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# Supplier Sustainability Audit Framework Development to Ensure Compliance with the Upcoming Corporate Sustainability Due Diligence Directive

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## Abstract

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The objective of this Thesis is to propose a common supplier sustainability audit framework for the case company in order to identify and assess risks in supply chain and to ensure compliance with coming Corporate Sustainability Due Diligence Directive (CSDDD / CS3D). The business challenge is to contribute with common audit framework for the company to identify and assess risks in supply chain and ensure compliance with the upcoming Corporate Sustainability Due Diligence Directive).

The study is conducted by utilizing Action research methodology, and uses mainly qualitative research methods, with some elements of numeric/quantitative analysis. The study is implemented through conducting interviews, observations, benchmarking, and document analysis, in three phases of data collections, namely the current state analysis, the proposal building, and validation of the proposal. The review of existing knowledge and best practices focuses on the topics of corporate sustainability and the upcoming due diligence directive. The proposal is built by demonstrating the supplier sustainability audit process, analyzing, and improving the existing process, and focusing on the development needs.

The co-created proposal aligned the stages of the case company's supplier sustainability audit process with the tools to evaluate supplier sustainability, both environmental and social, the roles who to assess/audit and when, taking into consideration the CSDDD requirements for due diligence, policies (human rights and sustainable procurement) and risk management. As a result of the thesis, the internal guidance documentation and supplier sustainability audit process were developed continuously by applying various actions, starting from quick wins based on the feedback and up to more long-term improvements.

Keywords: Sustainable Supply Chain Management, Supply Chain Transparency, Corporate Sustainability Due Diligence Directive, Supplier Sustainability Audit, Risk Management, Sustainability, Supplier Relationship Management

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The originality of this thesis has been checked using Turnitin Originality Check service.

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**Glossary**

CBAM	Carbon Border Adjustment Mechanism
CED	Cause and Effect Diagram
CSDDD / CS3D	Corporate Sustainability Due Diligence Directive
CoC	Code of Conduct
CSRD	Corporate Sustainability Reporting Directive
DMA	Double Materiality Analysis
DSCSA	Drug Quality and Security Act
ESRS	European Sustainability Reporting Standard
ETS	Emissions Trading System
EURD	EU Deforestation Regulation
FSMA	Food Safety Modernization Act
GHG	Green House Gas
GRI	Global Reporting Initiative
HRDD	Human Rights Due Diligence
HREDD	Human Rights and Environment Due Diligence
IATA	International Air Transport Association
IENVA	IATA Environmental Assessment

IRO	Impact, Risk, Opportunity
PLM	Project Lifecycle Management
RTK	Revenue Ton Kilometre
TTW	Tank to Wheel
SAF	Sustainable Aviation Fuel
SCM	Supply Chain Management
SCoC	Supplier Code of Conduct
SDG	Sustainable Development Goal
SSA	Supplier Sustainability Audits
SSAS	Supplier Sustainability Audit Standards
SSCM	Sustainable Supply Chain Management

# 1 Introduction

Companies are recommended to focus on end-to-end supply chain initiatives through various items, such as creating transparency, partnering across supply chain (operations and commercial included), and leveraging enablers; to analyse the whole supply chain for possible hidden vulnerabilities and solutions by using digital tools and advanced analytics. Analytics traditionally focus on reporting based on internal data, such as supplier provided data, transactional data (ERP) and tactic (Excel and SharePoint), but the new way of value is around building on external data assets, such as public (“The Internet”), 3rd party proprietary (credit ratings, risk and CSR profiles, certain indexes) and benchmarking. (McKinsey, 2024).

The themes, such as: moving away from cost and more towards value creation, supplier relationship management, risk management, talent management, people and customer experience, product to solution, data and analytics, holistic supply chain, risk monitoring and forecasting, risk related correct KPIs and sustainability in terms of environment and social aspects are what we can recognize today as the current trends. Harry Menear, from CPO Strategy emphasize how supply chain risk management merges with environmental, social and governance (ESG) goals. Menear highlights how supply chain are critical avenues for assessing and mitigating Scope 3 carbon emissions. (Menear, 2024).

*“Companies that do not address the link between supply chain risk and Scope 3 emissions face potential regulatory scrutiny and loss of reputation and market share.” (Menear, 2024).*

We are also seeing more and more regulations and legislations playing out, in terms of both environment and social aspects. Good examples of these are the local transparency acts and in EU level, the corporate sustainability reporting directive (CSRD) and the corporate supply chain due diligence directive (CS3D / CSDDD).

How companies can navigate regulations and the most important, make sure they do not have negative impact on the planet by focusing on the environmental and social aspects from sourcing and procurement side?

This Thesis investigates the ways in which the case company could further develop its supplier sustainability audit framework to identify and assess risks in supply chain and to ensure compliance with the coming Corporate Sustainability Due Diligence Directive (CS3D) from the environment and social sustainability perspective. The Thesis also explores the current practices involved in the case company procurement department for the supply chain management and sustainability, especially focusing on supplier sustainability auditing. The proposal, Supplier Sustainability Audit Framework for the case company, is co-created by benchmarking the current best practices in other companies regarding the supplier audits and sustainability, relying also on existing research and observations.

These themes will be discussed in this Thesis more in detail below.

## 1.1 Business Context

The case company is a network airline specialised in connecting Europe, North America and Asia via Helsinki hub flying to over 80 destinations. In the core of the company strategy is sustainability. The long-term target for the company is towards carbon neutrality: the company is willing to maintain the social and economic benefits enabled by air connections, while dramatically reducing the carbon footprint of air travel. The company strategy also focusses to optimize a more balanced network as it is no longer flying over Russia. In addition, the strategy aims to best digital experience, improved customer engagement and experience through digital channels and competitive fare and ancillary products by further leveraging partnerships in everything the company does. The key strengths of the implementation of the strategy are the strong brand and market position, history, proven record of accomplishment, and the team: people and the capabilities.

The operation environment has changed radically in the last years. In 2019, the company enjoyed growth and profitability. The company was global, and network centred on a strong Helsinki Hub. New routes were planned to be opened in Asia, EBIT margin was 5 % and the balance sheet was strong. However, in 2020-2021 COVID19 hit the aviation forcing the company to ramp down network, ground aircraft and furlough people. The company completed 200 million euros cost savings program, raised 3 billion of new debt and equity, accumulated operating loss of one billion euros financed with debt. Towards mid/end of the pandemics markets started opening for the travelling, but China remains closed. When finally, the industry had started to recover from COVID19 in 2022 Russia invade Ukraine which led to airspace closure, inflation and nearly doubled jet fuel prices. What had been the competitive advantage of the company until then, the short route from Helsinki to Asia “turned against the company” and force it to compete without the geographical advantage.

The case company procurement is in charge of the cost management of specified material and services spend, including supplier quality and supplier management in collaboration with internal business partners to provide maximum value for the company. The extensive network of partners and suppliers integrated in the business functions of the company influence to the customer experience, brand value, operational excellence, and profitability. Company sees it vital to have the partners and suppliers as part of the business. Supplier management and relationship, compliance and performance influence the company’s attainment. Examining the procurement from strategic perspective, the goal is to be the most important consideration and choice to company’s suppliers. Procurement focuses to build and develop business strategy together with the business stakeholders along sourcing plans and integrated category strategies. (Case company, 2024).

## 1.2 Business Objective, Challenge and Outcome

There is still work to do within the Supply Chain Sustainability. When COVID-19 hit, all development items and project were put on hold including the supply chain sustainability related items.

The company is willing to prepare itself for Corporate Sustainability Due Diligence Directive requirements, even if not effective yet as similar requirements are also coming from other stakeholders. Until now, the company has utilized Supplier Code of Conduct and followed its compliance through supplier self-evaluation surveys. Supplier Sustainability Audits have been in place only for a small number of suppliers. Currently the company has many formats in use and not established or defined process for supplier sustainability auditing in place.

In this Thesis, the business challenge is to contribute and build common audit framework for the company to identify and assess risks in supply chain and ensure compliance with the upcoming Corporate Sustainability Due Diligence Directive (CSDDD / CS3D).

*The objective is to propose a common supplier sustainability audit framework for the company in order to identify and assess risks in supply chain and to ensure compliance with (upcoming) Corporate Sustainability Due Diligence Directive (CSDDD).*

The outcome of this Thesis is a proposed supplier sustainability audit framework.

### 1.3 Thesis Outline

The scope of the thesis is to focus on building a common supply audit framework to identify and assess risks in supply chain and to ensure compliance with the upcoming Corporate Sustainability Due Diligence Directive (CS3D / CSDDD).

To gain understanding and information about supplier sustainability audits, the company procurement and supplier sustainability audit materials and processes have been gone through and analysed as well as some of the other companies' supplier sustainability audits in order to understand the existing supplier sustainability audit processes and frameworks.

Theory of sustainable supply chain management, supply chain transparency, sustainability, Corporate Sustainability Due Diligence Directive, supplier sustainability auditing and supplier relationship management have been studied from literature and benchmarked also with other companies.

This study is written in seven sections. Section 1 gives the introduction, describes the background and research problem, and gives an overview to the thesis. Section 2, Research Design and Methodology emphasizes how the study is managed. Section 3 reports on the results of the current state analysis and analyses the current supply sustainability audit of the case company based on the Cause-effect analysis of the problem. Section 4 explores the knowledgebase and theoretical framework based on literature review and other materials, best practices from the topics of Sustainable Supply Chain Management, Sustainability, Corporate Sustainability Due Diligence Directive, Supplier Auditing and Supplier Relationship Management, and results in a conceptual framework for the Supplier Sustainability Audit Framework. Based on the conceptual framework, Section 5 focus on implementation of the development project by building the proposal and validating the proposal, discussing the results, and validating the proposed process and concept. Section 6 highlights the results; it presents the main results and evaluate the success based on the chosen metrics. Section 7 concludes and summarizes the Thesis and provides a proposal for the case company's Supplier Sustainability Audit Framework.

## **2 Research Design and Methodology**

This section describes the research approach, research design, and data collection and analysis methods applied in this thesis. The section is divided into four areas: research approach, research design, data collection and analysis, and thesis evaluation plan.

## 2.1 Research Approach

Research often depends about analysis; hence researchers tend to use different methodologies for investigating related type of problems. There is no definite technique to be assigned to explore a specific research problem.

*“Research is a diligent search, studious inquiry or investigation or experimentation aimed at the discovery of new facts and findings; or broadly, it may relate to any subject of inquiry with regard to collection of information, interpretation of facts, revision of existing theories or laws in the light of new facts or practical ideas.”* (Adams 2014).

Research is used to gain competitive advantage, to test new products and services, to provide information which helps to avoid future business challenges, to enhance profitability, to reduce costs, to enable management to prioritize strategic options for the future, but most of all to strengthen an organization’s ability to meet the demands of the future (Adams 2014). Research method is a way of conducting and implementing research. There are two types of data: quantitative; data can be measured numerically, and qualitative; numerically non-measurable (Adams 2014).

The research method chosen for this study is action research, as it seeks to solve a practical and study the change process by diagnosing, planning, acting, and evaluating. Action research searches solutions for the organizations practical and concrete problems. In order to identify the challenges, plan the action, and analyse the action and the results moving in spiral perianth aiming to change the participant ways of thinking and question the existing, it moves in cycle. (Coughlan and Coughlan 2002).

*“Action research aims to enhance the theoretic understanding of the phenomenon researched and change the practice.”* (Coughlan and Coughlan 2002).

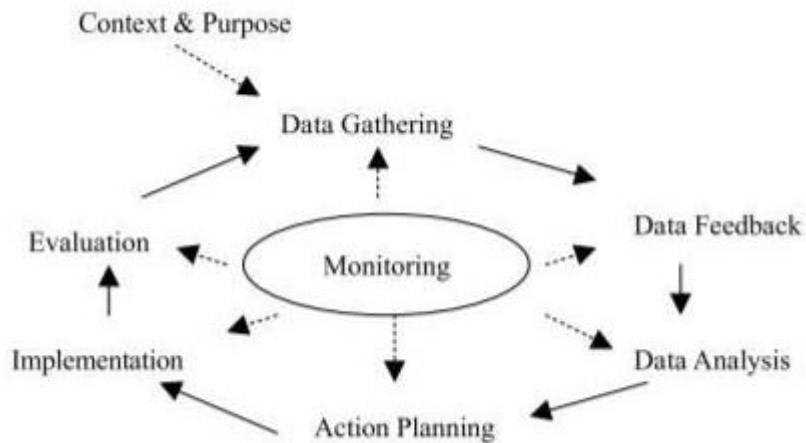


Figure 1: Action research cycle (Coughlan and Coughlan 2002).

This study is conducted as Action Research and uses mostly qualitative methods, but also some elements of quantitative analysis due to the nature of the research problem. The study is implemented through multiple data collection methods, such as: interviews, observations, benchmarking, document and research reviews to have detailed analysis for observations and information collected. The most utilized research methods here are individual interviews and observations, systematic collection of experiences, benchmarking, analysis, and reporting.

The business problem has been defined together with the case company by using the root cause analysis; 5 Whys technique and Cause-and-effect diagram (CED), Ishikawa diagram.

The interview method used in this study is a semi-structured approach. The agenda and schedule are made well-planned including all relevant questions which have been also reviewed with the case company prior to completing the actual interviews. All interviews have been scheduled in advance. Silverman (2005) emphasize that open-ended questions provide in-depth knowledge and highlights the research prospects that will then be taken into consideration when providing suggestions on the actual research problem (Silverman 2005).

The answers, observations and experiences received, together with quantitative and qualitative data will formulate the research problem and solution to it to which this study will focus.

## 2.2 Research Design

Figure 2 below shows the research design of this study.

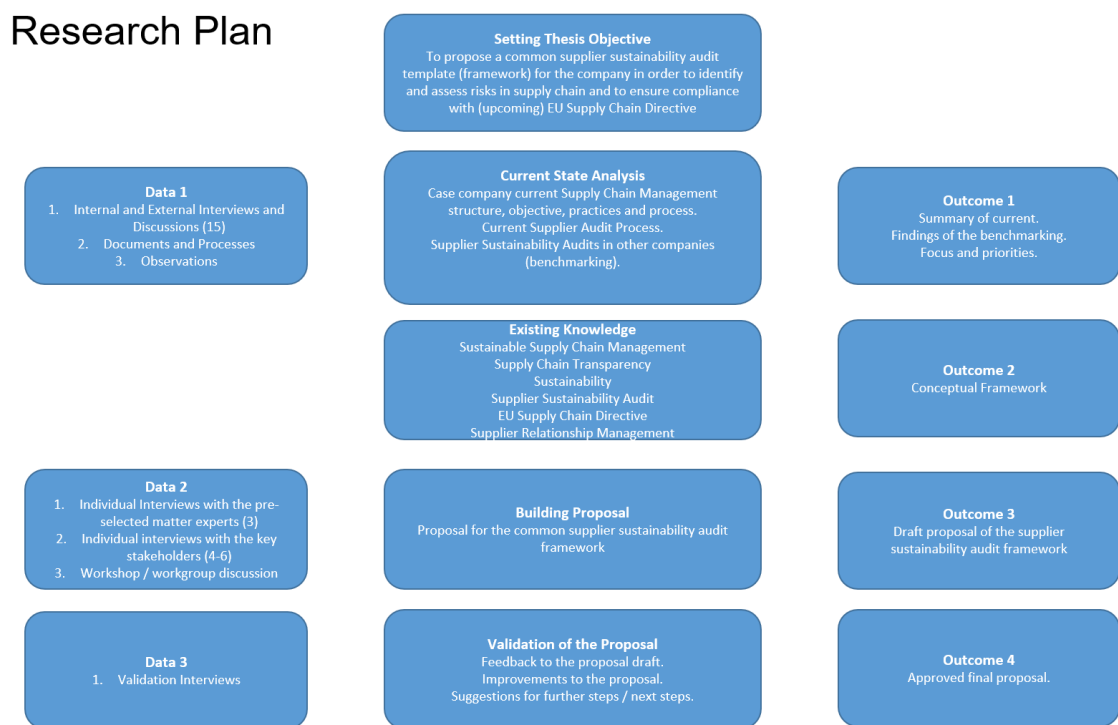


Figure 2. Research design of this Thesis.

As shown in Figure 1, in the first phase, the objective is set to propose a common supplier sustainability audit framework for the company in order to identify and assess risks in supply chain and to ensure compliance with the (upcoming) Corporate Sustainability Due Diligence Directive. In the next phase, the study includes the current state analysis carried out to define the existing supplier sustainability auditing process, analysis of its strength and the weaknesses, current supplier relationship management and supplier sustainability auditing practices, and benchmarking. The current state analysis includes the internal interviews and document (process) reviews, and the observations. These sources form Data 1 collection for the Thesis analyse the current state of the

supplier sustainability auditing and aim to find the strengths and weaknesses, define the development stage, focus and priorities.

Second, after the current state analysis, conceptual framework is created based on existing knowledge and best practices around the topics of sustainable supply chain, supply chain transparency, sustainability Corporate Sustainability Due Diligence Directive (CSDDD), supplier sustainability auditing and supplier relationship management. Best practices and literature were explored to find a suitable proposal for the case company supplier sustainability audit template (framework).

Third, the initial proposal was co-created with the key stakeholders, supplier sustainability audit process drafted, sustainable supply chain and procurement needs highlighted, and communicated. The final stage presents validation of the initial proposal with the key stakeholders through validation interviews, improvement to the draft proposal, and further steps.

Outcome of the final stage is approved final proposal.

### 2.3 Data Collection and Analysis

This study uses data from various sources as described in Table 1 below. Data is collected in three parts first examining the current state, strengths and weaknesses, and the focus and priorities, then building the proposal and last validating the development proposal for the case company Supplier Sustainability Audit Framework.

Data 1 is collected through interviews with key stakeholders to understand supplier sustainability auditing process, development needs, roles and responsibilities, possible bottlenecks, and feedback received.

Supplier sustainability audit process was analysed, and benchmarking done with other companies in order to understand the existing supplier sustainability audit

methods and utilize the best practices of those. Table 1 shows details of Data collections 1-3 used in this study.

Table 1. Details of Data collections 1-3 used in this study.

Participants / role	Data type	Topic, description	Date, length	Documented as
<b>Data 1, Current state analysis</b>				
VP of procurement	Telephone meeting	Topic and goal for the study, supply chain management and supplier sustainability audits, risk management	6.3.2024, 20min	Field notes
VP of procurement	Face-to-Face meeting	Deep diving into current supplier auditing process and framework.	26.3.2024, 60min.	Field notes
Procurement Leadership Team	Face-to-Face group meeting	Introducing the thesis topic for the procurement LT and reflecting on their thoughts / ideas.	5.4.2024, 30min	Field notes.
Internal stakeholder 1	Teams meeting	Defining the current practices, and strengths and the weaknesses of the current.	11.4.2024, 45min	Field notes
Internal stakeholder 2	Teams meeting	Defining the current practices, and strengths and the weaknesses of the current.	11.4.2024, 45min	Field notes
Internal stakeholder 3	Teams meeting	Defining the current practices, and strengths and the weaknesses of the current.	11.4.2024, 45min	Field notes
Internal stakeholder 4	Teams meeting	Defining the current practices, and strengths and the weaknesses of the current.	12.4.2024, 45min	Field notes
Internal stakeholder 5	Teams meeting	Defining the current practices, and strengths and the weaknesses of the current.	17.4.2024, 45min	Field notes
Internal stakeholder 6	Teams meeting	Defining the current practices, and strengths and the weaknesses of the current.	24.4.2024, 45min	Field notes
Internal stakeholder 7, 8, 9	Teams meeting (group interview)	Defining the current practices, and strengths and the weaknesses of the current.	3.5.2024, 45min	Field notes
Internal stakeholders 10, 11	Teams meeting	Defining the current best practices in order to build the draft of the proposal for the case company.	15.5.2024, 30min	Field notes
Internal stakeholder 12	Teams meeting	Defining the current best practices in order to build the draft of the proposal for the case company.	23.5.2024, 120min	Field notes
Internal Human Rights Due Diligence (HRDD) Workbook Sessions	Workbook meetings	Defining	16.4.2024 (90min), 19.4.2024 (90min), 3.5.2024 (90min), 27.5.2024 (60min)	Field notes

Participants / role	Data type	Topic, description	Date, length	Documented as
<b>Data 2, Proposal Building</b>				
External company / matter expert 1	Teams meeting	Defining the current best practices in order to build the draft of the proposal for the case company.	25.4.2024, 45min	Field notes
External company / matter expert 2	Teams meeting	Defining the current best practices in order to build the draft of the proposal for the case company.	11.6.2024, 30min	Field notes
External company / matter expert 3	Teams meeting	Defining the current best practices in order to build the draft of the proposal for the case company.	12.6.2024, 30min	Field notes
External company / matter expert 4	Teams meeting	Defining the current best practices in order to build the draft of the proposal for the case company.	13.8.2024, 30min	Field notes
Key Stakeholders	Teams meetings on regular basis	Building the draft for supplier sustainability audit framework (template).	June-August	Field notes
<b>Data 3, Validation</b>				
Key Stakeholders, internal stakeholders.	Workshop / group meeting	Validating the improved proposal for supplier sustainability audit framework	September	Field notes

As seen from Table 1, the first part of data collection (Data 1) collected and analysed data for the current state analysis in the forms of interviews with various internal stakeholders and benchmarking to the competitors as well as few other industry players sustainability policies.

The interviews were made as a primary method of data collection and conducted semi structured through Teams meetings, and the field notes were taken. The interviews defined the status of the current supplier sustainability

audit framework and supplier relationship management, the existing experience regarding it and the stakeholder feedback. The questions for the interviews can be found in Appendix 1. Important part of the first data collection part was also to gather and utilize the feedback received and the existing materials linked to Supplier Sustainability Audit Framework and Supplier Sustainability Policies.

Data 2 and Data 3 collections were gathered through 1-to-1 discussions, Teams Interviews with stakeholders, and by benchmarking with other industry area experts. Field notes were made of each interview and interaction.

The interviews were conducted with the internal and external stakeholders. The interviewees were aviation procurement specialists and managers, and sustainability area experts from medium and large size companies from Finland Metropolitan Area, and internal stakeholders, subject matter experts, from various positions, office- and managerial level, from the case company. The interviewees were chosen based on their experiences and knowledge, and the insights they can provide regarding procurement, sustainability, supply chain and supplier relationship management and supplier sustainability audit process.

