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Challenges and demands of the new German Supply Chain Act



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1. The Supply Chain Act and its contents in a summary

Context:

From the perspective of the **German civil society** the Lieferkettengesetz (Supply Chain Act) seeks to harmonize differences in **environmental, social, and governance (ESG)** standards across the supply chains of companies operating in Germany. It is a response to the complex and international nature of supply chains, and the limits of current domestic legislation with regards to ESG standards. By establishing the Supply Chain Act, Germany wants to ensure that products and services are conforming with these standards, and thus improve and harmonize social and environmental standards in societies where supply chains start and end.

Its content in a nutshell:

The Supply Chain Act demands that all affected businesses have to make reasonable efforts to ensure that **no violations of ESG standards** occur within their own business or within their supply chain.

The term „**supply chain**“ covers:

- Actions of an enterprise in its own business
- Actions of a contractual partner, insofar as they are necessary for the manufacture of the product in question or for the provision and use of the service in question (direct supplier), as well as
- Actions of other suppliers (indirect suppliers).

In regard to **indirect suppliers**, companies must only (but immediately) carry out a **risk analysis** and take preventive or remedial measures, if they receive substantiated knowledge of possible human rights violations or violations of environmental obligations.

What has to be done?

ANALYSIS AND REDUCTION OF ESG-RELATED RISKS

The law **obliges** German companies to comply with an appropriate level of due diligence with regard to human rights and environmental protection throughout their supply chains.

A central element of this legislation is the **performance of a risk analysis**, through which the risk of a violation of human rights or environmental obligations must be assessed.

The risk analysis **must be comprehensive**, taking into account all of a company's sites, all business processes in the supply chain from raw material extraction to end product, and contextual factors such as political conditions.

Following the risk analysis, companies are required to establish measures. These measures should be decided upon through a consideration of:

- a. Nature and scope of the business
- b. Company's ability to influence the direct cause
- c. Expected severity of the breach
- d. Reversibility of the breach
- e. Likelihood of the breach occurring
- f. Nature of the causation contribution

FURTHER OBLIGATIONS

Companies affected by the draft law will need to develop a **human rights strategy** and appoint a human rights officer responsible for risk management. In addition, companies must prepare an **annual report** on their fulfilment of due diligence obligations.

Key Elements

- Transfer of ESG standards into other societies
- Obligation to act also outside one's own business
- Risk level assessment along the supply chain
- Occupational safety measures
- Human health
- ESG strategy and permanent risk level assessment

IMO Workshop Formats



OUTCOMES:

- An organization being ready to install and understand the ESG measures
- Motivated and focused managers and employees
- Recognized employer branding for the companies
- Sustainable competitiveness
- Higher resource productivity
- Long-term supplier contracts



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Drawing upon our expertise in transforming organizations, and our longstanding relationship with the Berufsgenossenschaft Rohstoffe und Chemische Industrie (BG RCI), **The Institute of Management and Organization (IMO)**, collaborate on offering a workshop program focusing on the framework demands to enable NGOs, government organizations, and companies, to meet the requirements of the new German Supply Chain Act.