Position Paper: The Need for improving Supply Chain Reporting

Introduction: Sustainable Disclosure requires looking beyond Company Boundaries

Corporate sustainability reporting can no longer stop at the factory gates. Current economic and environmental realities demonstrate that up to 70% of value creation, environmental and social impacts and risks arise through relationships with suppliers, contractors, partners, and customers. (A number confirmed by Professor Thomas Johnsen in their 2019 procurement textbook, p. 3).

This reflects the reality of modern business. Processes, responsibilities, and impacts extend well beyond company boundaries. Recent regulatory developments, including the Corporate Sustainability Reporting Directive (CSRD), have included this perspective. However they have not invented this; they have merely formalised existing business practice.

True sustainability reporting is intrinsically linked to understanding the broader context and the dynamics of global value chains.

Materiality remains the Key Principle

Recent simplifications in European reporting frameworks have sometimes been perceived as a step backwards in regulatory ambition. However these adjustments are primarily designed to reduce administrative burdens and improve proportionality, without compromising the fundamental principle of "double materiality."

Companies must still disclose what is materially relevant regarding their environmental and social impacts, even when these happen deep within their value chains or when perfect data is unavailable. Simplification does not absolve companies of their responsibility to identify, understand, and transparently communicate significant risks. Materiality remains the guiding principle for reporting, regardless of regulatory obligations.

The Centrality of Value Chain Monitoring

A vast majority of critical Environmental, Social, and Governance (ESG) risks materialise outside a company's direct operations. This includes indirect carbon emissions, supply chain labour conditions, biodiversity dependencies, and the operational risks associated with supplier continuity. Consequently, robust value chain management is a non-negotiable component of corporate sustainability and must be accurately reflected in reporting. Processes, governance, criteria, and tools must effectively monitor the value chain to consistently reflect the company's commitments. Even in a less-prescriptive regulatory environment, actively monitoring and addressing material supply chain topics remains an absolute necessity for resilient business operations.

Reporting on the Value Chain: What Standards Allow and What They Lack

While all major reporting standards mandate value chain information, they have not yet delivered a mature, uniform set of metrics:

- **ESRS (under CSRD):** requires companies to analyse impacts, risks, and opportunities across value chains and to include them in double materiality. However, many supply chain disclosures remain qualitative and proportional, with the possibility of omission where data is unobtainable or not yet mature.
- **GRI:** Prioritises the description of management approaches, processes, and risks over comparable quantitative metrics.
- **ISSB/IFRS and SASB:** Require consideration of value chain risks but lack universal supply chain indicators (with exceptions of e.g. Scope 3 climate data, which is more advanced).
- **VSME:** this EU voluntary standard for SMEs is designed to facilitate essential dialogue along the value chain but does not provide tools for quantitative reporting.

Standards allow value chain reporting, but they do not yet offer a coherent, robust set of metrics that can be applied across the board. As a result – also due to technical inertia and structural limitations in data availability - value chain disclosure remains predominantly qualitative.

This is not a weakness of reporting, but a reflection of an ecosystem still in the process of maturing. Nevertheless a clear, transparent, and well-constructed qualitative disclosure is more effective - and more responsible - than the absence of any reporting information.

Conclusion: The Focus on Materiality in Value Chains Must Remain Strong

Recent regulatory shifts do not change the nature of sustainability impacts, nor the companies' responsibility to address them. The value chain is the heart of corporate sustainability. Even in a less burdensome regulatory context, a well-designed qualitative approach helps companies to maintain credibility, robustness and business continuity.

Three Calls to Action

- **Preserve Scope:** Simplification of sustainability reporting must not reduce the focus on value chain impacts. The frameworks must continue to require that companies identify, assess and disclose material issues beyond their direct operations. Even where data availability is still evolving.

- **Strengthen Guidance:** Standard setters and regulators should further strengthen practical guidance on value chain reporting. They should recognise the key role that robust and transparent qualitative disclosure plays in supporting informed decision-making.

- **Drive Convergence:** We urge greater alignment across reporting frameworks regarding supply chain expectations. This includes developing consistent quantitative metrics to improve comparability and to eliminate incentives for superficial disclosures driven by regulatory simplification.