Table 2 provides an overview to both, internal and external documents analysed in this study.

Table 2. Internal and external documents used in the current state analysis, Data 1.

	<b>Name of the document</b>	<b>Number of pages</b>	<b>Description</b>
A	Supplier Relationship Management Manual	8	Guideline
B	Supplier Risk Management Framework	6	Guideline
C	Process Checklist Onboarding	1	Guideline
D	Code of Conduct	7	Guideline
E	Supplier Code of Conduct	3	Guideline
F	Procurement Policy	10	Guideline
G	Sustainability Report (2019)	48	Report

H	Annual Report 2022	153	Report
I	Aviation Sustainability ABC	1	eArticle
J	Overview of the Corporate Sustainability Due Diligence Directive	16	Publication
K	FAQs on the Corporate Sustainability Due Diligence Directive (CS3D)	5	FAQ document
L	Leadership For Change: "Never let a good crisis go to waste, learn from it and put it to use"	1	Blog

As seen from Table 2, this study also analysed several documents. The main documents included supplier relationship management manual, Supplier Risk Management Framework, Process Checklist Onboarding, Code of Conduct, Supplier Code of Conduct, Procurement Policy, Sustainability Report (2019), Annual Report 2022, Aviation Sustainability ABC, Overview of the Corporate Sustainability Due Diligence Directive, Never let good crisis go waste, learn from it and put it to use blog text.

The documents were analysed for Data collection 1 round, the current state analysis to get insights to the business problem and explore from various sources the observations and feedback received. All data from the three rounds of data collection were analysed using thematic analysis.

## 2.4 Timetable

This section highlights the timetable of the Thesis process from planning to solution. The research development and plan were done during January to March, and the thesis objective and scope defined. Current state analysis was proceeded during March to May, existing knowledge studied during March to May, proposal built during May to August and validation of the proposal reviewed and co-agreed during September to October. Figure 2 illustrates the timetable.

Timeframe / Schedule



Figure 2. Timeframe of the Thesis. (Author, 2024).

## 2.5 Metrics used to evaluate the result

Metrics to evaluate the result of the Thesis are Supplier Sustainability Audit Framework proposal and feedback to it (whether it will be implemented or not). In the longer run increased sustainability impact, positive brand image, risk mitigation and more sustainable business. Relevant KPIs on corporate and supplier level to be defined and reported.

## 3 Current State Analysis

This section discusses the current state analysis of the supplier sustainability audit at the case company. The section highlights the strengths and the weaknesses of it and delivers a summary of the key findings, define focus and priorities.

### 3.1 Description of the background of the thesis

There is still work to do within the Supply Chain Sustainability. When COVID-19 arrived, all development items and project were put on hold. The company wants to prepare itself to Corporate Sustainability Due Diligence Directive requirements regarding human rights and environment, even if the directive is not effective yet, as similar demands are also coming from other stakeholders. Until now, the company has utilized Supplier Code of Conduct and followed its compliance through supplier self-evaluation surveys. Supplier Sustainability Audits have been done only for a small amount of the suppliers. Currently the company has many formats in use. The aim is to develop a common audit framework.

### 3.2 Description of the research process and methods

Root cause analysis, 5 Whys technique and cause and effect diagram (CED) also known as Ishikawa diagram, has been utilized to understand the problem. Figure 3 emphasizes the Cause-And-Effect Diagram (CED), fishbone diagram.

#### Root cause analysis

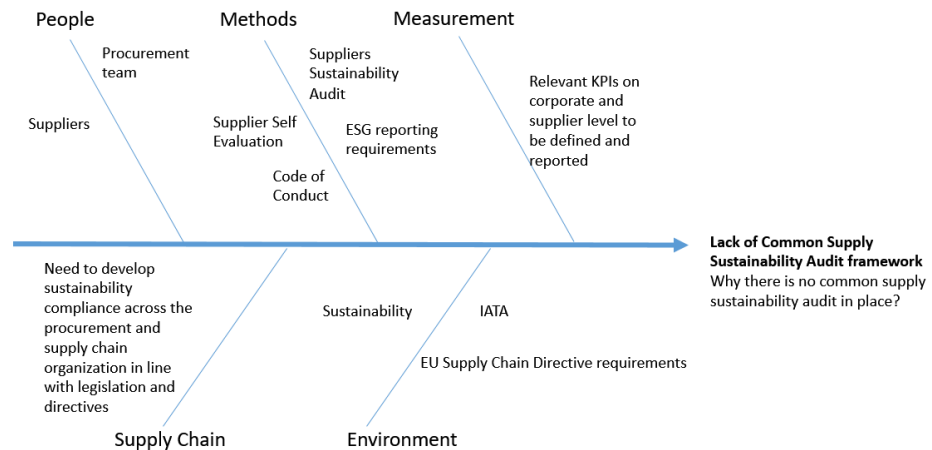


Figure 3. Root cause analysis, Cause-And-Effect Diagram (CED).

Research questions are emphasized below.

- 1) What is the current supplier sustainability audit process (strength and the weaknesses)?
- 2) Which are the roles and responsibilities, and the tools used in the current process?
- 3) How is the upcoming EU Supply Chain Directive and which responsibilities it brings to the organization?
- 4) How to build a common supplier sustainability audit framework (template) and how should it look like?

5) How does the company adapt the supplier sustainability audit framework?

Next part provides an overview on the current state analysis (CSA).

### 3.3 Overview on the current state analysis

The current state analysis aims to create an in-depth view of the current supplier sustainability audit framework, supplier relationship management (SRM), other existing supplier sustainability policies, and existing bottlenecks. As emphasized in section 1.2, the challenge is to have a common supplier sustainability audit framework in place.

For better understanding of the current situation, the current state analysis was conducted in five steps, and analysis were formulated based on the received data from the interviews with key stakeholders, overview of internal and external documentation, benchmarking and participants observations.

First, the current state analysis provides an overview on the current supplier sustainability audit framework, and parties and tools involved as it helps to understand and examine the overall sustainability audit process, roles and responsibilities and tools. Second, the supplier relationship management and segmentation are studied in order to understand how sustainability assessing/auditing and sustainability policy is integrated to it. Third, due to the various existing supplier sustainability policies both other airlines and companies from other industries, supplier sustainability policy and supplier sustainability audit is examined and discussed through benchmarking. Fourth, the strengths and the weaknesses, and other findings of the current process are identified according to the information received and processed during Data 1 collection round. Fifth and last, the key findings are presented highlighting the findings from the steps described.

### 3.4 Description of the current Supplier Sustainability Audit Framework

The supplier sustainability audit framework was analysed by discussing with the procurement leadership team and key stakeholders involved with the current process and reviewing the existing internal and external documentation regarding procurement, supplier sustainability policy and auditing, and supplier relationship management. Based on the analysis, the summary of the current process is provided below.

There is no current systematic supplier sustainability audit framework or process. The supplier sustainability audits are mainly conducted “feeling based” not fact based. The company has a supplier code of conduct in place and 90 % of its key and strategic (some critical) suppliers have signed it. During RFX case company review some of the sustainability related topics, which are in the RFX templates, but the usage of the questions is not systematic or necessary required. The case company has also run some sustainability assessments however, those are also not systematic and there is no process in place. The case company do not evaluate suppliers’ sustainability as such or evaluate nor grade suppliers against sustainability.

When asked from the internal stakeholders does the company audit enough and if not why, all the internal stakeholders (100 %) stated out that the company do not complete supplier sustainability auditing enough due to the resourcing, competence and lacking process/instructional reasons. Some of the current audits have been ran by a third party, some as on-site audits or assessments by the respective business owner and/or subject matter expert. The questionnaires and topics vary partially depending on the context and what has been recognized prior to the audits via risk-based assessment.

Case company has a risk management tool (excel based), supplier self-assessment, Supplier Relationship Management (SRM) tool in place, but it is lacking a platform or tool that enables to evaluate suppliers’ sustainability both environmental and social. Sustainability is not a systematic part of the SRM

governance nor mentioned within the policy. The case company do not have sustainable procurement policy in place. The suppliers that fall out of the key and strategic (some critical) group, are currently not evaluated, assessed or followed up regarding the performance nor sustainability as they are also not part of the supplier relationship management program. The case company receives alerts on suppliers' financial performance but has no alerting of possible human rights or environmental issues.

Next section highlights the case company supplier relationship management and emphasize its linkage to the sustainability.

### 3.5 Case Company's' Supplier Relationship Management

The case company procurement defines the principles for the planning and execution of procurement activities within the case company group, of which supplier relationship management is an integrated part of the process and activities. This section emphasizes the case company supplier relationship management process.

Supplier relationship management is a holistic discipline to work in co-operation with the selected suppliers, which are in a crucial role to gain the business objectives through maximizing the value of the relationship by developing a two-way mutually beneficial relationships and delivering higher level of innovation and competitive advantage. Supplier relationship management allows a value creation for the case company and its key, strategic (and in some cases critical) suppliers and decrease common business risk. Supplier relationship management starts with segmentation of the suppliers dividing the suppliers as per the typical model to key suppliers, strategic suppliers, critical suppliers, volume suppliers, and commodity suppliers. Once the supplier is defined for the supplier relationship management, the supplier segmentation principles are applied. (Case company, 2024).

Once the key, strategic (and critical) suppliers is recognized, the governance model is built for each supplier including three objectives, such as: objective

(shared business or development target for instance), organization (meeting hierarchy, frequency and participants) and supplier relationship management tools (agenda, meeting notes/action list, fact-based decision making (KPI/SLA), information sharing and collaboration. Those suppliers who do not fall into the supplier relationship management program are currently not followed up or assessed on regular basis. Supplier relationship management policy currently includes customers experience, but not sustainability.

### 3.6 Other existing Supplier Sustainability Policies and Auditing (and Assessment) Frameworks

Companies from different industries, including also competitors, are currently having various sustainability policies, auditing (and assessment) models in place.

The study will next evaluate and analyse other existing supplier sustainability policies, both other industry representatives and competitor airlines through benchmarking interviews and analysing existing material, and the feedback received in the interviews from both the internal and external stakeholders. The study has been complemented through visiting the webpages, viewing the sustainability policy and supplier sustainability auditing processes or methods described in the online materials, exploring the supplier sustainability policies including human rights and environment impacts, supplier code of conducts, supplier assessments and supplier audits, and/or similar.

Benchmarking interviews have been conducted for four interviewees from different companies presenting also different industries, such as: tele-, energy-, chemical- and power sources manufacturing and service industries.

All four interviewees (and companies) have been asked the following questions to analyse their supplier sustainability and auditing related policies and methods.

First, the company and industry and title of the interviewee. All four interviewees

present different companies from various industries – tele-, energy-, chemical- and power sources manufacturing and services. The interviewees are experts within supply chain and/or sustainability.

Second, the interviewees were asked if the company is prepared for the CSDDD and if yes, how. For this question 75 % mentioned they are preparing for CSRD reporting requirements and for the CSDDD. 75 % of the interviewees also mentioned that they were viewing both environmental and social impacts and working with Human Rights Due Diligence (HRDD).

*“CSDDD encourages and push the companies to understand and further evaluate the supply chain. Everyone starts to acknowledge the end-to-end value chain deeper.”* (Benchmarking interviewee B).

One of the interviewees highlighted how it is important that the relevant parties “translate” the CSDDD in understandable language.

Third, interviewees were asked if the company run supplier sustainability audits and why, how are the suppliers selected for the audits and are the audits conducted more to existing or new suppliers? Interviewees from tele-, and energy industries replied they evaluate the need for the audits through a risk evaluation; if the supplier is in a risk country with certain (higher) spend. Both companies also had their internal tools built, one for the risk country evaluation and one for the supplier assessments and risk evaluation. Interviewees from both energy and power sources and manufacturing industries highlighted how sustainability is an important and big part of the auditing. They have internal staff who have received formal training for auditing, but they also have a possibility to utilize auditing services.

*“Sustainability is an important part of our auditing process. More than half of our supplier requirements are sustainability related topics.”* (Benchmarking Interviewee D).

The interviewee from power source and manufacturing industry described how they have different methods to collect the information from the supplier, such as supplier assessment and risk evaluation, and how they then evaluate the need for the audit. They audit more new suppliers, but also the older ones. Direct suppliers are audited on regular basis, indirect suppliers more optimized. They are currently investigating in-house supplier assessment tool.

Interviewee from chemistry industry described how for them it all starts from SRM-model in which the first step is an annual segmentation process (Kraljic Matrix basis) and step two risk evaluation for all the matrix and an evaluation on who to start with.

*“Sustainability is integrated to SRM. EcoVadis is part of the supplier performance evaluation. SRM governance comes from up and defines clearly the needed actions for the coming year.”*

(Benchmark interviewee C).

They utilize EcoVadis, a tool that provides sustainability assessment methodology on how well the company has integrated the principles of sustainability into their business and management system, for supplier sustainability assessments and have a separate risk management tool which enables to map the suppliers' locations. They also apply a third party (Sedex) for ethical audits. The interviewee also highlighted how the quality audits are inhouse and sustainability audits through a third party (audit firm).

*“The aim is to add auditing. However, auditing needs budget and resourcing, and commercial intent. Challenge is how to further understand and get to the emissions (scope 3) of the suppliers and how to further work on the human rights topics.”* (Benchmark

interviewee C).

75 % of the interviewees highlighted how they utilize the industry pools for the audits; the pools share the assessment and audit results, and this way prevents the audit fatigue.

Fourth the interviewees were asked if the companies had a code of conduct for the suppliers? 75 % of the interviewees highlighted that they have supplier code of conduct (SCoC) in place, only one of the companies did not have it, but they were also re-evaluating if they should. 50 % of the interviewees also demonstrated that the companies require the suppliers to have standards (ISO 9001, ISO 14001 or equivalent).

Fifth, the interview dive more deeply to the audits with the questions, such as: what are the key focus areas of the audits, what are the main challenges in conducting supplier sustainability audits, what are the main benefits, and how do you see the role of the audits in the future? The key focus areas of the supplier sustainability audits were built around the environment (scope 1, 2, 3 GHG emissions, renewable energy use, energy efficiency, land and water management, materials, waste, recycling, climate change mitigation, certification and standards, industry associations), social (employee welfare, health & safety practices, human rights protection, fair pay & fair trade, labour rights, diversity, equity & inclusion (DEI), anti-corruption, anti-discrimination, local community impact, certifications and standards), and governance-themes (ownership & board equity & processes, diversity and inclusion, transparency, labour rights, stakeholder engagement, government relations & regulatory practices). The interviewees were not able to share the audit frameworks or questions as such but discussed the themes on a high level.

*“We are not able to share the questions but for environment, they are related with the emissions of products and services plus climate target/programs. For social it is related to countries of operations and policies.”* (Benchmark interviewee A).

100 % of the interviewees emphasized how the audits enabled to further evaluate and understand the supplier and develop the compliance and raise the awareness regarding sustainability. Cost and resourcing were highlighted as challenges. One of the interviewees also demonstrated a concern towards excessive leaning on auditing system and how it may lead to corruption.

*“The more certified the audit is also the results are as wished which then feeds the black market”.* (Benchmarking interviewee B).

Sixth, the interviewees were asked in what ways is sustainability visible in their company, how do they ensure the sustainability and how do they see sustainability in the future. 100 % of the interviewees answered that sustainability is an important factor and plays an important role. One of the interviewees also mentioned how the sustainability requirements have not changed but the awareness and understanding has increased.

*“We are more aware what is happening around us. What matters is that I can impact through my work. People care and want to take care.”* (Benchmarking interviewee D).

One of the interviewees recommended to focus on defining the strategic goals, measurements and focus on communicating on those, highlighting also how climate and sustainability should be more in the core of the SRM.

Next this Thesis discuss the benchmarking through visiting webpages and reviewing the supplier sustainability practices and policies in place of which the most relevant have been demonstrated below.

Fiskars has the responsible supplier management as a cornerstone of the responsible sourcing (figure 4).

## Responsible supplier management

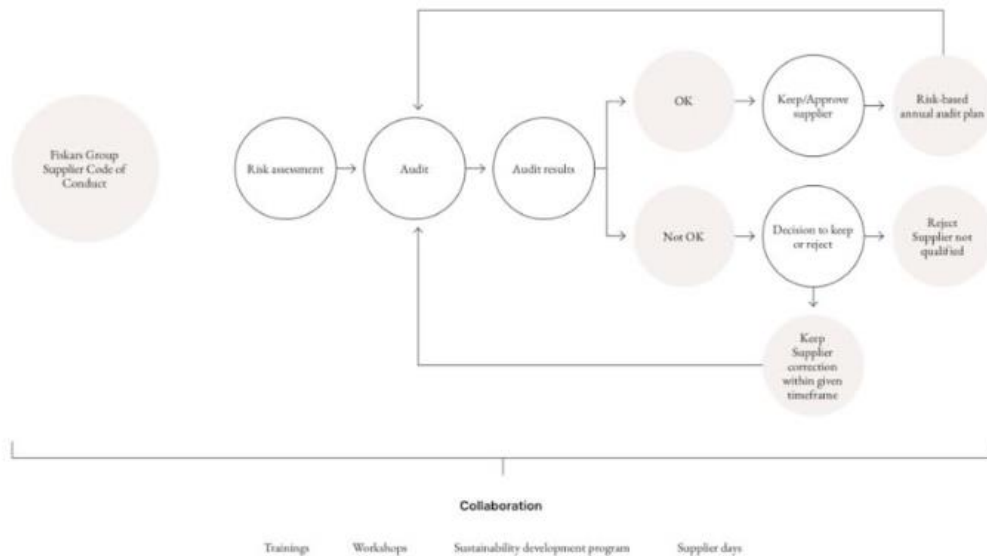


Figure 4. Fiskars' responsible supplier management. (Fiskars Sustainability Report, 2023).

Fiskars supplier code of conduct covers topics such as labour and human rights, health and safety, environment, due diligence, business ethics, integrity, management systems and commitment, and speak-up. Fiskars has established supplier code of conduct assessment program already 2011 and developed it continuously ever since. On-site assessment decision is made through risk assessment that considers country risk, the size of business, and the industry. Fiskars has a professional team of auditors and in addition they also use third-party audit. Fiskars aims to assess all suppliers. In case the supplier is in a low-risk country and has demonstrated to have an outstanding sustainability program and a code of conduct aligned with Fiskars Group Supplier Code of Conduct no audit is needed. Fiskars supplier code of conduct communicates Fiskars Group's ethical and sustainability expectations to all suppliers and cooperation partners. Everyone at Fiskars Group including leaders, employees, suppliers and partners has important role defending human rights throughout the value chain by promoting safety, health, and wellbeing; diversity, inclusion, and equal opportunities, working against harassment, and discrimination, and

fighting corruption and bribery. Fiskars has zero tolerance for child labour, and they protect vulnerable workers from abuse. The company has conducted human rights assessment in 2019 to better understand the gaps, risks, opportunities and steps required to develop human rights due diligence. 2023 Fiskars participated in Business & Human rights training program organized by the UN Global Compact and gained good tools for further developing the human rights due diligence. Human rights, ESG and sustainability related topics are included in annual risk management process. (Fiskars Sustainability Report, 2023).

Amer sports assess sustainability driven risks via risk management system, Double Materiality Assessment, and Human Rights Impact Assessment (HRIA). In the core of the due diligence framework of Amer Sports are set of policies, guidelines, and procedures to identify, prevent and mitigate actual and potential impacts while managing ESG risks and opportunities in operations and supply chain. Amer Sports have the following sustainability related policies and frameworks in place: business conduct (code of conduct, anti-bribery, anti-corruption, Whistleblowing, and human rights policy), responsible procurement and supply chain, climate change (environment policy), own employees (DEI framework), circular economy (circularity policy) and consumer and end users (privacy policy, responsible marketing and communications policy, product compliance framework). (Amer Sports Sustainability, 2023).

Air France KLM and Lufthansa have also extensive materials regarding sustainability and supplier sustainability on their websites. Figure 5 demonstrates Air France KLM sustainable procurement standards.

## AIR FRANCE KLM SUSTAINABLE PROCUREMENT STANDARDS

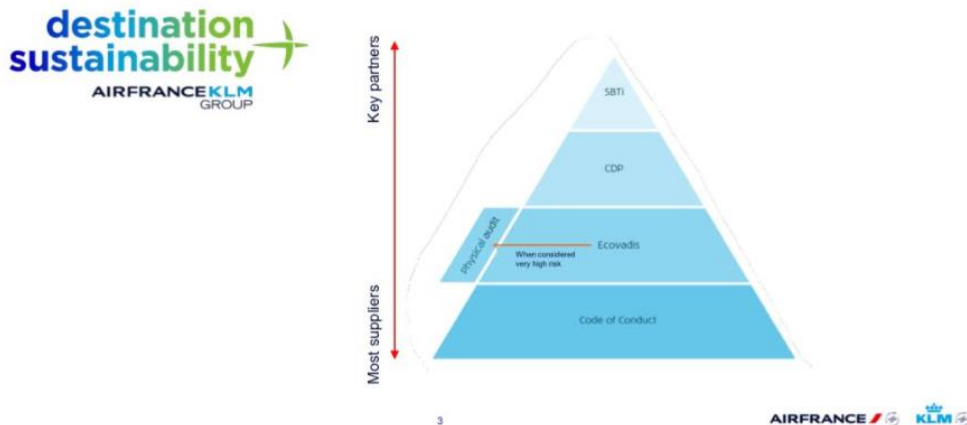


Figure 5. Air France KLM Sustainable Procurement Standards. (Air France KLM, 2024).

Air France KLM has a deep commitment have sustainability in every aspect of the organization and supply chain. Suppliers as requested to commit to sustainable supply chain standards and required to conform supplier code of conduct which is also part of Air France KLM's contracts. Air France KLM assess high ESG risk profile and critical suppliers with Ecovadis. As part of the decarbonisation ambition the company requires high emitting suppliers to complete a CDP assessment. Air France KLM encourage its suppliers to sign up for the Science Based Targets initiative which are in line with the latest climate science deems to meet the goals of the Paris Agreement – limiting global warming to well-below 2 Celsius degrees above pre-industrial levels and pursuing efforts to limit warming to 1,5 Celsius degrees. (Air France KLM, 2024).

