performs a materiality analysis, the process to define the social and environmental issues that matter most to their business, it needs to consider the more holistic ecosystem of stakeholders. That means the ESG priorities of your LSP will, in some cases, align with the inherent material issues of your sector and thus drive next-level innovations with a direct benefit for your business. Some examples include transport fleet electrification, further strides in sustainable packaging, or enhanced facility energy management.

<sup>1</sup> <https://www.spglobal.com/en/research-insights/articles/exploring-the-g-in-esg-governance-in-greater-detail-part-i>

Having a solid relationship with your LSP's compliance function can broaden the understanding of your unique challenges and, most importantly, how it can stay ahead of them. Materiality is only a starting point for your LSP to understand the complexities of your business and how to contribute to your sustainability success. Other non-financial factors have an increasing influence on an organization's ability to operate and generate value. Trade compliance, anti-bribery, human rights, and other S and G pillar issues can be both powerful drivers or severe roadblocks.

At DHL Supply Chain, we identify and prioritize the relevant issues for stakeholders that also impact our operations and compliance. Some of these include compliance with customer-defined gifts and hospitality requirements that support their anti-bribery obligation; or providing regular partnership meetings to discuss core mutual compliance requirements for business success. We understand that non-material sustainability issues can also diminish an organization's brand value. This firm grasp of what is important to our customers drives us to cultivate stronger, continuously improving relationships to jointly develop innovative solutions and anticipate potential risks.

## 2. Anticipating and mitigating risk

More knowledge of a sector's material and non-material issues can enable your supply chain partners to anticipate and

mitigate risk, for example, changes in product portfolio and licensing requirements for importing and exporting. With a robust compliance program, clear reporting and overall strong governance, your LSP's risk assessment and management processes can complement yours with data-driven insights gathered from day-to-day operations. This actionable intelligence can help both organizations be agile in the face of compliance issues and even before violations may occur.

A recent Deloitte survey showed 66% of compliance respondents hold primary responsibility for managing regulatory change, and consequently will be tasked with achieving regulatory goals while fulfilling overall business outcomes. The same report also states 39% of respondents find resource capacity or capability the biggest challenge of the compliance function,<sup>2</sup> making a stronger case for mutually beneficial partnerships, especially in a continuously changing regulatory landscape that shows no signs of slowing down.

This partnership level with your LSP will be crucial to meeting both organizations' short and long-term goals. It also creates a mutually beneficial feedback loop that can enhance each organization's governance approach by sharing best practices, from relevant policies and procedures to compliance training and communication.

## 3. Collaborative partnership and sharing best practices

Continuous dialogue and transparency about risks and opportunities enables an open channel for the compliance functions of both parties to share best practices. It's the next level in stakeholder engagement in which customers and suppliers see the mutual benefits of the relationship across the supply chain. Successful companies tackling the issues and opportunities of sustainability understand the need to move from transactional relationships to collaborative partnerships.

A collaborative approach with your provider can give your organization greater clarity on a broader spectrum of social issues, innovations in environmental protection technology and regulation, better due diligence strategies, audits, and whistle-blowing mechanisms and measures. Studies have shown that deals between companies that devote comparable attention to ESG greatly outperform deals with ESG incompatibility.<sup>3</sup> Compliance collaboration with your LSP can be a significant contributor to operational success.

Open collaboration can also contribute to fostering an organizational culture with a strong foundation of principles and ethics. One could argue open collaboration can only happen when the organizational culture is based on strong principles and ethics. These two factors are continuously intertwined, creating a perfect feedback loop to create a compliance and governance approach that supports overall sustainability targets and drives business performance.

Good governance enables good decision-making that keeps stakeholders happy. Working with your partners to continue fostering a trusted, transparent and compliant business can reinforce your sustainability agenda and help you deliver on your ESG targets. Having a LSP that you know holds the same strong compliance and ethical baseline as your own is now a pre-requisite for a successful partnership. More importantly, a collaborative relationship with your LSP's compliance function can also help bring some flexibility to adapt and improve the sustainability program for both organizations and improve brand value.



<sup>2</sup> The State of Compliance Survey – 2020 edition, Deloitte,

<sup>3</sup> The Growing Importance of ESG Due diligence Post-Covid-19 – TRACE, 2020