

Preparing for the Corporate Sustainability Due Diligence Directive in the Watch & Jewellery Industry

WJI 2030 Pilot
A Guidance Note

**WATCH &
JEWELLERY**
INITIATIVE 2030

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Introduction

Overview of the pilot

In April 2024, the WJI 2030 announced the launch of a Pilot on the Corporate Sustainability Due Diligence Directive – “Preparing for CSDDD: A Deep Dive on Key Topics.”

The Corporate Sustainability Due Diligence Directive (CSDDD) directly and indirectly affects the watch and jewellery sector and members of the Initiative. This includes large companies subject to the Directive as well as suppliers responding to new compliance requests. WJI 2030 members have shown interest in better understanding the Directive's impact and how to prepare, acknowledging that industry and multi-stakeholder initiatives are expected to play an important role in facilitating compliance with companies' obligations under the Directive.

14 companies participated in the pilot. Participants agreed on three deep-dive topics that formed the focus of six peer-learning working sessions:

1. Double materiality assessment (DMA)
2. Human rights and environmental due diligence (HReDD) and the linkage between the two
3. Supplier engagement, including responsible purchasing practices, supplier due diligence and multi-stakeholder collaboration

Participating companies include Audemars Piguet, Swarovski, Cartier, Windiam BV, Rosy Blue, Rubel & Menasché, MCGP, Chanel, HK Designs, Choron Group, Pandora, NIRU Group, Dimexon, Yoshfe Diamonds Intl.

Main objectives

The main objectives of the pilot were the following:

- Lead the industry forward through proactive preparation for upcoming legislation;
- Support companies in their implementation of effective Human Rights (and environmental) Due Diligence (HReDD);
- Create a safe space for participants to share learnings and resources and engage with key experts, in order to eventually increase their leverage to effect meaningful positive change across their value chains;
- Build on the [Human Rights Navigator](#) and focus on practical implementation through examples and best practice; and
- Address key challenges members are likely to face in operationalising due diligence principles.

We are pleased to share this open-source guidance document to support the watch & jewellery industry and bring every participant along the journey of learning about the operationalisation of the new legislation.

The guidance looks at the “what” and the “how” to operationalise each of the 3 selected topics, provides key takeaways, an overview of the relevant legal context, learnings from the sector and beyond (case studies), key tips, and links to relevant resources and tools.

This pilot project was guided by expert support from [twentyfifty](#) and A Positive Impact



Key takeaways

Participating companies' maturity across the three focus topics

At the start of the workshop series for each topic, participating companies in the WJI 2030 pilot filled out a live survey to determine their level of maturity and experience concerning the topic in question. The results informed the focus of the peer-learning exchange and the content of this guidance document.

Overall, the process revealed that participating companies are in the early stages of preparing for the legislation, though with different levels of experience and maturity across the three topics.

On the first topic of **Double Materiality Assessment (DMA)**, **93% of participating companies** currently conduct single materiality assessments, whilst most companies (62%) are now starting to explore the double materiality topic, and 39% are already in the process of embedding a DMA into the business.

The second topic of **HReDD** is an emerging practice for businesses in general, which was reflected in the responses to the survey. Most pilot participants currently conduct some form of environmental due diligence or assessment in their own operations, yet with respect to taking an integrated HReDD approach, most - **70% of participating companies** - are only starting to explore the concept.

For the third topic of **supplier engagement**, participants were invited to share which type of activities related to human rights they currently engage in. Participating companies highlighted the following practices: monitoring suppliers through self-assessment questionnaires and audits, asking for commitments from their suppliers, and providing awareness raising through contracting. Most companies actively engage with their suppliers at least on an annual basis.

Key Insights on how to operationalise

Double Materiality Assessment (DMA)

Conducting a Double Materiality Assessment (DMA) is a requirement of the Corporate Sustainability Reporting Directive (CSRD).

Companies are now asked to evaluate and report on both internal financial materiality (how sustainability issues affect the business) and external impact materiality (how the business affects people and the environment). Financial materiality is not a new concept. Companies are, however, less familiar with impact or "inside-out" materiality.

Meaningful stakeholder engagement is a critical element of DMA. In this, the role of stakeholders has evolved – they are no longer only being asked which topics they consider important for the company but are now requested to identify a company's most significant impacts on people and the environment.

Carrying out a DMA will become the norm for how companies evaluate and prioritise sustainability topics. The legal instruments requiring DMA have an extraterritorial dimension as they apply beyond borders and have a ripple effect across the value chain, impacting many companies that are not in-scope of CSRD.