Lufthansa Group has a risk management system to identify, prevent and eliminate human rights and environmental risks and violations in both, its own business division and along the supply chain. The Group Procurement team is responsible for risk management regarding suppliers and supply chain and works closely together with the Human Rights team. Lufthansa uses a software to assist identification, weighting and prioritization of risks. The suppliers are screened by country, sector and media references. The risks are weighted and

prioritized. With suppliers having a prioritized human rights or environmental risk Lufthansa Group takes preventive measures to avoid violations. If any violations appear, Lufthansa Group stops the violation as quickly as possible or creates a remedial concept. It seeks to prevent risks from arising in the first place, but also to respond to structural risks identified through risk analysis with proper measures and prevent or minimize adverse human rights and environmental impacts. Lufthansa Group purchasing processes has been developed so that sustainability as a criterion plays an important role when selecting suppliers. Suppliers are also obliged to protect human rights and the environment also contractually. Lufthansa Group uses audits to check for compliance with human rights and environmental due diligence. The audits are carried out primarily by internal audit but can be also carried out external auditors on a risk basis for direct suppliers and as warranted for indirect suppliers. (Lufthansa Group Investor Relations, 2023).

Next section highlights the strength and the weaknesses of the case company's current supplier sustainability audit process.

### 3.7 Strength and the Weaknesses of the current sustainability audit process

This chapter highlights the findings of the current state analysis and discusses those utilizing the SWOT-analysis basis. The findings are divided into four sections, strengths (green), weaknesses (red), other findings (light orange) and future assets (yellow), and demonstrated in the figure 6.

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>- sCoC in place and coverage of total spend 90 %.</li> <li>- RFX and onboarding has sustainability check (inc some sustainability topics).</li> <li>- Sustainability assessment (self-created questionnaire).</li> <li>- Risk Management Tool (Excel) used prior to assessing / auditing.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>- No systematic way of doing in place nor instructions on when to assess or audit.</li> <li>- Tight resources and lack of time.</li> <li>- Ad hoc / "one off" way of doing the auditing and assessments.</li> <li>- Lacking Supplier Sustainability Auditing process / not on a required level.</li> <li>- Feeling based (lack of data / fact-based decision-making).</li> <li>- No established industry pool in place; audit fatigue if same suppliers audited by various parties.</li> </ul>
<p><b>Other Findings</b></p> <ul style="list-style-type: none"> <li>- Tools to be evaluated (used to have SEDEX, Ecovadis mentioned repetitively within the benchmarks as a recommendation; they also have aviation industry pool).</li> <li>- Lack of social and environmental risk management (indicator).</li> <li>- Supplier Relationship Management tool and some analytics in use -&gt; what more could that offer?</li> <li>- Sustainability to be added in the governance and policies (SRM currently highlights customer experience, but not sustainability).</li> <li>- Training and development regarding sustainability and auditing/assessing to be added.</li> <li>- Human rights and environmental issues / challenges to be defined and recognized on category level, then prioritized and actioned.</li> <li>- Resources, competence and lack of defined clear processes and responsibilities mentioned as a challenge for implementing the supplier sustainability-auditing framework.</li> <li>- No supplier scorecards in place.</li> <li>- No supply chain mapping.</li> <li>- Low attention on lower tiers.</li> <li>- Sustainable Supply Chain section to be added to the website.</li> </ul>	<p><b>Future Assets</b></p> <ul style="list-style-type: none"> <li>- Forerunner</li> <li>- Modern</li> <li>- Positive brand value</li> <li>- Risk Management (Economic, Environment, Social)</li> <li>- People experience</li> <li>- Preferred business partner</li> <li>- Innovation (co-programs)</li> <li>- Leading with data -&gt; fact-based decision making.</li> <li>- Financial strength (attractive for investors).</li> </ul>

Figure 6. Strength and the weaknesses of the current sustainability audit framework. (Summarized by author, 2024).

### 3.8 Main findings of the current state

This part analysis first the strengths of the case company's current supplier sustainability audit framework, second the weaknesses, third analysis focus on the other findings made and received during the current state analysis, and last highlights the key focus areas of the analysis emphasized. The findings of the current state analysis are summarized in Figure 6.

First, regarding the strengths, the case company has Supplier Code of Conduct in place and the coverage 90 % of total spend. RFX and onboarding, even if not required or defined in the processes or in full utilization, has a sustainability check including some sustainability related topics. The case company, even if not systematically, has a sustainability assessment (self-created questionnaire) and excel based risk management tool used prior to assessing or auditing.

Second, regarding the weaknesses, the case company as already discussed within the strengths, has no systematic way of doing in place nor instructions on when to assess or audit. The resources are tight, and the team highlights how there is lack of time to consistently audit/assess and follow up. Currently the auditing and assessments are done ad hoc or "one off" basis and feeling based; there is a lack of data and fact-based decision making regarding when and who to audit or assess. The case company lacks defined supplier sustainability auditing process; it is not on a required level.

Third, the other findings regarding the current state analysis are discussed. The case company do not have supporting tools to further evaluate the sustainability of the suppliers. The case company have used Sedex, a platform for managing and reporting on supply chain sustainability practices, however that has been experienced not beneficial at time and terminated. The case company has considered and reviewed other third-party providers tools. EcoVadis, a platform which helps to manage ESG risk and compliance, has been appearing repetitively during the benchmarking interviews and as a recommendation; EcoVadis also recently launched aviation industry pool. The case company has

a lack of social and environmental risk management and risk indicators. Supplier Relationship Management tool and some analytics are in use, but the case company could consider how to further develop and build on those. Sustainability is not currently in the Supplier Relationship Management Program, governance or procurement policy. Supplier Relationship Management currently highlights customer experience, but not sustainability. The case company is also lacking training and development regarding sustainability from both human rights and environment auditing and assessment side. Human rights and environmental issues and challenges are currently not defined; during the thesis process these have been taken under work on category level and as part of the human rights due diligence (HRDD) work/project. Resources, competence and lack of defined clear processes and responsibilities are mentioned as a challenge for implementing the supplier sustainability-auditing framework and process. The case company has no supplier scorecards in place, no supply chain mapping and has low attention on lower tiers. The case company has SCoC on the website but miss sustainable supply chain (supplier) section. Supplier sustainability audit program, sustainable procurement policy and human rights statement are recommended to be added to the website.

Fourth, the future assets based on the current state analysis and having a focus on sustainability in all its aspects (economic, environment and social) and having a supplier sustainability auditing framework in place are listed below: forerunner, modern, positive brand value, strong people experience, innovation through co-programs, leading with data and fact based decision making, stronger risk management from all three aspects; economic, environment and social, which all leads to financial strength; more attractive for investors (capital), business growth and positive revenue impact.

## 4 Knowledge base and theoretical framework based on literature review and other materials

The selected focus areas have been identified by analysing the current state analysis, strengths, weaknesses, and the other findings by recognizing and examining the bottlenecks and taking into consideration also the areas which the case company has already acted and further developed as emphasized in this analysis. Six elements have been identified.

1. Sustainable Supply Chain Management
2. Supply Chain Transparency
3. EU Supply Chain Directive (CS3D)
4. Sustainability
5. Supplier Sustainability Audit
6. Supplier Relationship Management

Next, Section 4 will discuss the selected focus areas based on literature in Section 4 to prepare for the proposal building in Section 5.

### 4.1 Sustainable Supply Chain Management

Carter and Rogers (2017) define Sustainable Supply Chain Management (SSCM) as per following:

*“SSCM is a strategic, transparent integration and achievement of an organization’s social, environmental, and economic goals in the systemic coordination of key inter organizational business processes for improving the long-term economic performance of the individual company and its supply chains.” (Carter et al., 2008).*

Figure 7 illustrates the definition.

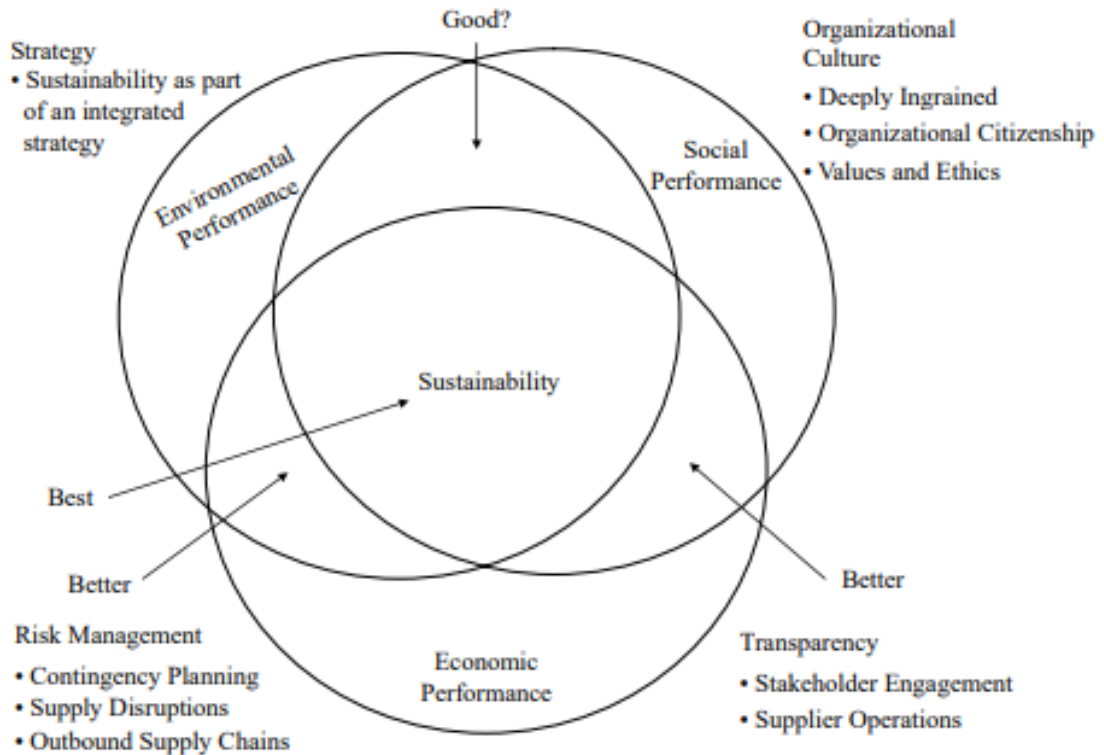


Figure 7. Sustainable Supply Chain Management. (Carter et al., 2008).

To recognize and minimise risk and improve sustainability in the supply chain companies may use various sustainable supply chain management (SSCM) tools. The most usual tool is code of conduct for suppliers, followed by supplier self-assessment questionnaire and then by supplier audits. Code of conduct distinguish company's anticipations of its suppliers' sustainability compliance. Self-assessments and audits can be used to verify compliance with code of conduct as well as for sustainability risk management - identifying, analysing and managing sustainability risks and activities within the supply chain. While self-assessment depends on self-informed and reported evaluation of the supplier, audits on the other hand are often ran and authorized by a third party or a downstream supply chain actor to decide if the supplier obey the rules with environmental and social sustainability requirements and to evaluate the sustainability performance of the supplier, both social and environmental.

Fraser et al distinguish all types of audits as supplier sustainability audits and indicates the audits mandatory rather than voluntary. They also highlight how audits are an important measuring tool, but that the important focus needs to be on what is done with the results of audits. Fraser et al also recommend understanding the SSCM tools more in detail, and work to make those more effective and standardisable and to utilize the industry pools to further reduce possible audit fatigue and free up supplier and company resources for implementing continuous sustainability improvements in global supply chains rather than just monitoring supplier compliance. (Fraser et al., 2020).

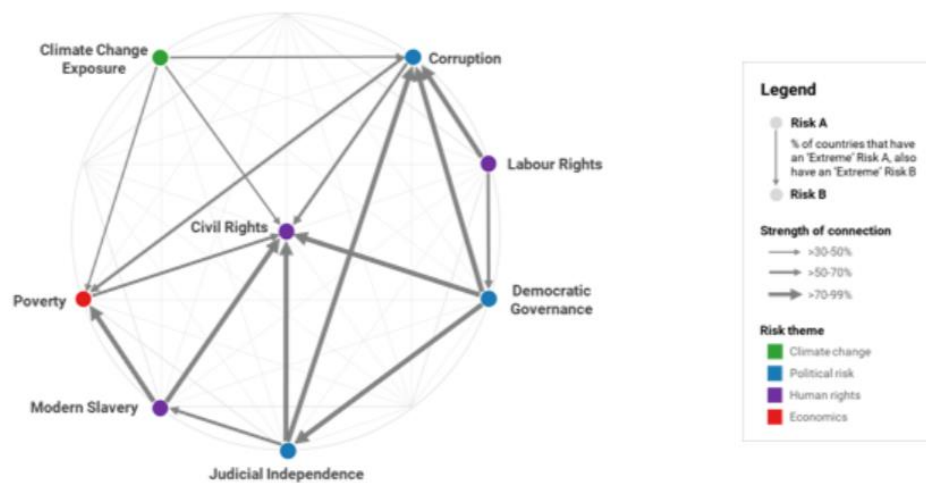
Blanco emphasizes that companies no longer can look at the risks in siloes. Figure 8. Illustrates how climate change, human rights, political and economic risks are linked. (Blanco, 2021).

Human Rights Outlook 2021: Analysing human rights risk - From cities to supply chain

maplecroft.com

### Interconnected risks

How climate change, human rights, political and economic risks are linked



Verisk Analytics Official Public Information

Figure 8. Interconnected risks. (Blanco, 2021).

Next section discusses about supply chain transparency.

## 4.2 Supply Chain Transparency

In order for companies to reach their sustainable supply chain goals and targets it is important to aim for supply chain transparency. Open and better information sharing enhance supply chain transparency. Matt Jackley shares best practices to help building supply chain transparency.

First, companies should assess risks and set goals by conducting an assessment to define risks in terms of the business markets and industry reflecting to the top concerns of corporate leadership, suppliers, investors and customers with the potential impact of those risks on the organization. All the things that can put the goals at risk should be included in the assessment. Jackley advise to consider how corporate culture, supplier relationships, and industry conditions affect transparency and might lead to refining the goals. Once the goals have been set, companies let suppliers know in detail the information needed from their end. To reach transparency, companies need facts. The more verifiable the better. Second, Jackley recommend mapping out the supply chain starting with Tier 1 suppliers and then work on towards the lower Tiers. Mapping tools helps to map and visualize and are sometimes built into Supply Chain Management applications together with tools that enable to gather supplier performance data. Third, Jackley highlights the importance of collecting information on the performance of the suppliers to control costs, mitigate risk and hold suppliers accountable for delivering quality on time. The data also includes information on suppliers' history of worker safety, human rights, environmental laws, current or past violations (if applicable). Some of the supply chain management tool automate the data and issue noncompliance alerts. Fourth, Jackley discuss about engaging supply chain partners by regular communication and information sharing. Some companies hold events where suppliers have a possibility to ask questions, make suggestions, discuss about requirements and network. There are also companies that build supplier web pages with a link to company policies and compliance documentation including also frequently asked questions on topics such as how to become a supplier or how to work with the procurement team. Fifth, Jackley demonstrate the

importance of standardizing the processes as it makes it all much easier for both suppliers and customers. Regarding compliance as an example, a standard set of policies guiding factory inspections despite where the factories are located or what they supply which then simplifies the process of quality data collection, safety and ethical conduct. Jackley also highlights how a standardized process clarifies matters such as who leads the inspection, how and when – customer team, internal team or a third party. Suppliers may also help to refine standards, ensuring that the suppliers are able to meet those. Sixth, Jackley recommend scoring suppliers; to use scorecards to track supplier performance, incorporating metrics on on-time delivery, cost, order accuracy, sustainability compliance, financial stability and invoice processing time. Scorecards provide information that support transparency but are also a tool for ongoing discussion about reducing costs and improving overall service. Seventh, Jackley advises to set the level of disclosure and eight to measure the progress of the supply chain transparency by reviewing the goals set, identifying improvements and discussing targets which they failed to reach and why. What is the key is to work closely with the suppliers.

*“Working closely with the suppliers is a key. If a company set a goal of reducing its environmental footprint, it would measure progress using data that suppliers agree to provide on a shared platform, track metrics such as greenhouse gas emissions, water usage, and waste. With numerous partners to corral, the company might focus on its largest suppliers with the biggest environmental impact, requiring them to meet set standards within two years while working with smaller suppliers under more flexible timelines. The company would need to communicate its expectations clearly, plus offer any training needed to meet compliance targets.” (Jackley, 2023).*

Supply chain transparency will be even bigger priority, there will be no other choice. Lawmakers and regulators worldwide wave to mandate further transparency. Consumers interests regarding where and how products are made continue to grow as well as the requirements for sustainably produced

and ethically sourced products. Jackley highlights how a 2020 McKinsey & Company study reveal that sales for products carrying claims of being sustainably produced and ethically sourced rose 28 % on average within the past five years versus 20 % for products carrying no such claims. Also, consumers now want evidence to support those claims. Jackley emphasizes that when corporate leaders set new policies to illuminate their supply chains, managers will need to gather enormous volumes of data, captured using cloud Supply Chain Management (SCM) and Product Lifecycle Management (PLM) applications.

*“IoT technologies will become more pervasive, collecting and analysing data in factories, trucks, warehouses, and other physical spaces. Blockchain, too, will grow in use, letting trading partners more easily track and trace supply chain activity.”* (Jackley, 2023).

Bouguin from Forbes Technology Council emphasize how depending on a company’s sector of activity and location, it may face several economic, social and governance (ESG) regulations highlighting that Financial Executives International estimates 85% of companies using multiple ESG reporting frameworks, such as: Scope 1, 2, and 3 carbon reporting for the Carbon Border Adjustment Mechanism (CBAM), the SEC’s Climate Disclosure Rule and the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), the Drug Quality and Security Act (DSCSA), the EU Deforestation Regulation (EUDR), battery passports, the FDA’s Food Safety Modernization Act (FSMA). The list is long – Bouguin describe how Ernst & Young stated that there are over 600 ESG frameworks and standards across the globe. (Bouguin, 2024).

*“In today’s world, all these regulations are profoundly relevant for climate, nature and equity. Nevertheless, for businesses operating in many different countries and looking to drive growth, that is a lot of regulatory hoop-jumping that needs to take place.”* (Bouguin, 2024).

Bouguin encourages to adopt a data-first mindset and focus on the digitalization of the supply chain's traceability to transform the complexity of ESG regulatory compliance into a strategic and long-term advantage. (Bouguin, 2024).

Supply chain transparency is difficult to achieve because supply chains are complex, and transparency requires data from each supplier. However, transparency is important and crucial for successful supply chain management. Consumers and governments require knowing where the goods are coming from and how those were made to comply with regulations and to meet the demands for products being ethically sourced and produced. A challenge is to gather the supporting data together with the suppliers.

*“One key challenge for manufacturers is working with suppliers to gather the supporting data: where suppliers sourced their materials, who their downstream partners are, and whether they are in compliance with numerous laws and regulations.”* (Jackley, 2023).

Another challenge is to ensure that all data is accurate and complete, requiring constant updates and regular audits. (Jackley, 2023).

### 4.3 Sustainability

The United Nations defines sustainability as “Meeting the needs of the present without compromising the ability of future generations to meet their own needs.” Various frameworks of sustainability assessment evaluate the performance of companies.

The World Business Council for Sustainable Development (WBCSD, 1997), the Global Reporting Initiative (GRI, 2002a,b) and development of standards (OECD, 2002a,b) were the foundation for sustainability reporting. Figure 9 demonstrates the OECD Pressure State Response Model which emphasize human activities utilize ‘pressures’ on the environment and change its quality and the quantity of natural resources (the ‘state’). Society responds to these changes through environmental, general economic and sectoral policies (the

'societal response') forming a feedback loop to pressures through human activities. (Singh et al., 2008).

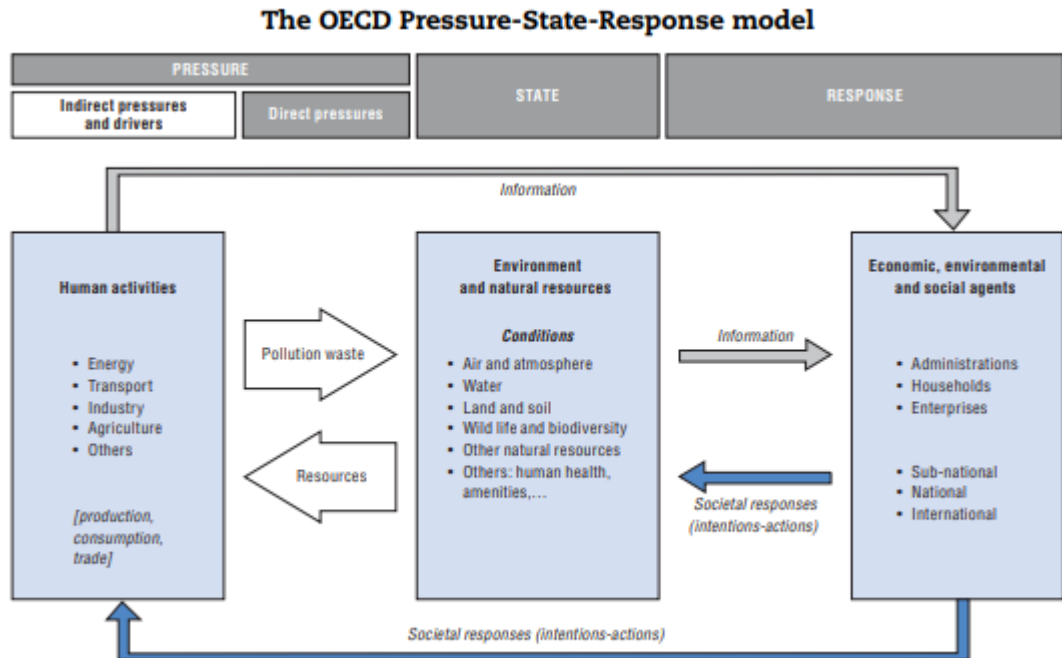


Figure 9. OECD Pressure-State-Response model. (Singh et al., 2008).

For the evaluation of governmental progress towards sustainable development goals The United Nations Commission on Sustainable Development (CSD) constructed a sustainability indicator framework which is a hierarchical framework fractionated into sub-themes and main themes, that are divided between the four aspects of sustainable development, social, environment, economic and institutional. Figure 10 demonstrates the United Nations Commission on Sustainable Development. (Singh et al., 2008).

