Supply Chain Due Diligence: Why it belongs on every Director's agenda

A governance issue, not just an operational one

For many boards, supply chain due diligence has traditionally sat with procurement or compliance teams — a technical exercise, several steps removed from the boardroom. That view is changing. Regulators, investors, lenders and customers increasingly expect directors to demonstrate that they understand, and are actively managing, the risks embedded in their extended supply chains. What was once a back-office function, supported by a Supplier Charter has become a matter of corporate governance, director duty, and enterprise risk management.

This shift is not abstract. Modern slavery legislation, conflict minerals regulation, deforestation rules, and the EU's evolving sustainability due diligence framework all place explicit expectations on how companies identify, prevent and account for risks — human rights, environmental, financial and ethical — that arise not just within their own operations, but across their suppliers, contractors and business partners.

The regulatory picture has moved quickly, and directors should be aware it continues to evolve. The direction of travel, even amid recent simplification efforts, is toward greater transparency and accountability — not less. Boards that treat this purely as a compliance-tracking exercise risk being caught out; those that treat it as a strategic risk discipline put themselves ahead of the curve.

Why Supply Chain Due Diligence Matters to Directors

1. Legal and regulatory exposure Directors carry duties to act with reasonable care, skill and diligence, while having regard to a company's wider impact. Failing to understand material risks in the supply chain — whether human rights abuses, sanctions breaches, or environmental non-compliance — can expose both the company and, in some circumstances, individual directors to legal, regulatory and reputational consequences.

2. Financial and operational resilience Supply chains that haven't been properly assessed are vulnerable to disruption: a supplier with poor labour practices, weak financial controls, or environmental non-compliance is a supplier more likely to face a shutdown, a scandal, or a sudden inability to operate. Due diligence can identify these risks before they become costly surprises.

3. Reputational protection Association with poor practice further down the supply chain — even several tiers removed — can cause significant reputational damage. Stakeholders rarely distinguish between a company's direct conduct and the conduct of its suppliers when a scandal breaks.

4. Investor, lender and customer confidence Institutional investors, banks and major customers increasingly build supply chain due diligence into their own risk assessments. Demonstrating a robust process can support access to capital. Favourable financing terms, and stronger commercial relationships.

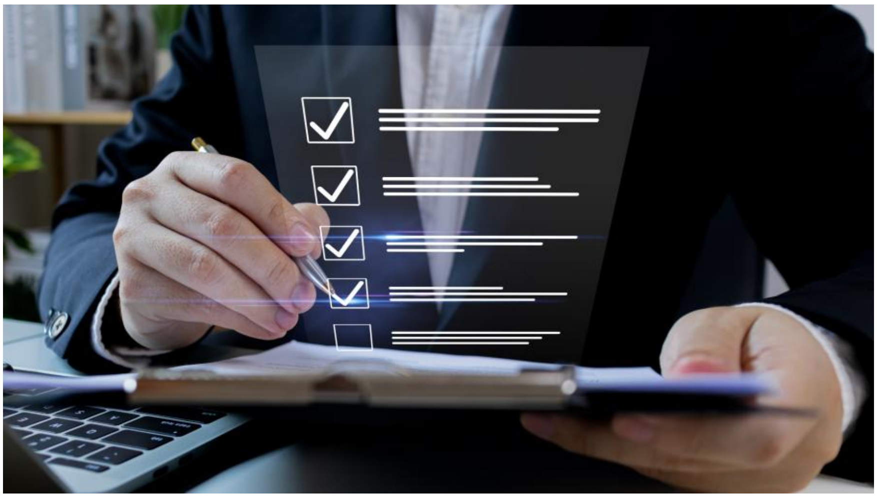
5. Competitive advantage Companies that can clearly demonstrate credible, well-governed supply chains are increasingly favoured in tender processes and partnership decisions, particularly where their customers face their own due diligence obligations and need assurance their suppliers won't create risk further up the chain.

An in-house function or external specialist?

Many boards ask whether supply chain due diligence can simply be managed in-house. It often can be — up to a point. But there are strong reasons why engaging an independent, specialist organisation adds real value, particularly for anything beyond the most basic supplier checks.

Objectivity and credibility An internal assessment, however well-intentioned, can be perceived, fairly or not, as marking its own homework. Independent due diligence carries greater weight with regulators, auditors and investors because it isn't influenced by internal commercial relationships or pressure to keep supplier relationships intact.

Specialist expertise and benchmarking Independent providers assess suppliers across many clients and sectors. This gives them pattern-recognition and best practice knowledge which supports their benchmarking skills more so that an internal team, focused on a single company's suppliers. They know what "good" looks like and what red flags typically precede a serious failure.



Depth of resource and reach Thorough due diligence — particularly across international, multi-tier supply chains — requires capacity, local knowledge, and on-the-ground verification that most internal teams don't have the bandwidth or geographic reach to deliver, especially alongside their day-to-day responsibilities.

Defensibility If a company's due diligence practices are ever challenged —an independently conducted, well-documented process is far easier to defend than an informal or self-assessed one. It demonstrates that the board sought an objective view rather than relying solely on internal assurances.

Staying current with a fast-moving regulatory landscape As the regulatory environment continues to shift — as it has done materially over the past few years — specialist due diligence organisations track these changes as their core business, helping ensure the company's approach doesn't fall behind evolving legal requirements.

Freeing up internal resource Outsourcing the detailed assessment work allows internal teams to focus on remediation, supplier relationship management, and embedding findings into procurement decisions, rather than being consumed by the mechanics of data-gathering and verification.

A Board-Level Responsibility

Supply chain due diligence should not be viewed as a one-off compliance project, but as an ongoing discipline — reviewed, resourced and reported on at board level, in the same way as financial risk, cyber risk, or health and safety. Directors don't need to conduct the assessments themselves, but they do need to satisfy themselves that a credible process exists, that it is proportionate to the company's risk profile, and that its findings are acted upon.

Engaging an independent organisation to lead or validate this work gives directors a stronger evidence base for the decisions they make, better protection against legal and reputational risk, and greater confidence that the company's supply chain — often its largest and least visible source of risk — is genuinely under control.

In short: robust supply chain due diligence protects the company. Independent due diligence protects the board's ability to demonstrate it did the right thing.

Asesoria's perspective

Through our work as a specialist ESG consultancy, we support and advise on the Governance challenges faced by our wide range of clients. With regulation growing, every company needs to ensure it has a robust process in place to mitigate risks, both in relation to reputation and resilience.

Due to their independence, thoroughness and validated approach, for many organisations, we find the solutions ESG Benchmark and ESG Essentials provide an excellent due diligence basis for both Tier 1 and Tier 2 suppliers respectively. Not only do these solutions provide excellent value, they calculate and verify carbon emissions.

To arrange a call or Teams meeting please contact:

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