Human rights and environmental due diligence (HReDD)

CSDDD requires companies to conduct human rights and environmental due diligence (HReDD) and cover the linkage between climate change and environmental degradation and their effects on human rights. HReDD provides a structured approach for businesses to identify, prioritise, and mitigate their human rights and environmental impacts. Adopting an integrated approach to due diligence efforts enables positive outcomes for both people and the planet. However, it is important to highlight that some instances still require companies to take separate approaches to addressing environmental and human rights issues.

On a practical level, through risk assessments, supplier engagement, and cross-functional collaboration, companies can align their operations with regulatory standards and global sustainability goals, delivering measurable outcomes for both people and the planet. By addressing root causes and engaging rightsholders, businesses can create resilient strategies that ensure sustainable value for all stakeholders.

Supplier engagement

CSDDD, particularly Article 13, outlines the need for meaningful and effective engagement with stakeholders, including suppliers, throughout various stages of the due diligence process. Collaborating with different stakeholders helps address human rights impacts comprehensively and strengthens a company's ability to prevent or mitigate adverse impacts. To approach this, companies should strategically allocate resources where they are most needed and prioritise engagement with suppliers linked to the highest human rights risks identified according to severity and likelihood.

To achieve effective engagement, companies should consider focusing on responsible purchasing practices, enhancing due diligence processes, and participating in multi-stakeholder initiatives.

Relying on social audits alone is insufficient for robust due diligence as they often fail to uncover systemic issues or drive remedial actions. Effective communication and supplier due diligence can be achieved through regular communications, conferences, meetings, visits, online tenders, and training sessions.

The four steps that are helpful to keep in mind when building relationships with suppliers are:

1. Build engagement (share your own experiences)
2. Demonstrate respect (listen and be mindful of tone)
3. Create a dialogue (openness is built over time)
4. Role-model the behaviors you expect (don't just talk the talk).

UNDERSTANDING THE LEGAL CONTEXT

Understanding the legal context

The watch and jewellery sector is currently experiencing a pivotal shift, moving beyond its traditional focus on craftsmanship and luxury towards addressing more complex and demanding legal requirements and consumer concerns, particularly around sustainability and transparency.

Regulatory pressure is growing for companies in the watch and jewellery industry, requiring close monitoring of social and environmental impact across business operations. The recently-adopted CSDDD establishes a corporate due diligence standard on sustainability issues for businesses operating in the EU. It complements the EU's CSRD, which serve

The Corporate Sustainability Due Diligence Directive (CSDDD)

The Directive 2024/1760:



Entered into force on 25 July 2024



Aims to foster sustainable and responsible corporate behaviour in companies' operations and across their global value chains



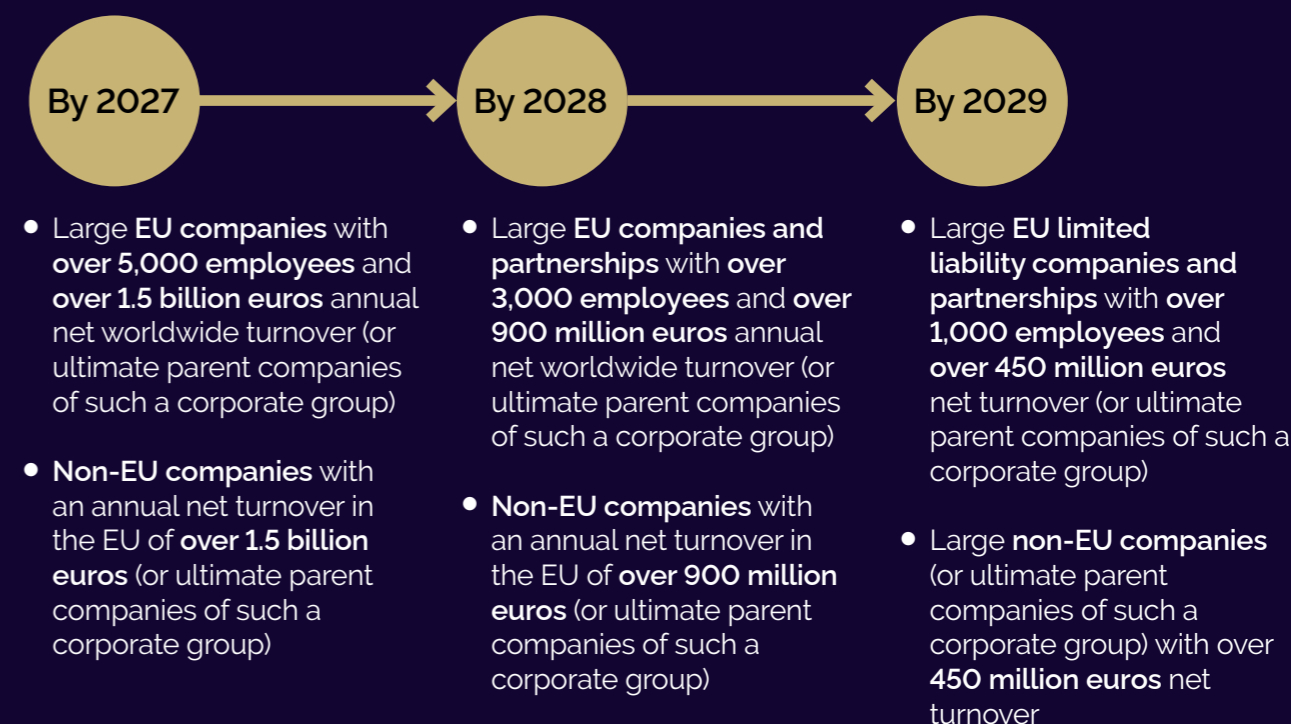
Requires in-scope companies (including non-EU based companies) to establish due diligence procedures to address adverse impacts of their actions on human rights and the environment, including along their value chains worldwide.