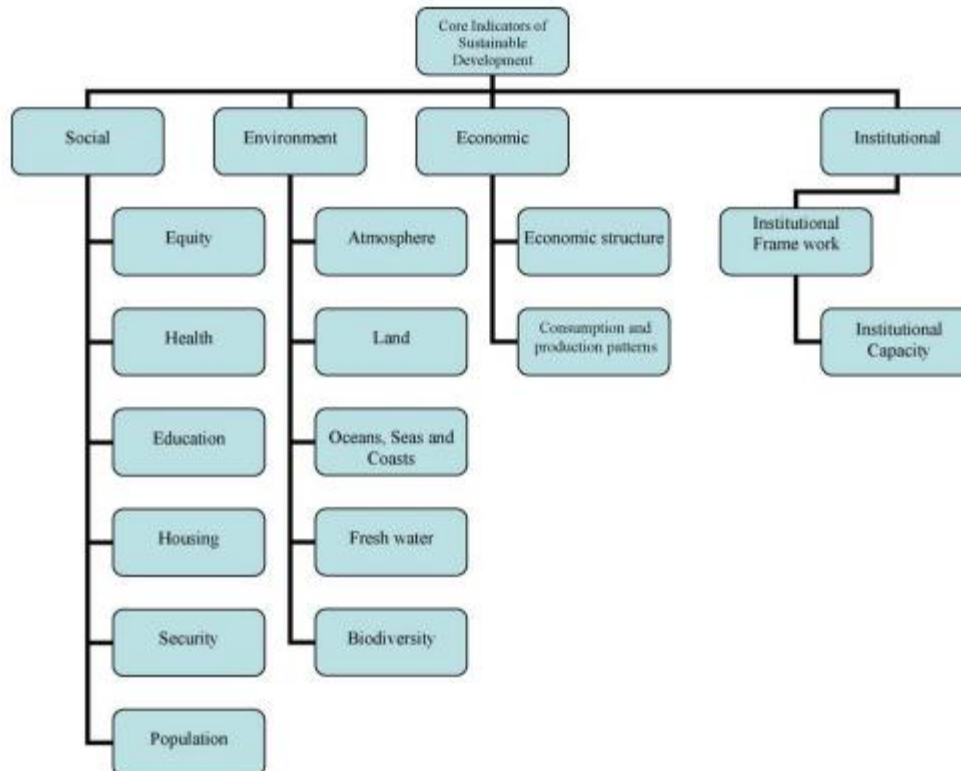


Figure 10. The United Nations Commissions for Sustainable Development (UNCSD) Theme Indicator Framework. (Singh et al., 2008).

Sustainability consists of the three aspects, so called “three Ps”: Social (People), Environmental (Planet) and Economical (Profit) (Figure 11). (Akkermans, 2023).

*“Corporate sustainability is a business approach focusing on creating long-term stakeholder value while ensuring accountability. It’s about understanding and managing the economic, social, and environmental impacts of a company’s activities. Thereby ensuring responsible, ethical, and ongoing success.” (Akkermans, 2023).*



Figure 11. The Three Ps of Corporate Sustainability (Akermanns, 2023).

United Nations Agenda highlights the importance of the integration of environmental and social into all development processes to gain both socially and environmentally sustainable economic growth (figure 12).

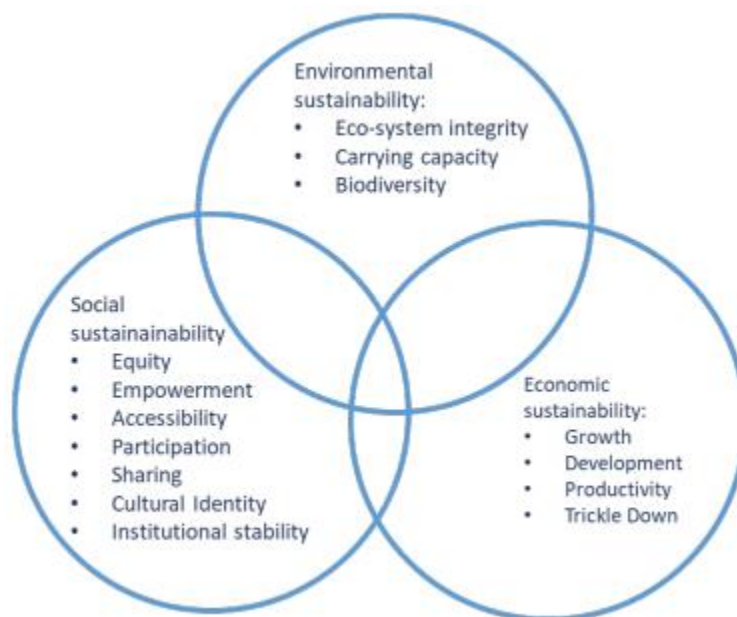


Figure 12. United Nations Agenda 21. (McGuinn et al., 2020).

McGuinn et al., emphasize that the key elements of social sustainability are social progress, improving welfare and living conditions, social cohesion, and

competitive social market economy in general, and advancing Europe's social model in a sustainable way for present and future generations. They also discuss how the importance of the concept of social sustainability comes from its frequent use in both policy documents and public discourse, and how recent decades have seen the concept feature heavily in general sustainable development discussions (figure 13). (McGuinn et al., 2020).

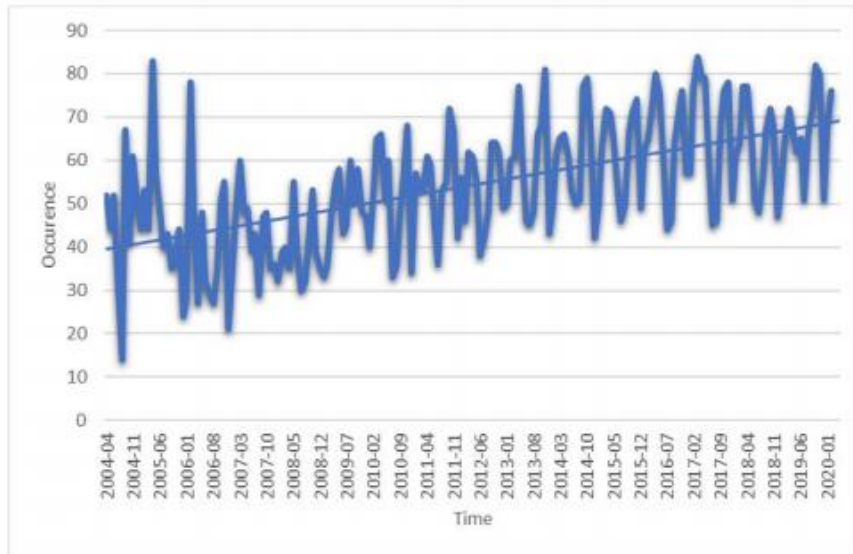


Figure 13. Search trend of social sustainability in Google. (McGuinn et al., 2020).

The roots of sustainable development first appeared in United Nations policy 1980s. The figure 14 describe the evolving importance of social sustainability. (McGuinn et al., 2020).

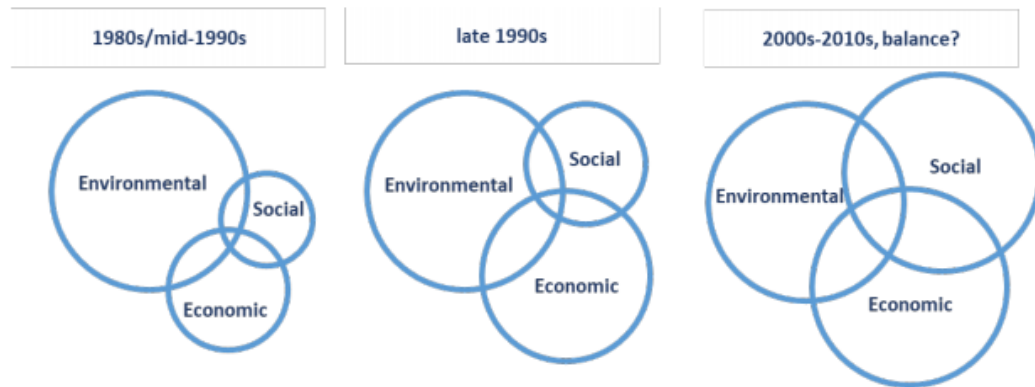


Figure 14. The evolving importance of social sustainability. (McGuinn et al., 2020).

McGuinn et al., emphasize that the most comprehensive indicator system for measuring sustainable development including its social dimensions was developed and adopted by the United Nations, the Global indicator framework for the Sustainable Development Goals (figure 15). They also discuss how preliminary work to develop a framework for sustainable development indicators comparable across EU countries has been carried out by UNECE, OECD and Eurostat in 2008 and 2014 (United Nations Economic Commission for Europe, 2014). (McGuinn et al., 2020).

Figure 15 highlights the United Nations Sustainable Development Goals (SDGs).



Figure 15. United Nation Sustainable Development Goals (United Nations, 2024).

Shift emphasize the importance of looking at sustainable development goals through the lens of business and human rights.

*“An increasing number of companies are looking at how they can contribute to the Sustainable Development Goals (also known as SDGs or Global Goals). That is cause for excitement, entrepreneurship and innovation. However, for companies to make a genuine contribution to sustainable development, they need coherent strategies that look at everything they do, and how it affects both planet and people.” (Shift, 2024).*

Shift, the leading center of expertise on the UN Guiding Principles on Business and Human Rights highlights how companies are used to taking care of the planet part but forget the human part.

*“Business leaders interested in contributing to the SDGs often jump straight to innovations that can both make money and contribute to society. While it is important that they do so, they often miss*

*something critical: they forget to think about risks to people connected to their business.” (Shift, 2024).*

Shift recommends companies to work out where the most severe risks to people and planet are within the operations and value chains and map those priorities to the most relevant SDG goals and targets. Once that is done, companies are recommended to find ways to tackle the risks in ways to maximize the positive outcomes and support the global goals. They companies are advised to evaluate how to provide beneficial products and services, or investments to bring positive impacts to people and planet. The innovations are to be developed and delivered with respect for people and planet. (Shift, 2024).

The case company focuses on six SDGs as per below.

SDG	Our response	Rationale	SDG	Our response	Rationale
	<b>ENVIRONMENT:</b> Long-term CO <sub>2</sub> Neutrality	The single most pressing issue for any airline. Finland building a roadmap to fossil-free transport by 2045		<b>100% material management and Zero single-use plastic</b>	Circularity is linked to CO <sub>2</sub> and is on top of mind of consumers. Finnair's 2nd biggest environmental challenge
	<b>SOCIAL:</b> Enable quality of life in the globalized world	Aviation remains an important enabler to SDG 16, and that role needs to be protected while fighting climate change		<b>Leadership in providing equal opportunities</b>	Gender is only one dimension of broader diversity agenda. Diversity seen as a performance driver.
	<b>INNOVATION:</b> Venturing out of our traditional business to find solutions for our core	Current challenges require innovation, investment in new areas and systemic view in order to run the core business sustainably		<b>Participate and inspire cross-industry collaboration</b>	Systemic challenges need collaboration. We want to position ourselves as an engaging leader that creates change wider than itself

Figure 16. Case Company 6 focus SDGs (Case company website, 2024).

There are three pillars of its sustainability strategy and reporting: environmental, social, and governance.

The case company's annual sustainability report content is built on a materiality analysis, which is constantly updated based on the analysis of the business environment and on discussions and communication with its stakeholders. The case company is using subject-specific reporting principles of the Global Reporting Initiative (GRI) standard in reference to UN Global Compact Principles. Figure 17. demonstrates the key ESG areas recognized because of materiality analysis in 2022.

Focus Area	Material Topics	GRI Reference	Topic Boundaries
<b>Ethical business and responsible sourcing</b>			
Ethical business and responsible sourcing	Code of Conduct	Ethics and integrity	Finnair's own operations, partners and supply chain
		Environmental compliance	
		Socioeconomic compliance	
	Anti-corruption and bribery	GRI 205: Anti-corruption	
	Compliance with anti-competition regulations	GRI 206: Anti-competitive behaviour	
Supply chain sustainability		GRI 308: Supplier environmental assessment	
		GRI 414: Supplier social assessment	
		GRI 409: Forced or Compulsory Labor	
<b>Environmental</b>			
Energy	Fuel efficiency	GRI 302: Energy	Finnair's own operations, supply chain, indirect impacts on greenhouse gas emissions and biodiversity
Noise	Flight noise	Local environmental impacts	
Protection of the natural environment	Biodiversity	GRI 304: Biodiversity	
Emissions	Climate change mitigation	GRI 305: Emissions	
	Renewable fuels		
	Offsetting		
Waste	Reusing products	GRI 306: Waste	
	Reducing waste		
	Reducing disposable plastics		
	Recycling of materials		

Figure 17. Key ESG areas because of material analysis. (Case Company website).

Materiality analysis has been performed to identify the key economic, environmental, and social values and their impacts on the value chain as well as impacts on business and stakeholder decision-making. It includes industry trends, legislation, sustainability reporting guidelines, the reporting of peer companies, and issues highlighted by various stakeholders. The prioritization of sustainability topics is being done based on business impact and stakeholder interest and grouped into four themes sustainability focus areas, material topics, and related GRI references and boundaries. There is open and transparent communication with stakeholders through social, print media and so for to provide and gather information. IATA emissions principles are being used to monitor the environmental performance in terms of fuel and emission efficiency by the indicators of Revenue Tonne-Kilometres (RTK) and Tank-To-Wheel (TTW) emissions.

The comparison of the information with previous years is drawn in the report to highlight the significant changes. The environmental performance has been endorsed by an independent third party, Verifavia. In addition to that, the case company is complying environmental management system (ISO 14001:2015) and IATA Environmental Assessment (IEnvA) for continuous improvement. Equality, diversity, and non-discrimination are fundamental parts of the case company's social performance. This also includes the safety, care for the

employees and customers, and supply chain management to improve the experience.

The case company reports its financial performance transparently in its annual report, which aims to provide information about its financial position, direct economic value generated, distributed with shareholders, and value retained for development. The report also covers the financial implications and other risks and opportunities due to climate change, significant indirect economic impacts, and financial assistance received from the government, and tax principles for local and international business operations including risk management.

The case company lists in its sustainability report the following environmental responsibility focus areas and targets:

- Towards carbon neutrality – gradually lowering CO<sub>2</sub> emissions.
- Carbon Neutrality in non-flight operations by the end of 2022.
- Circular Economy and Waste Management.

During the Thesis process the case company announced that it has set a new science-based climate target of improving its emission efficiency (CO<sub>2</sub>e/RTK) by 34.5 percent by 2033, with 2023 as the baseline year. The target has been validated by the Science Based Targets initiative (SBTi), meaning it is in line with the Paris Climate Agreement and the critically important 1.5-degree warming limit. (Case company, 2024).

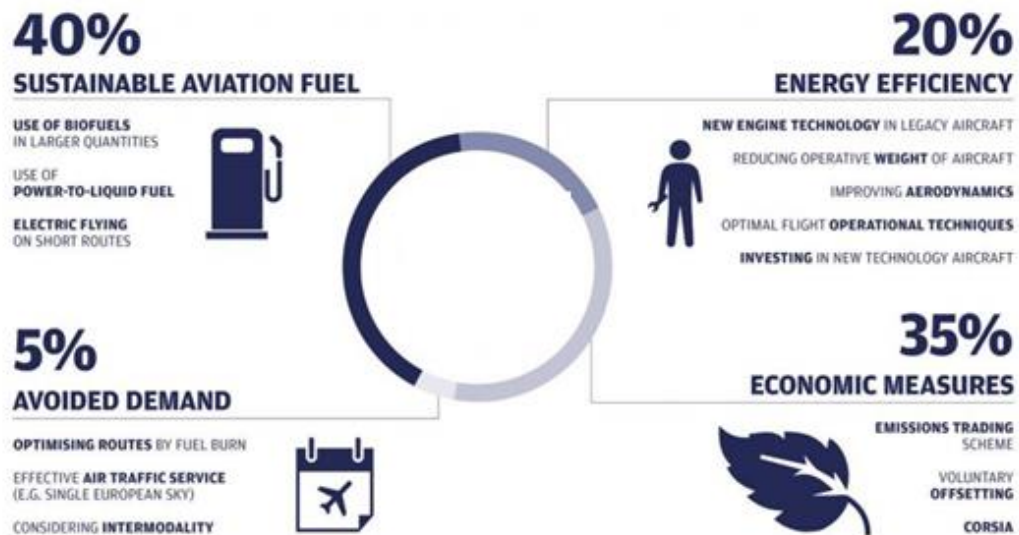


Figure 18. Sustainability goals. (Case Company Sustainability Report).

The case company's commitment to reduce CO<sub>2</sub> emissions includes various tools such as reducing the weight of aircraft, developing fuel-efficient flight methods, using sustainable aviation fuels (SAF), utilising evolving carbon markets, and engaging customers in addressing aviation emissions. The company continuously explores innovative technologies to improve its operations and support a sustainable future. As this is a long road, voluntary climate actions outside value chain provides a bridge to decrease CO<sub>2</sub> in the atmosphere until disruptive technology solutions and affordable SAFs are available. (Case Company, 2024).

Sustainability commitments and metrics are demonstrated in the figure 19.

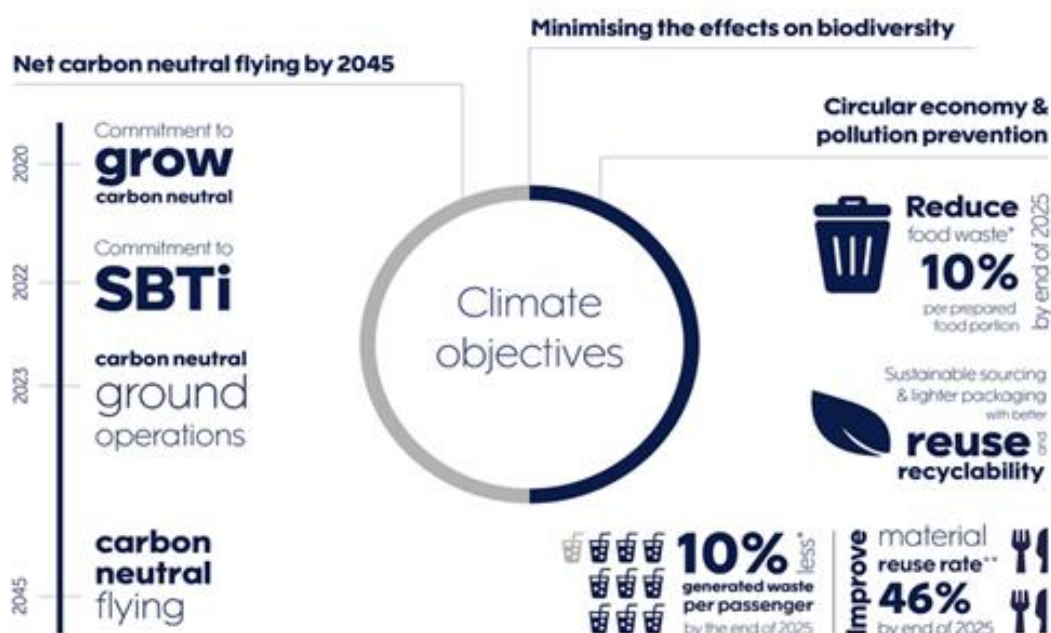


Figure 19. Sustainability commitments and metrics. (Case company, 2024).

Table 3 highlights the case company's focus area challenge and commitment.

Table 3. Case company's focus area challenges and commitments. (Case company, 2024).

Focus Area	Challenge and Case Company Commitment	Metrics
Climate	CO2 emissions is the single most pressing issue for any airline, and we need to take actions to promote flying toward carbon neutrality. We are committed to UN's SDG #13, to take urgent action to combat climate change and its impacts.	CO2/Revenue ton kilometer  Usage of SAF % Fuel Efficiency Index
Biodiversity	The importance of nature's biodiversity on the socioeconomic wealth is not very well acknowledged. We need to increase the knowledge about the importance of biodiversity. The value of natural capital should be part of our economic thinking.  We support UN's SDG #15, by having committed to fight against Illegal Wildlife Traffic (Buckingham palace declaration).	Number of IWT cases

	We take into consideration the complete sustainability criteria of SAF while incorporating our SAF roadmap in use.	
Circular Economy	Half of total global greenhouse gas emissions and more than 90% of biodiversity loss and water stress come from resource extraction and processing. Transition towards circular and green economics need to start from planning phase. We are committed to UN's SDG #12 by incorporating circular economy principles into all our operations.	Material Management % Recycling Rate %

The case company is working towards carbon neutrality. In order to achieve the goal, the case company faces several challenges related to the Sustainable Development Goals (SDGs).

One of the challenges is to reduce greenhouse gas emissions from aviation, which account for approximately 2% of global emissions. The case company uses various tools to reduce its carbon footprint, such as improving fuel efficiency and investing in a modern and fuel-efficient fleet that consumes less fuel per passenger-kilometre than older models. The case company also optimizes its flight routes, speeds, and altitudes to minimize fuel consumption and emissions. It uses renewable aviation fuels and seeks to increase the usage of renewable aviation fuels produced from renewable sources, such as waste and residues. Sustainable Aviation Fuel (SAF) can reduce aviation lifecycle carbon dioxide emissions by up to 80% compared to fossil fuels. The case company aims to increase the usage of sustainable aviation fuel. The case company participates in the European Union Emissions Trading System (EU ETS), which sets a cap on the total emissions of aviation and other sectors in the EU. The case company also supports the carbon offsetting scheme for international aviation (CORSIA), which is a global mechanism for offsetting emissions from international flights. The case company also offers its customers the opportunity to offset flight emissions through its partner the Nordic Environment Finance Corporation (NEFCO).

The case company has promoted diversity and inclusion in its people and operations. It also employs local staff in many of its Asian markets and provides

customer service in local languages. The case company has implemented a human rights policy and due diligence process to prevent and address adverse impacts on human rights in its operations and supply chain. The core areas of the case company social sustainability are care for the employees and customers and effective supply chain management. The case company ethical business principles are outlined in code of conduct (CoC) and in the supplier code of conduct (SCoC). In case of misconduct or violation of the CoC or SCoC stakeholders can submit report through Whistleblowing web service, which is also called Ethics helpline.

The case company also supports gender equality and women's empowerment in the aviation industry. It has signed the Women in Aviation and Aerospace Charter, which aims to increase women's representation and advancement in the industry. The case company has launched a mentoring programme for female pilots and executives and supported initiatives to encourage girls and young women to pursue careers in aviation. The case company has been listed by Financial Times as one of the Europeans most inclusive companies ranked by the employees. (Khalaf, 2020).

The case company finds it important to promote the economic and social development of the countries and regions it serves. The company supports trade, tourism and cultural exchange between Finland and the rest of the world by flying to more than 100 destinations in Europe, Asia, and North America, connecting Finland to major economic and cultural centres. The case company also promotes Finnish design, food, and culture on ships and in its marketing campaigns.

The case company cooperates with various stakeholders, such as NGOs, authorities, and industry partners, to solve common problems and opportunities. It participates in several initiatives and forums to promote responsibility, safety, and innovation in the aviation industry. The case company also supports local communities and charities through donations, volunteering and partnerships.

The case company also contributes to economic and social development by creating jobs and value for its shareholders, customers, and suppliers. It employs approximately 6,000 people in Finland and abroad and supports the livelihoods of thousands through its supply chain and network effects. The case company strives to offer its passengers competitive prices, high-quality service, and frequent flyer benefits. It pays taxes and dividends to its shareholders and the State of Finland, which owns 55.8% of the company.

The case company is currently preparing to meet the needs and requirements for the corporate sustainability reporting directive (CSRD) and has completed Double Materiality Analysis (DMA) (Figure 20) to determine the material Impacts, Risks and Opportunities (IROs) per sustainability topic as per European Sustainability Reporting Standard (ESRS). (Figure 21).



Figure 20. Double Materiality Analysis (DMA). (Case Company, 2024).

The figure below demonstrates the DMA results – the material sustainability

matters for the case company as per the ESRS.

	General	Environment	Social	Governance
Guidance on how to report	<b>ESRS 1</b> General requirements	<b>E1</b> Climate change	<b>S1</b> Own workforce	<b>G1</b> Business conduct
Mandatory for all companies to report	<b>ESRS 2</b> General disclosures	<b>E2</b> Pollution	<b>S2</b> Workers in the value chain	<b>Material Impacts, Risks and Opportunities identified in all topics (ESRS), except E3 Water and marine resources.</b>  → Thus, for FY24 we will report on all other ESRS as part of our CSRD report ('Sustainability Statement')
		<b>E3</b> Water and marine resources	<b>S3</b> Affected communities	
		<b>E4</b> Biodiversity and ecosystems	<b>S4</b> Consumers and end-users	
		<b>E5</b> Resource use and circular economy		

Figure 21. DMA results and the material sustainability matters of the case company. (Case Company, 2024).

The case company is currently also working on a human rights due diligence (HRDD) workbook to recognize and understand the possible impacts from both social and environmental aspects. The case company utilizes Shift, the leading centre of expertise on the UN Guiding Principles on Business and Human Rights, workshop materials which enables business to first list the potential impacts, then review those as per the severity and the likelihood, prioritize and define the possible actions needed to prevent or tackle those.

Both, CSRD and HRDD work also enables the case company to prepare for the coming Corporate Sustainability Due Diligence Directive (CS3D / CSDDD). Next section discusses CS3D.

#### 4.4 Corporate Sustainability Due Diligence Directive (CSDDD / CS3D)

Aim of the EU Supply Chain Law, Corporate Sustainability Due Diligence Directive (CSDDD, also CS3D) is to enhance sustainable development by ensuring that the companies respect human rights and healthier environment

for current and future generations. The directive also seeks to enhance companies equal operating conditions within EU market, improve transparency and comparability for the consumers and investors and to help those who are suffering of the human rights violations allowing them to have justice. (Leino, 2024). Shift defines CS3D as a legal instrument that will establish new corporate human rights and environmental due diligence duties across the single market. CS3D aims to be meaningful in driving better human rights and environmental outcomes while also being manageable for companies. Shift emphasizes how the international standards on sustainability due diligence – the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises (OECD Guidelines) answer precisely that question and highlights how CS3D is built on the core concepts in those standards. (Shift, 2023).

Mary Foley, ESG and sustainability matter expert demonstrates how at the core of the CSDDD is a demand for increased corporate transparency across the value chain.

*“In practical terms, that means the big multinationals that will be subject to the mandate will need to get their suppliers – many of whom will be much smaller companies that do not fit the scope of the regulation – on board with delivering the same level of transparency around human rights and environmental impacts of their operations. That will no doubt force some difficult conversations with suppliers and some rigorous new vendor screening protocols.” (Foley, 2024).*

The directive applies to the bigger companies within EU are having more than 1000 employees and global net turnover above 450 million euros. The estimate number of the companies within the scope is 5300-5400 of which approximately 139 in Finland. Outside EU the directive applies for companies above 450 million euros global net turnover. The schedule is so that the directive has been agreed by the EU commission 24.4.2024 and came in place in June 2024. From

there on the companies have two-year time to bring the directive part of the national law and legislations in 2026. From there the directive has been divided in three phases. In 2027, phase one, the directive applies for the companies with more than 5000 employees and net turn over minimum 1,5 billion euros. In 2028, phase two, the directive will apply for companies with more than 3000 employees and net turn over minimum 900 MEUR. And last, in 2029, phase three, the directive applies to companies with more than 1000 employees and net turnover minimum 450 MEUR. (European Commission, 2024; Leino, 2024).

ESG platform company Worldfavor illustrates the timeline of CS3D in figure 22.

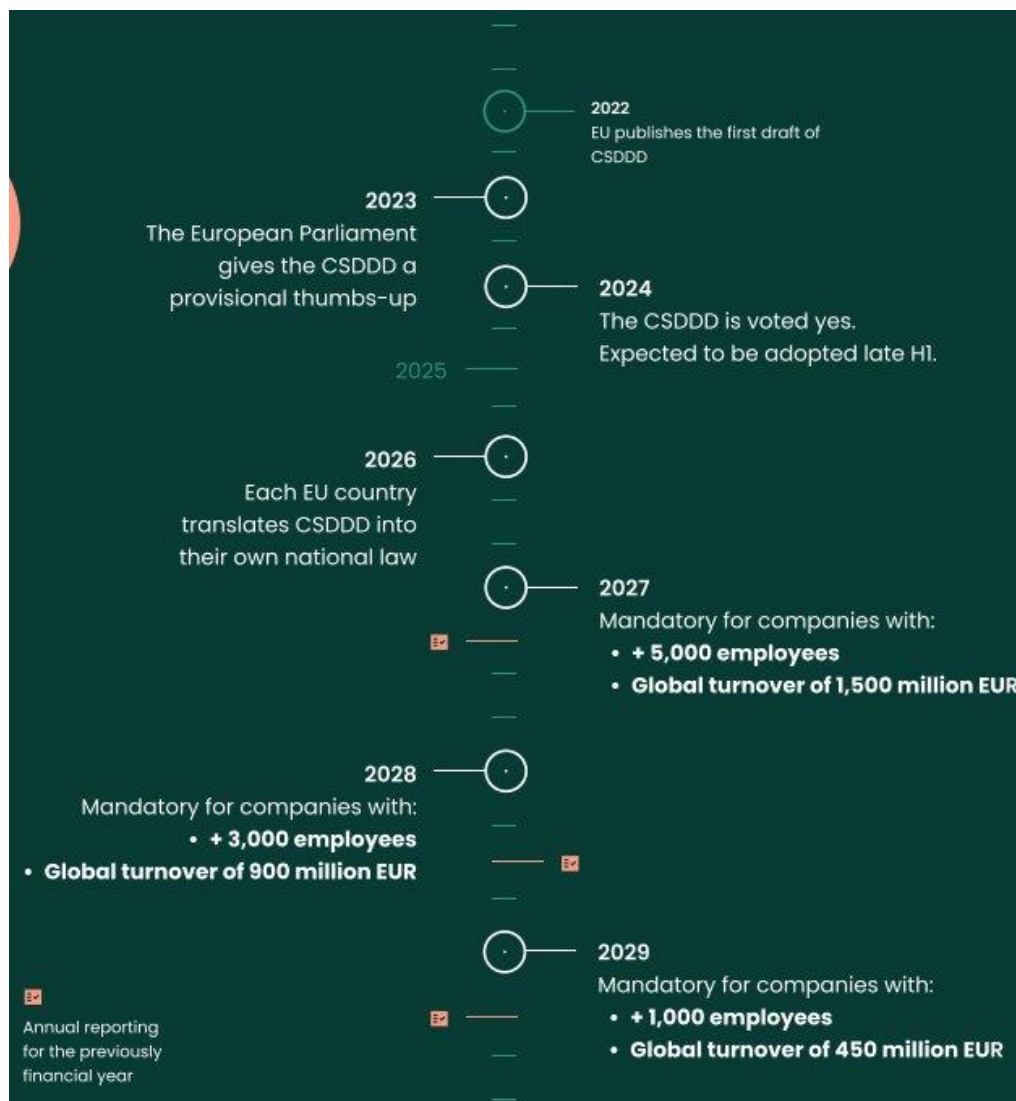


Figure 22. Timeline for CSDDD implementation. (Worldfavor, 2024).

The directive includes respecting human rights and responsible act on environmental topics. From human rights sector, the directive includes civil and political rights, economic, social and cultural rights, employees' rights and vulnerable groups. The human rights are listed in the CSDD directive appendix 1. From environment side the directive highlights information regarding the national prohibition linked to weakening the environment listed in the CSDD directive appendix 2 including nature diversity, wetlands, pollution, harmful chemicals and waste. The directive also includes national legislation law and measurable nature deterioration, such as soil change, water and air pollution, emissions, water over consumption, and other harmful impacts affecting natural resources.

The priority is to obey the due diligence. To integrate the due diligence into the policies and risk management systems and agree and put in practice the climate transition plan. In the centre is to recognize and spot and act on the possible human rights and environmental topics by managing the impacts through collaboration, participation and genuine listening. (European Commission, 2024; Leino, 2024; Savanco, 2024).

The directive includes adapting due diligence within company own activities, subsidiaries, and so called "chain of activities". Chain of activities include the part of the value chains included to the CSDD directive, such as upstream (the stakeholders involved with product manufacturing and service providing including design, mining, sourcing, manufacturing, transportation, warehousing, product, product parts or raw-material delivery and product/service development). From downstream, the stakeholders taking care of the transportation, warehousing and distribution. (Leino, 2024; Savanco, 2024).

The companies are expected to have code of conduct in place and followed within the company, its subsidiaries, and direct and indirect business partners, and description of the process of which company uses to recognize and manage the impacts. With the climate transition plan the directive aims to ensure that the companies business model and strategy are compatible with the

sustainable economic and limiting the global warming to 1,5 C degree as per the Paris Agreement. (European Commission, 2024; Leino, 2024; Savanco 2024). The companies who already report about the sustainability and development within corporate sustainability reporting directive (CSRD), do not need to make a new plan to fulfil the requirement of the CSDD directive. The directive adds the supposition that the plan is put in place and updated every 12 months also highlighting the progress. The companies are expected to recognize, evaluate and prioritize the true possible harmful human rights and environmental impacts and prioritize those through stability and probability basis (risk based human rights due diligence). The recognition of the possible harmful impacts should happen in regular basis (at least within every 12 months). (European Commission, 2024; Leino, 2024).

Companies are expected to prevent, mitigate, stop and/or minimize the scope of the harmful human rights and environment impact. The corrective actions depend on the context including the severity level, involvement and damage causing report. The companies are expected to leverage the business partner through various ways, such as: preventive action planning, enhancing the overall business plan (buying, design, delivery), supporting small and medium size enterprises, contractual assurances and auditing, co-operating with others and by considering investments both financial and non-financial. The companies can consider contractual guarantees from indirect business partners and auditing, pausing and or ending the business partnership as a last mean. In case of harmful impacts on companies are expected to repair the cause (if caused by the company by itself) or jointly cause (if caused together with other stakeholders). In addition, the companies might also take corrective actions or use their influencing power if they are directly linked to the harmful impacts. (Leino, 2024). Figure 23 below by Shift demonstrates the involvement with negative impact. (Shift, 2024).

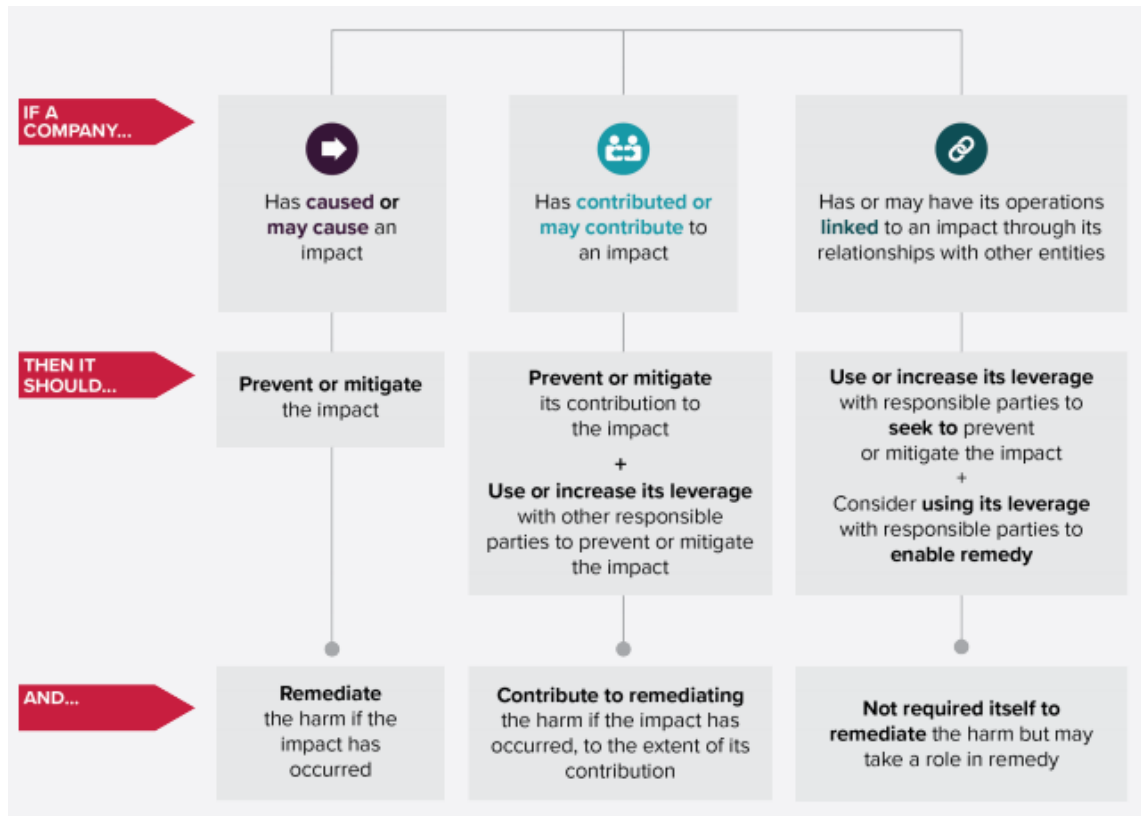


Figure 23. Involvement with negative impact. (Shift, 2024).

The directive uses same basis for the inclusion principles as United Nations cause contribute link. Directive uses text cause when the company itself causes the negative impact and cause jointly (UN uses term contribute) when the company together with its subsidiaries or business partners causes the negative impact. In both cases the company is expected to act, eliminate or minimize the cause. In case the company itself is not causing the harmful impact and instead the business partner is, the company is however expected to use its influencing power to stop or minimize the impact. (Leino, 2024).

Part of the due diligence the companies are expected to follow up the efficiency of the chosen actions to ensure that the actions have been sufficient. These kinds of measurements can be for example how well the buying decisions are in line with the human rights, how well the supplier network has been mapped or the company can measure how well the company has learnt regarding accomplishing the due diligence and enhanced its performance to name a few. Regarding the measurements, Leino recommends familiarizing with the world

benchmarking alliance corporate human rights benchmark and the measurements they are using. (Leino, 2024).

The companies are expected to report yearly of the whole process, meaning the relevant politics, processes and actions regarding the due diligence. The reporting requirements of this directive can be acknowledged as per the EU responsibility reporting directive - Corporate Sustainability Reporting Directive (CSRD). To ensure the compliance, European Commission has been requested to specify the content of the reporting requirements of the European Sustainability Reporting Standard (ESRS) regarding the due diligence process reporting. (Leino, 2024).

Companies are expected to co-operate efficiently with the stakeholders and to build a system for the people impacted to report the possible complaints regarding the human rights issues, and a mechanism through which the people and organizations can report the possible concerns. The system should be fair, openly available, predictable and free. (European Commission, 2024; Leino, 2024).

Execution of the directive has been divided into national and EU level. The national supervising authority is responsible of implementation of the directive, follows up its compliance, initiate the examinations and investigations, to create a user-friendly mechanism to report any violation of the obligation, instruct regarding sanctions and possible prohibition procedure. EU is responsible of providing European supervising authority network, best practices, co-operation, guidance and support. (European Commission, 2024; Leino, 2024).

Sanctions regarding the violation of the directive must be efficient, correct relative and cautionary. The financial sanctions are based on the company global net revenue (maximum 5 % of the previous fiscal year global net revenue). (Leino, 2024).

In order to prepare for the CS3D and the human rights impacts, Shift advises first companies to identify risks through mapping and prioritizing within the

supply chain by looking at where the supplier is based or where operations are taking place. Second, recognize who the supplier is, their “track record” and the sophistication of their processes and systems, and third to look at the nature of the business activity and whether that activity is associated with a particular set of common human rights risks.

Shift emphasizes that many companies define their supply chain due diligence priorities based on their ‘top spend’ suppliers or their top tier, strategic suppliers, or other factors that suggest their leverage with the supplier is greatest. Others focus on relationships that pose greatest risk to their own reputation, such as suppliers of products carrying their own brand, or issues where public pressure and mobilization are greatest. Shift highlights that applying a human rights lens to due diligence requires a different set of calculations, instead of, or in addition to, approaches based on business risk.

*“When assessing human rights risk, companies should start by assessing risk from the perspective of potentially affected stakeholders, based on the severity and likelihood of potential impacts. These adverse impacts – the most severe and most likely – may not be occurring among a company’s top tier suppliers, where a company has more leverage to compel mitigation measures, but may be deeper within the supply chain, even several steps removed from a direct relationship with the company, and where leverage is lacking.” (Shift, 2012).*

Once risk mapping and prioritization of the supply chain has been done, Shift recommends finding and increase the leverage. Shift defines company leverage as a function of a unique relationship it has with a particular supplier, including the commercial or reputational importance of the business relationship to the supplier, the quality of the relationship between the company and the supplier, and other factors. Shift also highlights how additional leverage often lies through the relationships that companies have with other actors, particularly with governments. Shift also demonstrate how the multinational increases their

leverage by engaging external government and commercial actors, with whom it has relationships, who could themselves exercise leverage. Other companies related experiences where leverage is built over time, through consistency and slowly building credibility with a business partner. Companies also create leverage through collaborative platforms for action. For instance, the Fair Labour Association provides a platform for companies to pursue common labour standards and consistent approaches to supplier auditing/assessment. In various examples, industry collaboration has enabled companies to address systemic issues collectively, where any one company lacked the leverage to address the issue on its own. One way that companies often exercise their leverage is at the contracting stage. Shift emphasize how many companies have supplier codes that outline a variety of social and environmental standards, including human rights, by which a company's suppliers are expected and contractually obligated to abide. However, company leaders note that these are often extensive pro-forma documents with common language that suppliers must sign in order to secure the business. Seldom does a dialogue between company and supplier take place around these supplier codes, and some company leaders question whether they are even read by suppliers. However, Shift also share their experience regarding companies that require their suppliers to participate in workshops sponsored by the company on social and human rights standards and compliance, in order to be eligible to bid for business and/or building human rights compliance criteria and conversations into the bidding process, before the business has been awarded. Shift highlights the importance of having and creating a dialogue with the supplier rather than having a monologue and recommends looking at beyond compliance auditing and towards sustainable improvement. (Shift, 2012).

Foley highlights, how the mandate will also introduce a standard set of benchmarks for evaluating sustainability risk to provide more data and metrics for investors and consumers to continue to evaluate businesses through a sustainability lens. Foley emphasizes how the end-result is a foundation of sustainability-oriented risk metrics that ultimately links business fundamentals,

such as profitability and earnings growth with both environmental and human rights risks. (Foley, 2024).

*“It should also be noted that this regulation also carries the requirement for “independent third-party verification of compliance.” So, transparency and scrutiny are also built into the very structure of the law.” (Foley, 2024).*

Although SMEs are not directly in scope of the CSDDD, they may be indirectly affected as contractors or subcontractors. Companies in the scope of the CSDDD are expected to support the SME partners in capacity-building, training, and financial assistance in order to comply with the due diligence requirements. (Savanco, 2024).

To summarize, the companies subject to the CSDDD will need to integrate due diligence into their policies and risk management systems, identify and assess actual or potential adverse impacts and prevent and mitigate potential adverse impacts and address actual adverse impacts. Companies are also expected to engage meaningfully with stakeholders and monitor and report on their due diligence activities annually. On top, companies are responsible developing and implementing a climate transition plan in line with the Paris Agreement.

#### 4.5 Supplier Sustainability Audit

Henriksson (2022) describes in her research the audit process consisting of three steps, such as selection and planning, audit, summary and reporting. In the first phase, selection and planning, the company selects which suppliers it will audit, schedule and arrange the audit. There can be various approaches for the selection, such as, risk-based approach (geographical, economical (size), or separately picked up). The second phase, audit, consists of facility visit and following the audit plan. In some cases, there might also be a “pre-audit” in which some of the questions / topics are gone through prior to the site visit. The last phase is the summary and reporting phase in which the auditor summarizes

the audit and evaluates the supplier compliance with the requirements. (Henriksson, 2022).

Shift highlights how audits can serve a tool for recognizing the shortfalls in standards, but alone are insufficient to promote sustainable improvements on issues of social performance within the supply chain. (Shift, 2012).

*“Compliance auditing alone is insufficient to promote sustainable improvements on issues of social performance. This is not to suggest that compliance audits do not have an appropriate role to play in managing human rights performance in supply chains. Collectively, the companies participating in the Shift workshop conduct an estimated 10,000 or more compliance audits per year. Audits can serve as a tool for identifying current shortfalls in standards. But they are only ever a snapshot in time. It is what happens after the audit that matters.”* (Shift, 2012).

Shift recommends ensuring the audit focus to seek the truth and not just work as a check-box exercise to make it seem like due diligence is being conducted. Shift also provides a comprehensive list of topics to review within the compliance audits, such as: continuous improvement approach, where the audit is seen as a diagnostic starting point, not a self-evident certification; emphasize that not the audit, but the improvement that happens after the audit, is what suppliers will be measured by; measure performance against all key indicators in numbers, rather than just providing a single overall rating or red/amber/green system, to enable the company and supplier to see incremental improvements; follow up with suppliers on the corrective actions, to send a clear message of the importance the company places on remediation; conduct due diligence on the auditing firms and individual auditors as well, since the quality and credibility of auditors varies widely. (Shift, 2012).

Global Partner Solutions (GPSI), specialized in delivering tactical and strategic turnkey solutions to enhance the sustainability emphasize the supplier

sustainability audit and risk assessment's objectives importance to assess the supplier's ability to meet the company's sustainability requirements and identify potential risks that could impact the company's reputation, financial performance, or legal compliance. GPSI highlights how supplier sustainability audit evaluates supplier's environmental, social, and governance (ESG) practices, including the energy use, waste management, labour practices, human rights policies, and compliance with relevant laws and regulations. Prior to auditing, the risk assessment helps to identify potential risks related to environmental, social, and governance factors and other aspects that could impact company's operations or reputation. (Figure 24). (GPSI, 2024).



Figure 24. Advantages of Supplier Sustainability Audit and Risk Assessment. (GPSI website, 2024).

As demonstrated in the figure 24 supplier audits and risk assessments can help ensure the supplier's compliance with the sustainability and ethical practices that the company requires, demonstrate company's commitment to

sustainability and ethical practices to the stakeholders, including customers, investors, and employees, and provide valuable insights into the supply chain, enabling to identify areas for improvement and develop action plans to drive continuous improvement over time. On-site audits offer effective and, in some cases, more transparent way of assessing the alignment of a supplier's practices and ways of working with the sustainable supply chain (SSC) principles. (GPSI, 2024).

*“On-site audits are an effective way to assess the alignment of a supplier’s practices with the Sustainable Supply Chain (SSC) principles and to identify actions to address any risk. The advantage of on-site audits is that they reveal opportunities that may not be visible through phone or self-assessments.”* (GPSI, 2024).

Philips and Signify supplier sustainability audit frameworks were also benchmarked by visiting their websites and the process documentations, as those provides solid basis and detailed demonstration on how and who to audit, and when.

## 4.6 Supplier Relationship Management

Supplier Relationship Management (SRM) is a strategic discussion that needs both cross-functional interaction and internal alignment at the highest level and requires honest valuation of the value brought by the suppliers within the company as well as the potential value they could bring. Once recognized, it then demands open, constructive, and accurate business-to-business dialogue about how to improve the relationship leading to added value, competitive advantage, and overall cost reductions. (O’Reilly 2014). Jonathan O’Brien, an experienced procurement and SRM specialist, defines the three pillars of SRM as per following: What, Who and How. First determine what value or benefits is needed to be realized within the supply base by using the VIPER-model (Value, Innovation, Performance, Effectiveness, Risk reduction). (Figure 25). Second to

define which suppliers are needed and desirable to have a relationship with by segmentation (transactional suppliers, important suppliers, strategic suppliers). Third to define which level interventions needed and how those should be deployed (full supply chain, entire supply base, immediate suppliers). (O'Brien 2015).

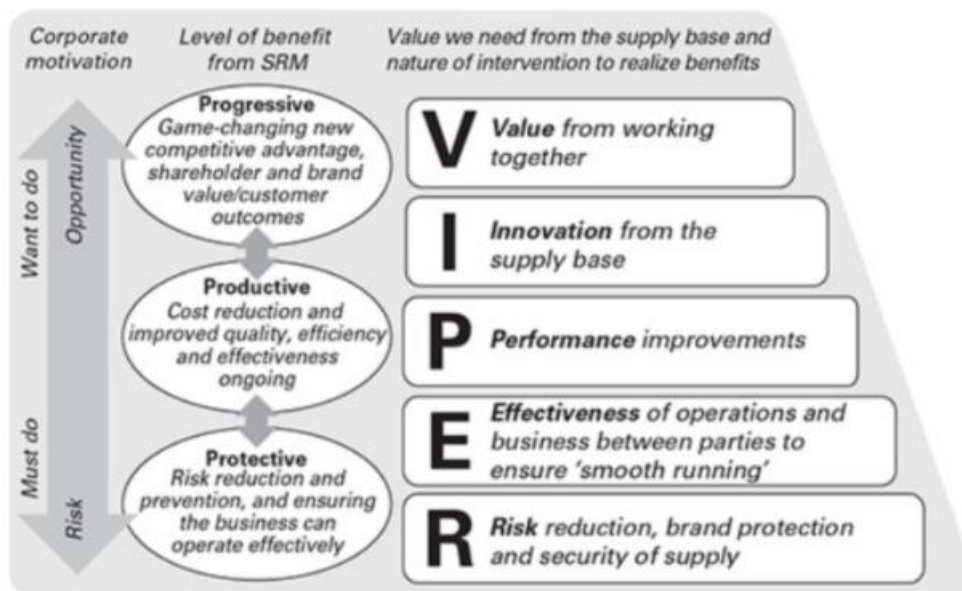


Figure 25. VIPER-model. (Kivistö, 2021).

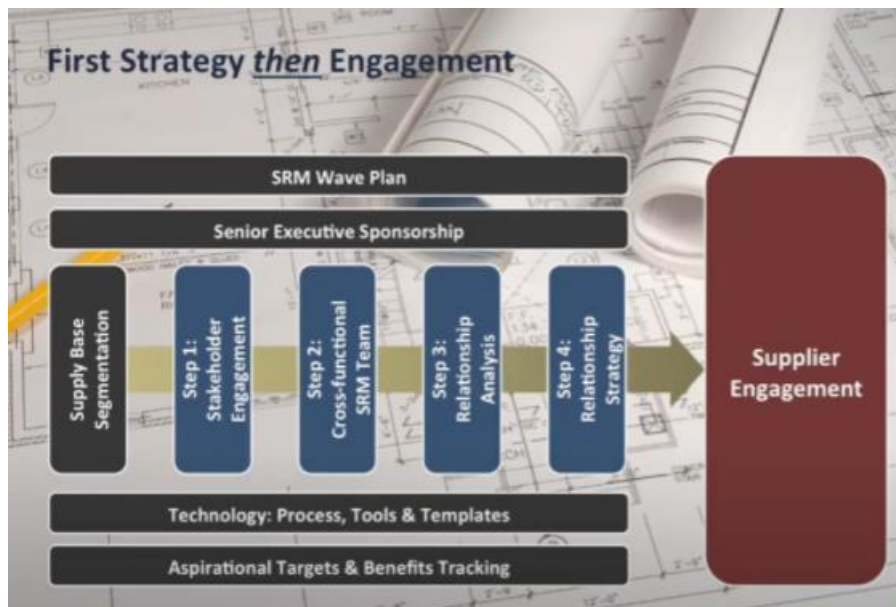


Figure 26. First strategy then engagement. (Kivistö, 2021).

Schuh et al provide six tips to successfully develop an integrated, comprehensive operating model of SRM focused driving value including repeatable management processes (compliance, segmentation, collaboration), enabling tools (scorecards, ration), key metrics (intercompany trade and flow maps), inclusive governance (sponsor), new people skills and supporting organizational structure guided by set of commonly understood principles. To manage the supplier relations systematically to avoid risk and add value Schuh et al suggests using the supplier interaction model, which includes nine categories: integrate, mitigate, harvest, bail-act, sustain, influence, invest, develop, and improve. The nine-supplier relationship model enable top and poor performers to be differentiated. The SRM tools and methods provided by the procurement course are valuable in order to efficiently plan the SRM. (Figures 3-5).



Figure 27. The process of supplier segmentation. (Kivistö, 2021).

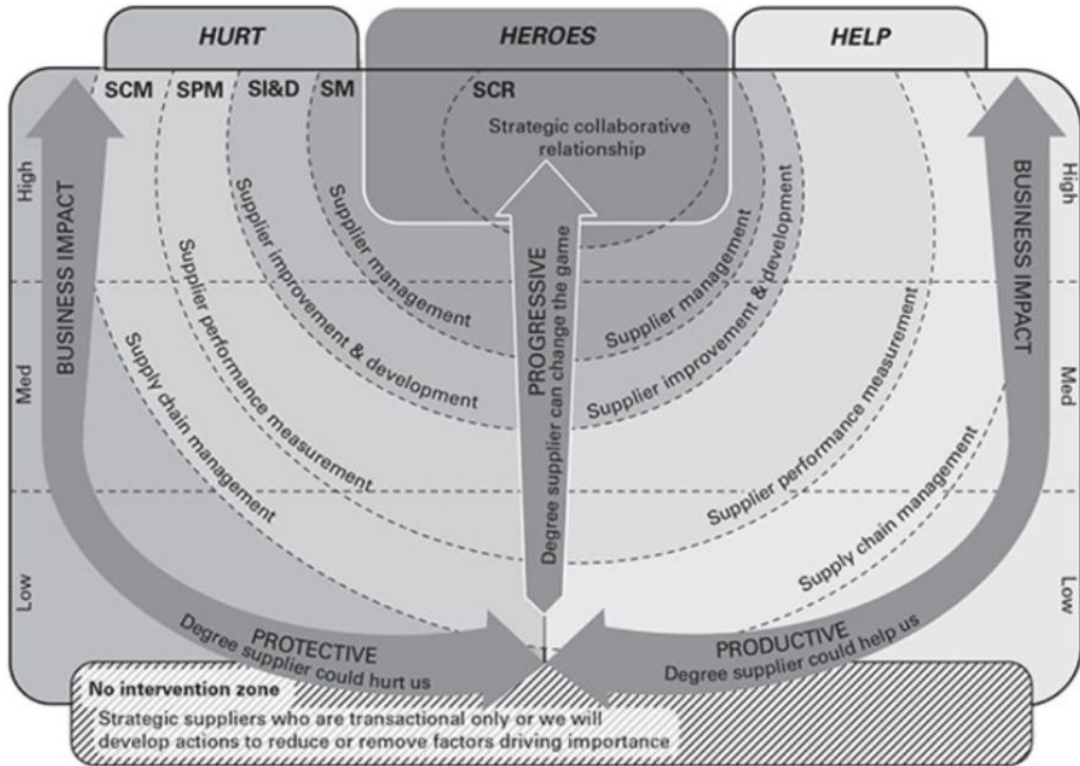


Figure 28. Supply Base Intervention Map. (Kivistö, 2021).

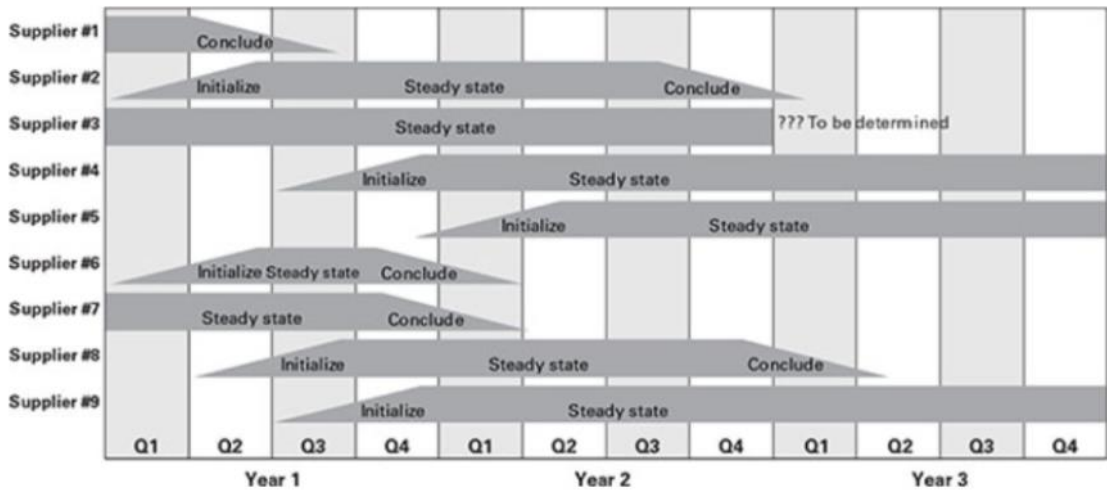


Figure 29. SRM Roadmap. (Kivistö, 2021).

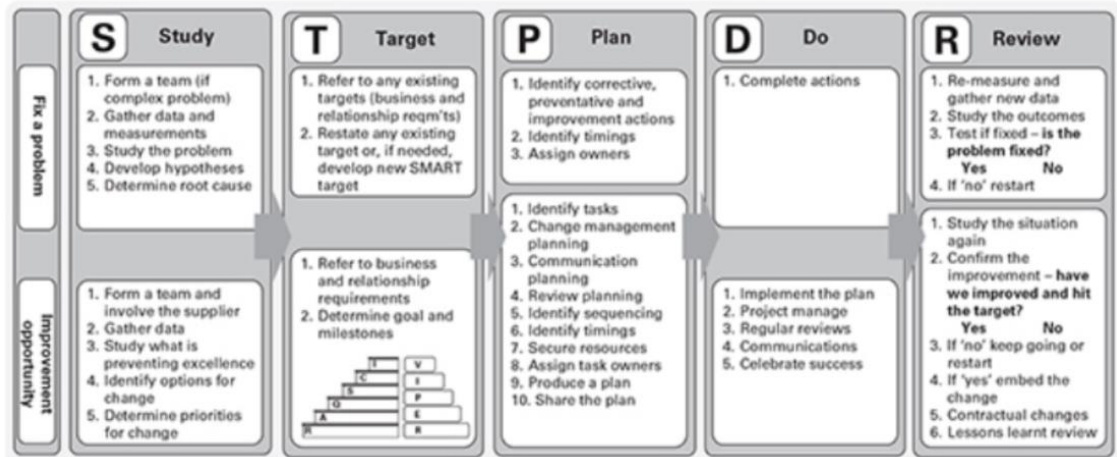


Figure 30. STPDAR in action. (Kivistö, 2021).

Craig Johnstone MCIPS, CIPS Australia and New Zealand Senior Practitioner and SRM expert, emphasizes seven tips for successful supplier relationship management first highlighting the six dimensions of contract and SRM framework including alignment and strategy, governance and ways of working, contract management, performance management, continuous improvement and innovation, and supply chain management. (Figure 31). He then provides the seven tips for successful SRM, such as: Segmentation criteria (broaden the scope), segmentation (right time, right place), value outcomes (applying 3P's), evaluating people, interpretation and alignment, performance managing outcomes, and innovation. (Figure 32). (Johnstone 2020).

A single, organisation-wide approach to managing contracts and interactions with suppliers, where time, effort and agendas are dictated by the potential contribution they can make to an organisation's strategic objectives and, their risk profile



Figure 31. Contract and SRM framework: 6 dimensions (CIPS). (Johnstone 2020).



**Tips**

1. Segmentation Criteria – Broaden the Scope
2. Segmentation – Right Place / Right Time
3. Value Outcomes – Applying the 3Ps
4. Evaluating People
5. Interpretation and Alignment
6. Performance Managing Outcomes
7. Innovation – So What’s the Plan?

Figure 32. Seven tips for successful SRM. (Johnstone 2020).

Next the Thesis describe and emphasize those seven tips of success through the 6 dimensions. Starting with segmentation criteria – broaden the scope (Figure 33). Clarify the implication that each tier supplier has on each dimension.

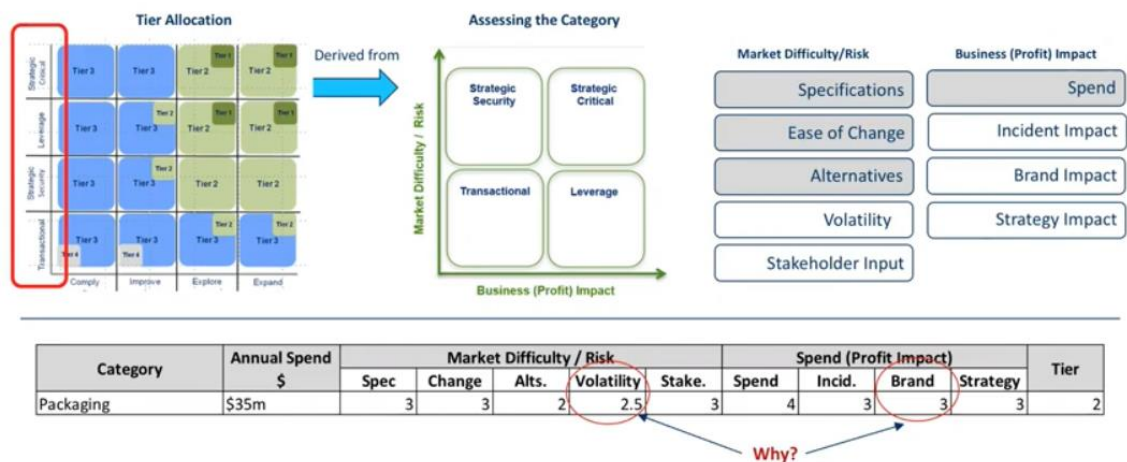
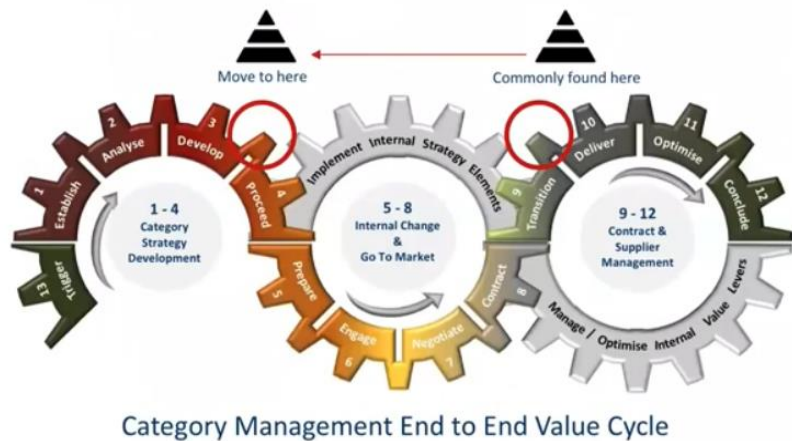


Figure 33. Segmentation criteria – broaden the scope. (Johnstone 2020).

Second is still within segmentation; right place, right time highlighting to include some of the segmentation also at the strategy and business case point to ensure that the right value and outcomes are achieved and pursued when going to the market. (Figure 34). This is a valuable point to be taken into consideration when developing the SRM.



Locating Segmentation only in the Supplier Management phase of your end-to-end cycle means contracts and relationship agendas are more likely to disregard the applicable Tiering needs.

Undertaking some form of Segmentation at the Strategy/Business Case point ensures that you are pursuing the right Value Outcomes when going to the market.

Also important for internal Change Readiness.

Figure 34. Segmentation – right place, right time. (Johnstone 2020).

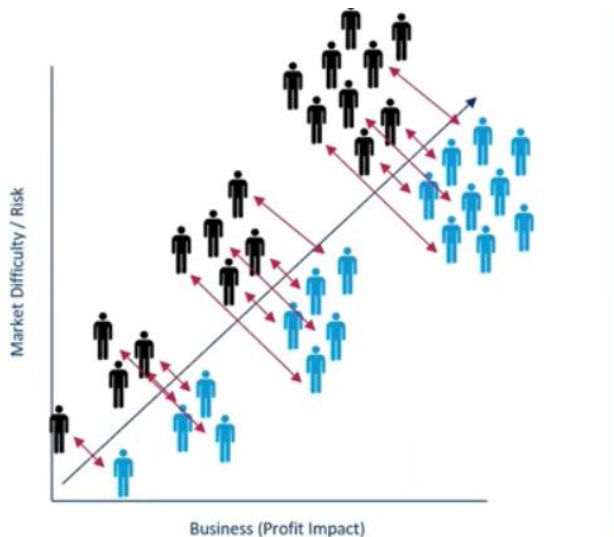
Third is a value outcome, applying the 3Ps; protective, productive, and progressive. Johnston recommends asking, what is the value outcome in agile view that we are going to reach by working with the business teams. (Figure 35). (Johnstone 2020).

Change the emphasis from inputs to Value Outcomes / importance varies by Tier



Figure 35. Value outcome: 3Ps. (Johnstone 2020).

Fourth, Johnstone recommends evaluating the people based on their competencies through examining the market difficulty / risk and the business. (Figure 36).



- Influencing / Presentation
- Problem Solving
- Team Working
- Analytical
- Creativity

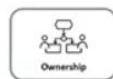
Figure 36. Evaluate the people. (Johnstone 2020).

Fifth, he advises to ensure that all relevant contracted counterparts are aligned in terms of understanding and expectations, and within the roles and the responsibilities involved (figure 37).

Ensuring all contracted parties are aligned in their levels of understanding and expectations around obligations, and their respective roles and responsibilities in delivering them.



All contractual obligations which parties are required to perform over the life of the agreement.



Which organisation/s will proceed to undertake the delivery of each agreed contractual obligation and who specifically within those entities will undertake such role/s.



Agreeing the full scope of tasks to be undertaken to deliver each obligation, the order in which they should be done and, how they should be completed.

*"If you think compliance is expensive – try non-compliance"*

*(Paul McNulty – US Deputy Attorney General 2001-05)*

Figure 37. Interpretation and alignment. (Johnstone 2020).

Sixth tip includes performance managing outcomes. Johnstone recommends examining this through 3Ps, those targets, lagging measures and leading indicators. (Figure 38).



Figure 38. Performance Management outcomes. (Johnstone 2020).

Seventh, discusses about the innovation and what to focus next through 7Es (envision, engage, evolve, evaluate, execute, earn, embed) and different phases of innovation and idea creation (figure 39).

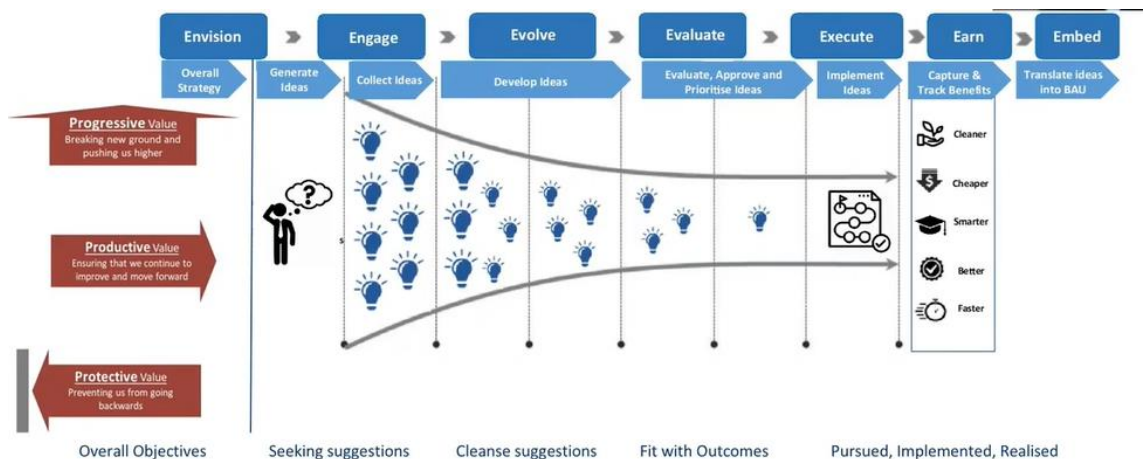


Figure 39. Innovation – what’s next. (Johnstone 2020).

Professor Daniel Corsten also emphasizes the importance of aligning the key supplier strategy with key accounts, at the end the growth depends on the suppliers and discusses how all the decisions in sales have the direct impact on supplier management. He recommends aligning the sales team strategy with the supplier and purchasing team (cross-functionality) and defines the supplier management as per following: managing supplier base, developing the suppliers, and integrating them. Dr Corsten advises to take the key products and top key accounts and examine those. (Figure 40). (Corsten 2011).

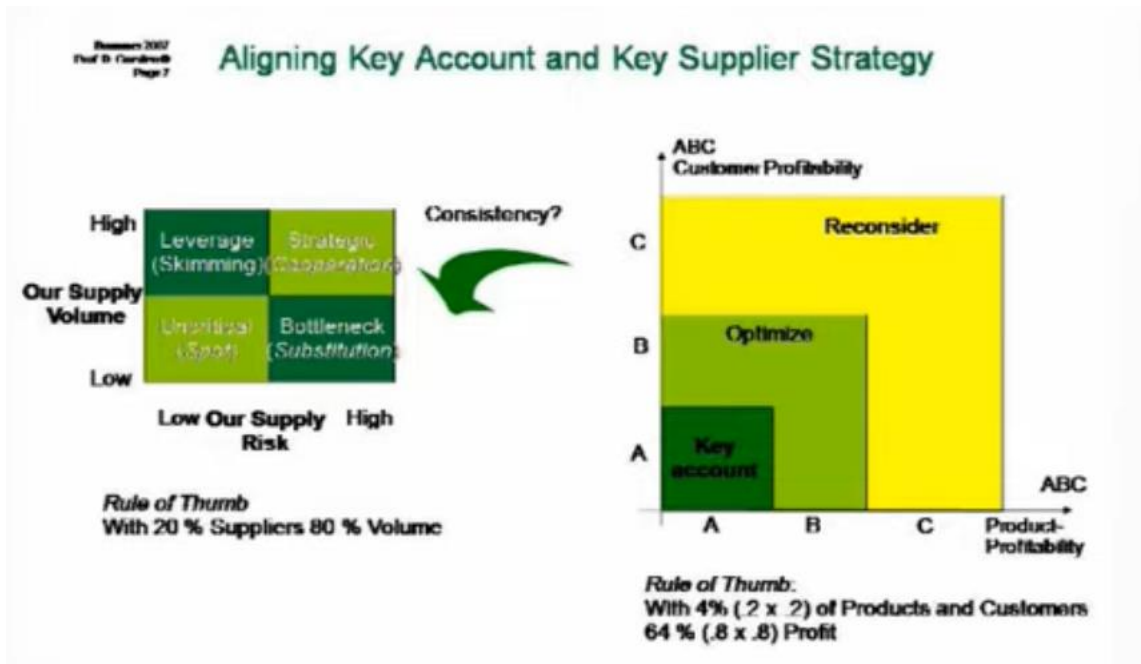


Figure 40. Aligning Key Account and Key Supplier Strategy. (Dr Corsten 2011).

Companies may use the figure 41 to analyze their SRM maturity level and how it is linked to value, risk, and innovation to which the orchestration is a key (figure 41).

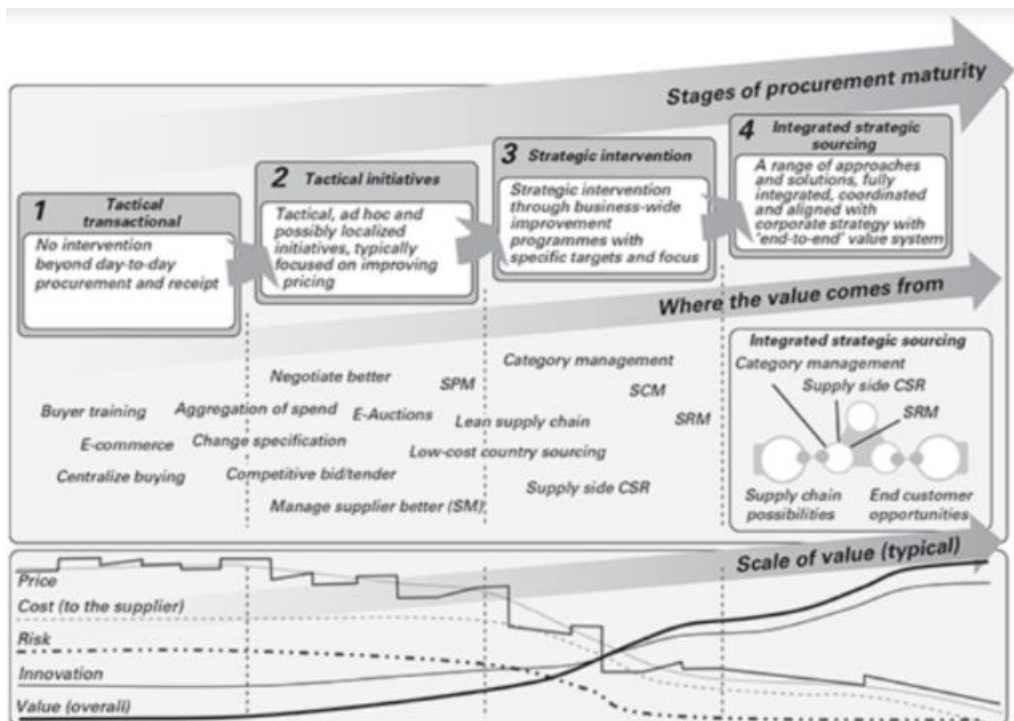


Figure 41. Stages of Procurement Maturity and Link to Value, Risk, and Innovation. (Kivistö, 2021).

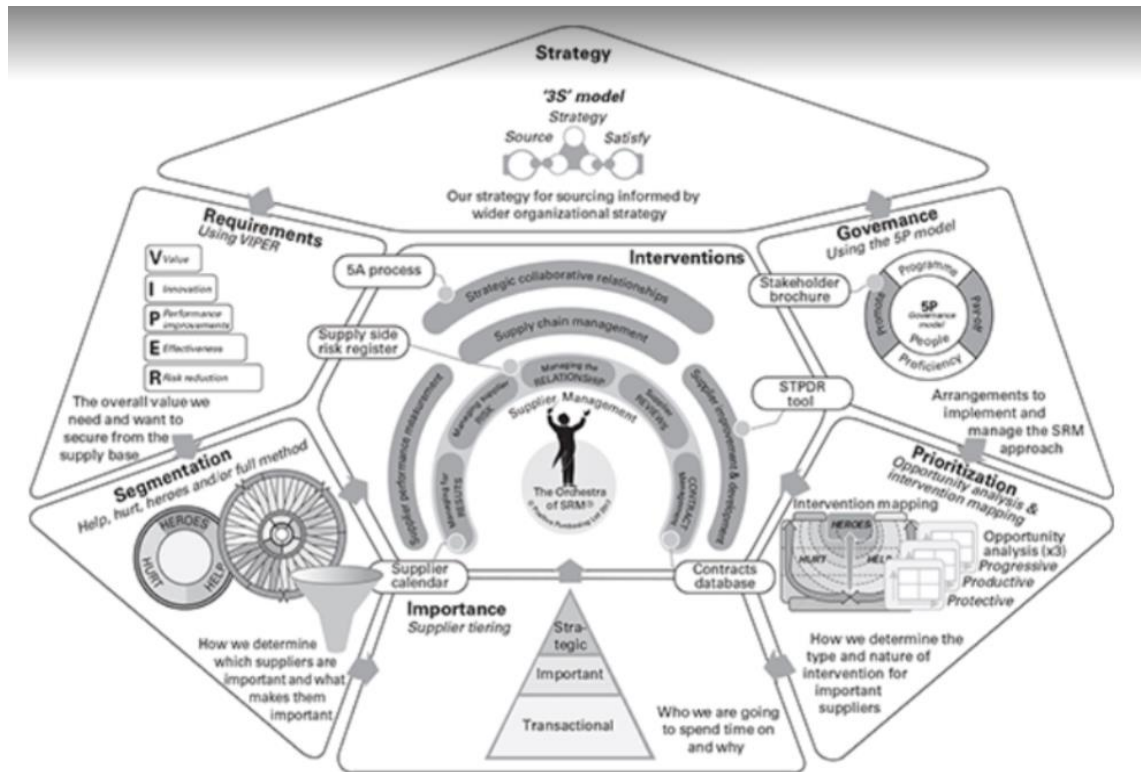


Figure 42. SRM Orchestration. (Kivistö, 2021).

Next, Section 4.7 will present the conceptual framework of study on developing supplier sustainability audit framework to prepare for the upcoming CSDDD.

## 4.7 Conceptual Framework

This section presents the conceptual framework of this study (Figure 43). Its first element, Sustainable Supply Chain, was explored to further understand what sustainable supply chain is including various tools, such code of conduct and audit/assessment. The second element, Supply Chain Transparency, focused on the overall understanding around supply chain transparency and how to gain it. For the third element, sustainability, the sustainability research, methods, tools and case company sustainability practices were discussed. Fourth element, Corporate Sustainability Due Diligence (CSDDD) was studied to further understand the upcoming requirements from the European Union by reviewing European Commission website and publication including the frequently asked questions (FAQs) on the upcoming CSDDD. Fifth element,

supplier sustainability audit was researched in order to understand the current practices and potential ways of building the supplier sustainability audit framework for the case company. Sixth element, Supplier Relationship Management, various themes were discussed, such as: Supplier engagement, segmentation and performance management. Supplier Audit Framework and Supplier Relationship Management themes were seeing complementing one another, and when applied efficiently, also developing one another (company and its supplier sustainability maturity), link to risk management and enable also synergies through collaboration.

Figure 43 below summarizes the selected relevant elements that were merged into the conceptual framework for developing supplier sustainability auditing.

Key Focus Area (CSA) from Data 1	Input from literature (CF)
Element 1 Sustainable Supply Chain Management	Sustainable Supply Chain Management (Carter, 2008). Sustainable Supply Chain Management Tools (SCoC, supplier self assessment, supplier audit) (Carter, 2008). Interconnected risks; linkage with climate change, human rights, political and economic risks. (Blanco, 2021).
Element 2 Supply Chain Transparency	Best practices to build supply chain transparency. (Jackley, 2023). Transparent integration of sustainability (ESG) in the organization strategy and business processes (Jackley, 2023). Regulations relevancy to climate, nature and equity, and ESG reporting frameworks (CSRD, CSDDD) and the importance of data and digitalization of supply chain transparency. (Bouguin, 2024). Importance (and challenge) of data accuracy and supplier audits; compliance with numerous laws and regulations. (Jackley 2023).
Element 3 Sustainability further understanding	United Nations Sustainable Development Goals; integration of economic and social into all development processes. (United Nations, 2024; McQuin, 2020). Case company sustainability initiatives; investigating the current sustainability initiatives and ways of working within the case company; Double Materiality Analysis (DMA) results, Corporate Sustainability Reporting Directive (CSRD). (Case company, 2024). OECD pressure state response model (Singh, 2008). Importance of addressing both planet and people in sustainability and strategy. (Shift, 2024).
Element 4 Corporate Sustainability Due Diligence Directive (CSDDD; EU law)	Corporate Sustainability Due Diligence Directive context, requirements and guidelines (European Union, 2024; Leino, 2024; Foley, 2024; Worldfavor 2024). Risk mapping, prioritization, and leverage through collaboration – Fair Labour Association (Shift, 2024). Sustainability oriented risk metrics and link to business (Foley, 2024).
Element 5 Supplier Sustainability Audit Framework development	Supplier Sustainability Audit methods – diagnostic starting point not self-evident certification (Shift, 2024). Advantages of audit, risk-assessment, on-site audits and sustainable supply chain practices (GPSI, 2024). Philips and Signify Sustainability Audit Frameworks (Philips website, 2024; Signify website, 2024). Fiskars responsible supply chain demonstrating the supplier audit process and utilized as a benchmark to the proposal. (Fiskars, 2024).
Element 6 Supplier Relationship Management maturity, link to risk management and sustainability integration as part of SRM	Supplier relationship management principles; defining the SRM maturity, linking it to the risk management. (Kivistö, 2021). Segmentation (Kearney; Johnstone 2020). Value outcome, people evaluating risk and business, alignment, performance management, outcomes and innovation (Johnstone, 2020).

Figure 43. Research design; conceptual elements and literature review.

## 5 Implementation of the development project

This section merges the results of the current state analysis and the conceptual framework towards the building of the improvement proposal for the case company supplier sustainability audit framework based on both co-creation with the company and using Data 2.

## 5.1 Overview of the Validation Stage

As described earlier, the case company is willing to prepare itself for Corporate Sustainability Due Diligence Directive requirements, even if not effective yet as similar requirements are also coming from other stakeholders. Until now, the company has utilized Supplier Code of Conduct and followed its compliance through supplier self-evaluation surveys. Supplier Sustainability Audits have been in place only for a small number of suppliers. Currently the company has many formats in use and not established, defined or instructed process for supplier sustainability auditing in place. The case company wants to contribute and build common audit framework for the company to identify and assess risks in supply chain and ensure compliance with the upcoming Corporate Sustainability Due Diligence Directive (CSDDD / CS3D).

As a result of the current state analysis, the development focus elements were identified: Sustainable Supply Chain Management, Supply Chain Transparency, Sustainability, Corporate Sustainability Due Diligence Directive, Supplier Sustainability Audit and Supplier Relationship Management.

Supplier sustainability audit process was analyzed by examining supplier relationship management and procurement practices, interviewing the internal team linked with the process, by benchmarking the other existing supplier sustainability audit practices through interviewing and visiting the websites of the other companies, and then analyzing the current state of the case company supplier sustainability audit process. The relevant best practices were found from the benchmarking. Based on that, the proposal development started.

To make the foundation for the proposal, the study first examined the existing supplier sustainability audit process and developed high level flow chart demonstration of the supplier sustainability audit process, and on its basis explored how the case company can further enhance the existing process and prepare for the coming CS3D requirements.

In the proposal part, the study is proposing to include sustainable procurement policy and human rights statement as basis of the supplier sustainability audit process, to assess/screen each sustainability against sustainability, utilize internal and external sources to evaluate the potential risk (risk suppliers' recognition), such as: ethics line, external sources (media), financial data, and risk country and/or risk category approach. Sustainability was also suggested to be added as a systematic part to the RFQ/RFI phase and linking it also to the supplier relationship management and supplier sustainability audit process. The study also provided an internal documentation describing the updated supplier sustainability audit process framework, and a recommendation to further develop the data, analytics, measuring and KPI's linked to supplier sustainability and supplier relationship management and ESG, as those were identified important factors to further develop the supplier sustainability maturity and understanding, and to prepare for the CS3D requirement on educating the suppliers on sustainability.

Moreover, the sustainable supply chain was also studied and further co-developed with the procurement team by providing insights and feedback on the existing knowledge regarding sustainability, procurement and supplier relationship management, and materials linked to it, such as: internal and external sources (website, intranet) and training materials.

As Data 2 collection, various interviews, discussions and meetings were used to co-create the proposal for the supplier sustainability audit framework, high level flowchart and the internal documentation demonstrating it together with the internal key stakeholders to allow also them to participate to the development.

## 5.2 Development to the Proposal and Final Proposal

During the analysis in each phase of the study, many observations and development ideas for the sustainable supply chain and supplier sustainability auditing framework in order to prepare for the CS3D were done through the feedback, research, and experiences received, from the team, organization

representatives from different departments, the key stakeholders, and benchmarking interviews and are summarized in Figure 44. At the end of this section, the Final proposal and further recommendations and suggestion for action plan are presented.

### Conceptual framework, improvements and improvements to the proposal

Key Focus Area (CSA) from Data 1	Input from literature (CF)	Suggestions from stakeholders for the proposal (from Data 2)
Element 1 Sustainable Supply Chain Management	Sustainable Supply Chain Management (Carter, 2008). Sustainable Supply Chain Management Tools (SCoC, supplier self assessment, supplier audit) (Carter, 2008). Interconnected risks; linkage with climate change, human rights, political and economic risks. (Blanco, 2021).	"We should evaluate and assess supplier sustainability in both social and environmental". (Internal stakeholder). "We are in a process of viewing our sustainable procurement policy. The SCoC will be updated, we will create both sustainable procurement and human rights statement". (Internal stakeholder).
Element 2 Supply Chain Transparency	Best practices to build supply chain transparency. (Jackley, 2023). Transparent integration of sustainability (ESG) in the organization strategy and business processes (Jackley, 2023). Regulations relevancy to climate, nature and equity, and ESG reporting frameworks (CSR, CSDDD) and the importance of data and digitalization of supply chain transparency. (Bouquin, 2024). Importance (and challenge) of data accuracy and supplier audits; compliance with numerous laws and regulations. (Jackley 2023).	"It would be good if we could have ESG data and assess suppliers against it. Our data is mainly in excel (lots of manual data)". (Internal stakeholder). "By having a third party supplier sustainability assessment tool we could further evaluate our suppliers with the data available". (Internal stakeholder).
Element 3 Sustainability further understanding	United Nations Sustainable Development Goals; integration of economic and social into all development processes. (United Nations, 2024; McQuin, 2020). Case company sustainability initiatives; investigating the current sustainability initiatives and ways of working within the case company; Double Materiality Analysis (DMA) results, Corporate Sustainability Reporting Directive (CSR). (Case company, 2024). OECD pressure state response model (Singh, 2008). Importance of addressing both planet and people in sustainability and strategy. (Shift, 2024).	Sustainability is core in the case company strategy. The case company is preparing for the upcoming CSDDD and currently working for CSRD. It has completed DMA analysis as a background for the CSRD reporting. The case company also participated Human Rights Due Diligence workgroup and is currently defining the impacts both environment and social. This thesis work as an action for the upcoming CSDDD and HRDD work providing action to assess, analyze risk and/or audit.
Element 4 Corporate Sustainability Due Diligence Directive (CSDDD; EU law)	Corporate Sustainability Due Diligence Directive context, requirements and guidelines (European Union, 2024; Leino, 2024; Foley, 2024; Worldfavor 2024). Risk mapping, prioritization, and leverage through collaboration – Fair Labour Association (Shift, 2024). Sustainability oriented risk metrics and link to business (Foley, 2024).	"This thesis provide a tool for the upcoming CSDDD to further understand the end to end value chain and the possible environmental and social impacts to business might have through assessing, risk-assessing, and/or auditing the suppliers. The supplier sustainability audit process is a tool for supplier collaboration, and riskmanagement.
Element 5 Supplier Sustainability Audit Framework development	Supplier Sustainability Audit methods – diagnostic starting point not self-evident certification (Shift, 2024). Advantages of audit, risk-assessment, on-site audits and sustainable supply chain practices (GPSI, 2024). Philips and Signify Sustainability Audit Frameworks (Philips website, 2024; Signify website, 2024). Fiskars responsible supply chain demonstrating the supplier audit process and utilized as a benchmark to the proposal. (Fiskars, 2024).	Supplier sustainability audit should not be seeing as a barrier but a way to further develop and understand the business and its impact in environment and social. It can serve a win-win through successful collaboration. Therefore this Thesis suggest to integrate supplier sustainability audit process as part of supplier relationship management. "That is a good point and makes sense, let's keet it that way". (Internal stakeholder).
Element 6 Supplier Relationship Management maturity, link to risk management and sustainability integration as part of	Supplier relationship management principles; defining the SRM maturity, linking it to the risk management. (Kivistö, 2021). Segmentation (Kearney; Johnstone 2020). Value outcome, people evaluating risk and business, alignment, performance management, outcomes and innovation (Johnstone, 2020).	"It is true that we are missing sustainability from our supplier relationship management and that it is not systematically in the agenda". "Sustainability have been in the past part of supplier relationship management program, but then it was taken away. It would be good to have sustainability as SRM criteria".

Figure 44. Conceptual framework, improvements to the proposal.

Key stakeholders' suggestions and the conceptual framework to enhance the sustainable supply chain and supplier sustainability auditing (assessing) and building the proposal for the Supplier Sustainability Audit Process are emphasized in Figure 44 highlighting the key focus areas from CSA (from Data1), inputs from the literature and suggestions from the stakeholders for the proposal (from Data 2).

As seen from figure 44, the Proposal for the Supplier Sustainability Audit Process was co-developed with internal stakeholders and by using the conceptual framework of the focus elements: Sustainable Supply Chain Management, Supply Chain Transparency, Sustainability, CS3D, Supplier Sustainability Audit and Supplier Relationship Management.

First sustainable supply chain management and supply chain transparency were examined by using tools and methods from Carter (2008), Blanco (2021), Jackley (2023) and Bouquin (2024), such as: Supplier Code of Conduct, Supplier Self-Assessment, Supplier Audit, transparent integration of sustainability (ESG) in the organization strategy and business processes, regulations relevancy to climate, nature and equity, and ESG reporting frameworks (CSRD, CSDDD), the importance of data and digitalization of supply chain transparency, and importance of data accuracy and supplier audits, compliance with numerous laws and regulations.

Second sustainability was researched and analyzed to further understand the concept and what it means for the case company by reviewing United Nations Sustainable Development Goals (2024) and case company sustainability initiatives and materials linked to that, such as: Double Materiality Analysis Results (DMA), Corporate Sustainability Reporting Directive (CSRD), sustainability reports, and available sustainability sections within the website. In addition, Shift (2024) importance of addressing both planet and people in sustainability and strategy and map those priorities to the most relevant SDG goals and targets was also studied and used as part of the supplier sustainability audit process development.

Third, CS3D context, requirements and guidelines were researched and analyzed by using tools and materials from European Union (2024), EU Commission (2024), Leino (2024), Foley (2024), Worldfavor (2024) and Shift (2024). The due diligence, human rights statement, sustainable procurement policy, training and development, value chain transparency (also lower tiers), risk management and risk assessment, risk country tool / definition and sustainability-oriented risk metrics and link to business were identified as the main elements and used as a framework for the supplier sustainability audit process.

Fourth, supplier sustainability audit and supplier relationship management were analyzed with the key stakeholders of the case company and benchmarked. It

was done to understand how the supplier sustainability audit and supplier relationship management are linked to one another and how to further develop the case company's supplier sustainability audit process (framework). Shift supplier sustainability audit methods (2024), Philips and Signify sustainability audit frameworks (2024), and Fiskars responsible supply chain management demonstrating the supplier sustainability audit process (2023) utilized as a guideline for overall supplier sustainability audit framework and development of it. Relevant KPIs on corporate and supplier level were recommended to be defined and reported, and further developed from HREDD aspect and ESG themes. Suggestions on case company's website (internal and external) were provided based on the findings during the study and are described in the later phase of the Thesis.

Both, internal and external stakeholders were involved by various interviews and the proposal, supplier sustainability audit framework and high-level flowchart, co-created by using the information and emotions gained through the interviews.

In addition to the tools and concepts described above as part of the development, the following key inputs were used for the Proposal building. During the analysis in each phase of the study, many observations, development ideas, and "quick fixes" were done through the feedback, research, and experiences received, from the stakeholders, organization representatives from various departments, and from the benchmarked companies.

Next the development to the proposal based on the Supplier Sustainability Audit Process and its linkage to the supplier relationship management was built and the internal document created to demonstrate the supplier sustainability audit process. As a benchmark the Philips supplier sustainability audit template was utilized.

The development to the proposal, supplier sustainability audit process documentation and high-level flow chart were developed with internal and external stakeholders, benchmarking and by using the results from the current state analysis and conceptual framework of the study. The proposal of the high-level flowchart of the supplier sustainability audit framework and linkage to supplier relationship management is demonstrated in Figure 45 and as emphasized, described in detail in separate internal documentation demonstrating the supplier sustainability audit process.

Sustainable procurement statement and human rights policy shall be added as further development items to ensure the compliance with the upcoming CSDDD. The directive requires to implement due diligence processes, to have human rights statement in place and to ensure the risk analysis, identification and prevention of possible human rights and environmental impacts within the value chain.

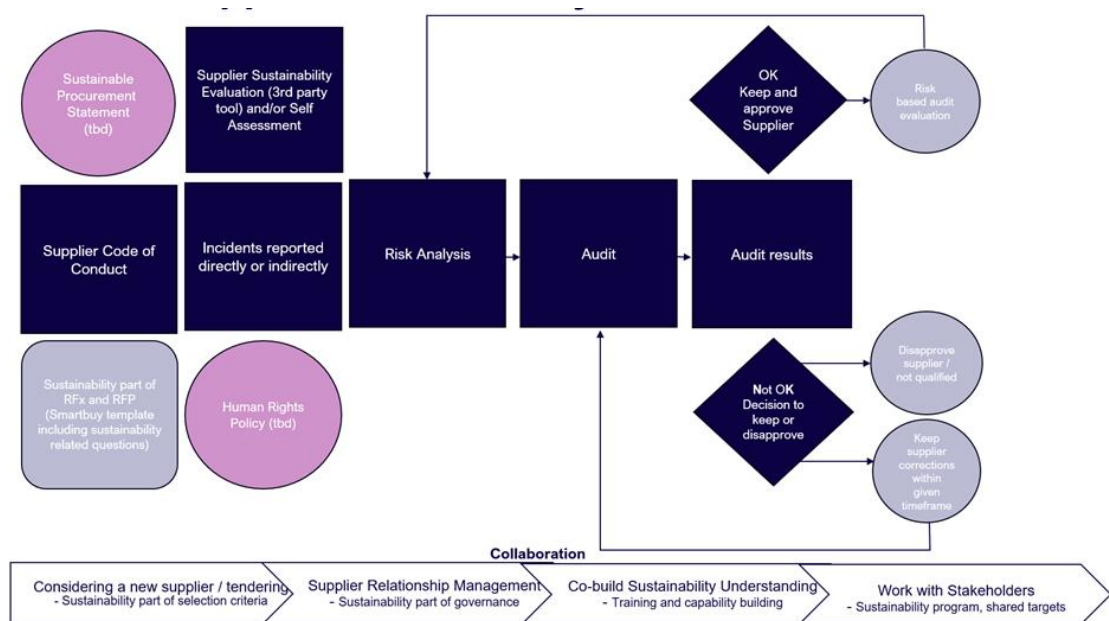


Figure 45. Supplier Sustainability Audit Process. (Summarized the thesis author based on co-creation with the stakeholders, 2024).

The case company did not have supplier sustainability audit process nor instructions in place; hence this Thesis topic was scoped down to create, build

and defined the Supplier Sustainability Audit Process documentation and high-level flow chart of the process.

Being internal documentation, the actual supplier sustainability audit process documentation is not published within the Thesis, but the main elements of it are emphasized below.

The case company aims to work with suppliers and business partners who show as much dedication to maintain the social and economic benefits, while actively working towards tackling the climate challenge.

Supplier Sustainability Audit Process has been put in place for this purpose. The Process is based on the case company's expectations of Suppliers, as set out in following three documents:

- Sustainable Procurement Statement (further development)
- Supplier Code of Conduct
- Human Rights Policy (further development) linkage to case company internal HRDD workgroup project.

The Supplier Code of Conduct constitutes an integral part of the general purchasing agreements and process. In the future, once in place, Sustainable Procurement Statement and Human Rights Policy to be included as communication tools.

Supplier Code of Conduct, Sustainable Procurement Statement and Human Rights Policy shall be reviewed and updated, if necessary, on a regular basis.

In Supplier Sustainability Audit Process, the case company works according to the approach developed during this study and demonstrated in figure 46, in which the case company starts with creating commitment and building understanding with the suppliers towards monitoring and managing identified risks, in cooperation with relevant stakeholders. The audit process works as a

tool to further develop the supplier relationship between the case company and supplier by understanding the supplier sustainability maturity and further build on that through transparency and in idealistic situation also through joint target setting.

Create Commitment	Understand Supplier Sustainability Maturity	Co-build Sustainability Understanding	Monitor Identified Risk Suppliers	Manage Risk	Work with Stakeholders
Sustainable Procurement Statement  Supplier Code of Conduct (SCoC)  Human Rights Statement  Sustainability part of RFx / RFP	Supplier Sustainability Screening (Self-Assessment and/or 3 <sup>rd</sup> party tool)	Sustainability part of supplier relationships management governance.  Training and capability building	Risk Assessment  Self-Assessment  Audit	Resolving possible findings  Consequence management  Repeat audit cycle on every contract renewal if applicable. Risk assessment to be completed prior to audit.	Transparency  Constructive dialogue  Supplier Sustainability Joint Target Setting

Figure 46. Case Company Supplier Sustainability Audit Process Approach (Summarized by the thesis author based on co-creation with the stakeholders, 2024).

The Supplier's risk profile is determined by criteria relating to: Supplier location (risk country), commercial interests (spend), type of product or service delivered, and incidents reported directly or indirectly, e.g. via the media or whistle blower. The process of selecting the supplier is demonstrated in the figure 47. Supplier analysis are done based on supplier site, spend, type of product or service, incidents reported directly or indirectly, or via self-assessment. If evaluated as a risk supplier and the yearly spend is above 200k in euros, the company is in the audit scope. The risk suppliers are to be reviewed on regular basis (within every contract renewal), and evaluated through risk analysis if audit is necessary. Supply Chain Sustainability Lead is responsible for reviewing and confirming the spend and risk countries on yearly basis.

## Process of selecting supplier in sustainability audit process

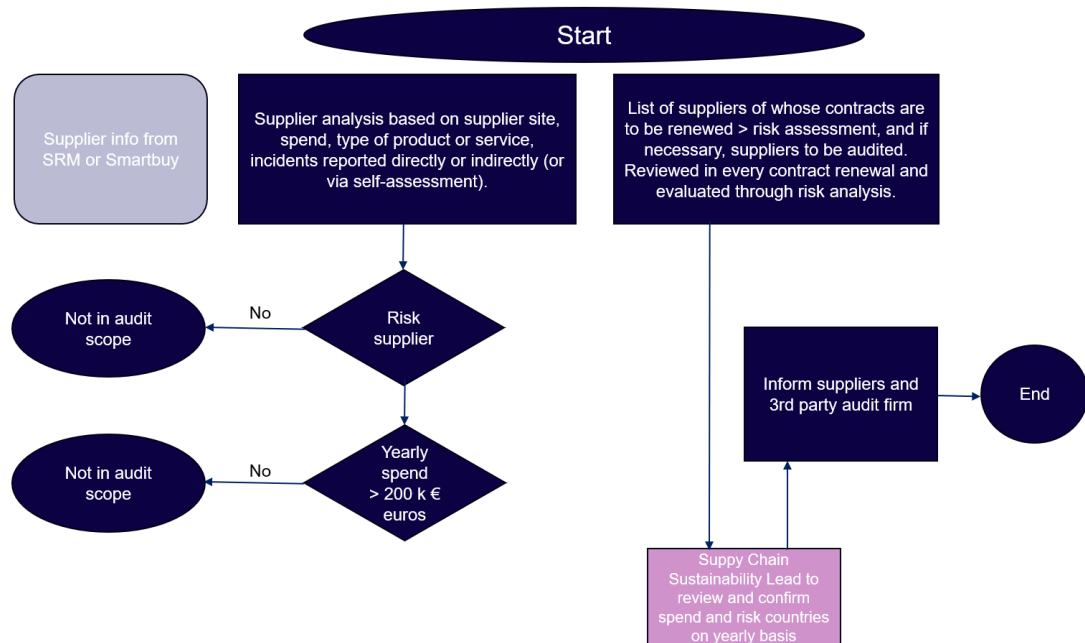


Figure 47. Process of selecting the supplier in sustainability audit process. (Summarized by the thesis author based on co-creation with the stakeholders, 2024).

The supplier sustainability audits are currently completed by the third party, however auditing related to quality and health & safety, and food safety are run by in-house team. The quality and health & safety audits are given by IATA. The current structure does not include sustainability related topics, but the suggestion towards IATA would be to review if the sustainability could be added as part of the current structure so that it would come as given for the aviation industry. Once developed, it could also serve as an industry pool and support also the topic working together within the industry and utilizing the audit and assessment results in order to build transparency and avoid audit fatigue.

As per the learnings of the benchmarks (2024), each supplier sustainability audit is recommended to include the following standard elements:

- Introductory meeting
- Management interviews
- Evaluation of documentation

- Site tour
- Employee interviews
- Feedback session (incl. submission of an initial on-site audit report). This feedback session provides the Supplier with the basis for the Corrective Action Plan (CAP)

The audit deliverables are as follows:

- Audit report;
- Corrective Action Plan (CAP) with improvement actions and timeline to close, and person responsible to follow up;

The final CAP must include the following elements:

1. A description of the non-conformance,
2. The planned corrective action,
3. Progress milestones – including deliverables, such as documentation or other forms of underlying evidence,
4. The person(s) responsible for implementation as agreed by the Supply Chain Sustainability Lead,
5. The resolution period for each non-conformance to be resolved,
6. A timing of Resolution Audit.

Major non-conformances are divided into issues with zero tolerance and issues with limited tolerance. Zero-tolerance non-conformances must be resolved immediately, given that the non-conformance relates to an urgent life-threatening situation or a severe violation of human rights which requires immediate attention. Limited-tolerance non-conformances must be resolved as soon as is reasonably possible.

The case company and the Supplier shall agree a feasible resolution period to be documented in the corrective action plan with both defined milestones and closure time for the possible findings. The supplier has a responsibility to close smaller findings, and the status will be shared to the case company.

## 6 Results

This section presents the main results, evaluates the success based on the chosen metrics and reports on the results of the Proposal validation for the proposal developed in Section 5. The goal is to validate the final proposal for supplier sustainability audit framework.

The improvement proposal was developed with internal stakeholders, benchmarking and by using the results from the current state analysis and conceptual framework of the study (figure 43). The improvement proposal was presented for validation for the key stakeholders and the procurement team with whom the current state analysis was conducted and the scope of the thesis co-defined.

The supplier sustainability audit process was defined, high-level flowchart built, and internal documentation created describing in detail the supplier sustainability audit process in collaboration with the key stakeholders. The aim was to also ensure the compliance with the upcoming CSDDD and its requirements hence the due diligence and risk management aspects were studied. As the result of the Thesis, the current state of the case company's supplier sustainability auditing was analysed, and the supplier sustainability audit process co-built with a strong link to SRM, risk evaluation and recognition, and possible prevention through the various "check points" developed within the supplier sustainability audit process. Sustainable procurement statement, and human rights policy were recommended to be added as part of the supplier sustainability audit process.

The internal HRDD work group (project) further supports the preparations to the upcoming CSDDD by engaging internal stakeholders and defining the roles and the responsibilities in the development and implementation of human rights and environmental due diligence (HREDD). The built result of supplier sustainability audit framework highlights the importance of collaboration and education aspect to ensure the stakeholders both internal and external, are engaged in

meaningful way. The grievance mechanism has already been in place (ethics line).

The key stakeholder evaluated that the co-developed supplier sustainability audit framework support and helps to understand who to audit and when, and links the compliance with the upcoming CS3D highlighting how there are many areas that have not yet been explored.

*“Good stuff. Nice to have this demonstrated and instructions in place, and not to be in a situation when I need to think by myself when, how and what to do.”* (Internal stakeholder).

Metrics to evaluate the result of the Thesis was Supplier Sustainability Audit Framework proposal and feedback to it; weather it will be implemented or not.

As a result, the case company emphasized to take the framework and high-level demonstrations in place as internal tools to be utilized regarding the supplier sustainability audit process and supplier sustainability assessing/auditing. In the longer run increased sustainability impact, positive brand image, risk mitigation and more sustainable business were defined as metrics to reflect the success of this Thesis. Relevant KPIs on corporate and supplier level shall be defined and reported, and further developed from HREDD aspect and ESG themes.

Recommendations for the further development items for the case company would be to map the value chain in order to understand where the potential risks might be within own operations as well as upstream and downstream activities, and to prioritize on the risk basis. Once value chain mapping and risk prioritization has been evaluated, the Thesis recommends developing a roadmap to implement the due diligence, to be able to report, update strategies, processes and systems to align as per the requirements. In order to prevent the audit fatigue this Thesis suggests aviation roof organization IATA to consider adding sustainability as part of its current auditing structures and build an

industry pool that shares the auditing and assessment results and prevents the supplier from audit fatigue.

## 7 Conclusion

We are seeing more and more regulations and legislations playing out, in terms of both environment and social aspects. Good examples of these are the local transparency acts and in EU level, the corporate sustainability reporting directive (CSRD) and the corporate supply chain due diligence directive (CS3D / CSDDD). The aim is that companies make sure they do not have negative impact on the planet by focusing on the environmental and social aspects.

The regulations have impact on sourcing and procurement of the companies today, however the regulating things are what companies have been doing or aiming to do for years, such as: management systems standards, risk-based approach, and understanding the due diligence. Companies should further aim to understand the requirements, review the related management systems and understand how to work with data to organize the related reporting to match the legislative requirements. Companies are in different maturities of working in responsible sourcing and due diligence. The importance is to look at the legislation and define the desired outcome and achievements – to improve the environmental, social and governmental issues (ESGs) – to make the impact by using various tools, data and analytics regarding the reporting and due diligence requirements. Using so called traceability platforms which can create digital product or service passports, serving as a single source authenticity for the lifecycle of products/services, one can gain efficiency on data management and sharing aspect.

Suppliers are more and more on the same path regarding the climate journey. We need the whole value chain commitment and collaboration. It is important to have environmental management system, requirements and standards in place, and to assess the suppliers against the standards. The climate targets should

be aligned with the science-based targets and the way towards those should be through collaboration and co-defined roadmaps.

Legislation can be seen as a frame, but it does not set specific requirements. Companies should aim to collaborate and innovate with the suppliers and together define and aim to reach for the desired targets and goals - to go beyond.

What is important is to understand the maturity of the supplier and then build on it. Some might be already further with their understanding, having defined climate targets and solutions in place, whereas some might not be aware of where to start with. In both cases, despite the level of the maturity of the supplier, collaboration is the key.

Social and human rights part of the sustainability can be more challenging and needs qualitative approach. Companies should aim to look at the results in assessments, quantify documentation assessment with the field audits and revise the commonalities regarding the findings and deep dive into the root-causes by working with the value chain to address the issues. To address the issues, companies could take the input from the assessments and then work with the value chain on addressing those; again, collaboration to address the issues, raise awareness and educate to prevent those happening is the key.

Companies should ask themselves, are they developing and having responsible procurement and supply chain practices in order to cope with the different due diligence requirements and standards, or due to strategic objectives and therefore collaborating with suppliers to achieve more, understand why, review the management system, and build on the materiality being embedded to supplier relationship management and supplier performance management.

In spite of being advanced across many of the areas, the case company had no

profound supplier sustainability auditing framework in place. The HRDD was in progress, which was aiming to specify at some point the measures to be built and how to develop the processes further through HREDD approach and in order to prepare for the coming CS3D.

In this Thesis, the business challenge was to contribute and build common audit framework for the company to identify and assess risks in supply chain and ensure compliance with the upcoming CS3D.

Thesis evaluation is based on the main criteria for research quality in action research, such as: reliability, transferability and credibility. Credibility and trustworthiness relate to triangulation, richness of data and it was cooperated benchmarked and strengthened by examining and researching multiple different high-quality sources. Reliability in this thesis was strengthened by validating the proposal and improvements to it, transferability by focusing on clear research design and analysis, and credibility by avoiding researcher's bias. Authenticity was selected as an additional criterion to have all parties concerned involved in the study from the aspect of fairness.

The current state analysis was conducted to define the supplier sustainability audit process from the internal and external stakeholders. Other supplier sustainability audit processes were benchmarked by visiting the webpages and the materials available and interviewing the key stakeholders. In the analysis process, the involved stakeholder built a relationship with the internal stakeholders and developed the processes and the risk and due diligence approach as per the CS3D requirements through the knowledge from the discussions and experiences, conceptual framework, and benchmarking, ensuring multiple research methods were used and a wide range of the data.

The proposal was co-created and then validated with the key stakeholders. The proposal building included multiple discussions and benchmarking and was very interesting at times also nicely challenging. It enabled to network cross the organization and have insightful and valuable discussions

with subject matter experts in various fields linked to the focus elements. The key stakeholder emphasized how the analysis has been supporting supplier sustainability audit process development throughout the process and highlighted how the insights and suggestions have been valuable inputs to further analyse the sustainable procurement policy. The key stakeholders emphasized that the study provided a lot of relevant findings and ideas and was much wider than what they thought it would be.

The areas that could have been done differently was to be more organized when writing the reporting part of the Thesis and do it simultaneously when completing each phase of the study.

The most challenging part was to put together the proposal and validation for the proposal, and the writing part of the report. The interviews were conducted in Teams meetings, which created slightly more challenging basis to build the overall trust and relationship and ensure the engagement. The aim was also to define the ESG themed list of questions, unfortunately, this part did not take place at the end due to the narrowing down the scope. The feedback and what the interviewees would have done differently regarding the interviews could have been added as part of the analysis and the possibility to join the supplier sustainability audit would have provided good basis to evaluate and further develop the process. However, it was now walked through the key stakeholder and was compiled with the defined process.

This has been extremely interesting and educating journey, which has equipped me with important and valuable tools in the field of procurement, sustainability, supplier relationship management, and compliance. I am thankful for being able to work with people and professionals from various backgrounds and build valuable connections with both internal and external stakeholders enabling me to learn and develop further. I would like to express my gratitude for the case company and the University for supporting me throughout the process, and for my loving family who have been one of the most precious enablers of this journey – thank you for sharing it with me.

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## Appendices

### Current State Analysis Questionnaire

# Current State Analysis Questionnaire

- Current Supplier Sustainability Audit Process; do you currently audit enough?
- Supplier Relationship Management and Risk Management; what indicates the possible risk and gives the signal for the needed actions)
- Tools and resources
- CSDDD
- How does an ideal supplier sustainability audit process look like for you?
- Which challenges do you see regarding developing and implementing supplier sustainability auditing process? How about possibilities?
- Possible other topics
- Next steps

## Benchmarking Survey

# Benchmarking Survey

### Background Information

- Company / industry, size, role, is the company prepared or the directive (?) and if yes, how and if no why.

### Supplier Auditing

- Do you run supplier audits and why? Would it be possible to have the auditing template / framework?
- How are the suppliers selected for audits? Are audits conducted more to existing or new suppliers?
- How often do you audit suppliers?
- Do you have a code of conduct for suppliers?
- Do you require certifications (ISO 9001 or ISO 14001)?
- What are the key focus areas of audits?
- What are the main challenges in conducting supplier audits?
- What are the main benefits?
- How do you see the role of audits in the future? What type / kind of audits?
- How have you develop the audits through out the times? (Especially from environment towards social sustainability).

### Sustainability

- In what ways is sustainability visible in your company?
- How do you ensure the sustainability?
- What is the role of audits in sustainability?
- What kind of sustainability requirements you have for suppliers?
- How do you see sustainability in the future (Economic, Social, Governance)?