Which companies will CSDDD apply to and what is the timeline?

The directive applies to large EU companies and non-EU companies that meet specific turnover thresholds respectively, worldwide or within the EU market.

CSDDD establishes a phased-in compliance timeline:

Table 1: CSDDD compliance timelines for companies according to size and turnover



Note on Small and midsize enterprises (SMEs)

Although SMEs are not covered by the proposed rules, they could be indirectly affected, given in-scope companies will most likely involve their business partners and suppliers in their due diligence processes. As such, they may receive requests to collect and share information on adverse actual or potential impacts, and to address those in line with the obligations of their clients.

The Directive includes provisions aimed at supporting SMEs and safeguards against the shifting of compliance burdens by large companies. Specific support, such as information and guidance about due diligence steps, tools and capacity building will be made available for SMEs.

Member States must transpose the Directive into national law by 26 July 2026. One year later, the rules will begin to apply to the first group of companies, following a staggered approach.

UNDERSTANDING THE LEGAL CONTEXT

What are the obligations for companies?

The Directive:

- ✓ Establishes a corporate HReDD duty; and
- ✓ Sets out an obligation for large companies to adopt and put into effect, through best efforts, a transition plan for climate change mitigation.

What are the due diligence actions to be taken?

The core elements of the due diligence obligation are to **identify** and **address** potential and actual adverse human rights and environmental impacts in the company's own operations, their subsidiaries and, where related to their value chain(s), those of their business partners ('**chain of activities**') in accordance with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs).

The 'chain of activities,' as defined by CSDDD, specifically refers to:

- the activities of **upstream** business partners related to the production of goods or provision of services by the company, including design, extraction, sourcing, manufacture, transport, storage and supply of raw materials, or development of the product or service;
- the activities of **downstream** business partners related to the distribution, transport, or storage of products, where the business partner carries out those activities for the company or on their behalf (CSDDD FAQ).

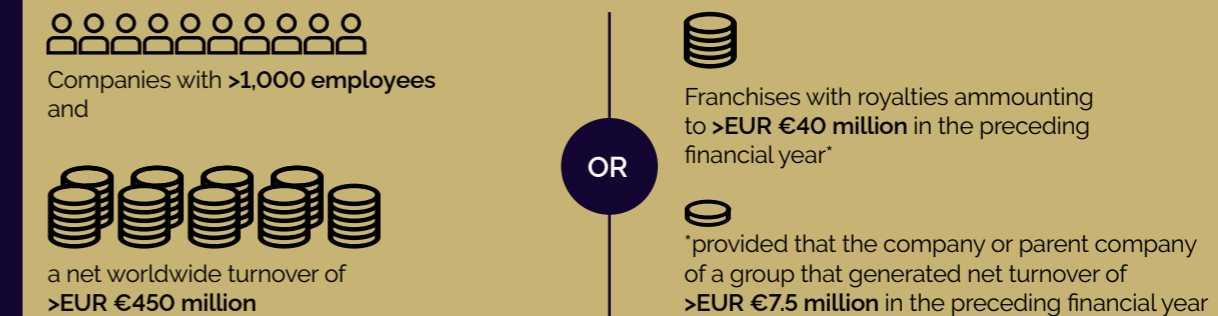
Figure 1:
What to expect with CSDDD

Who does it impact?



EU COMPANIES
5,000+ Large EU limited liability companies

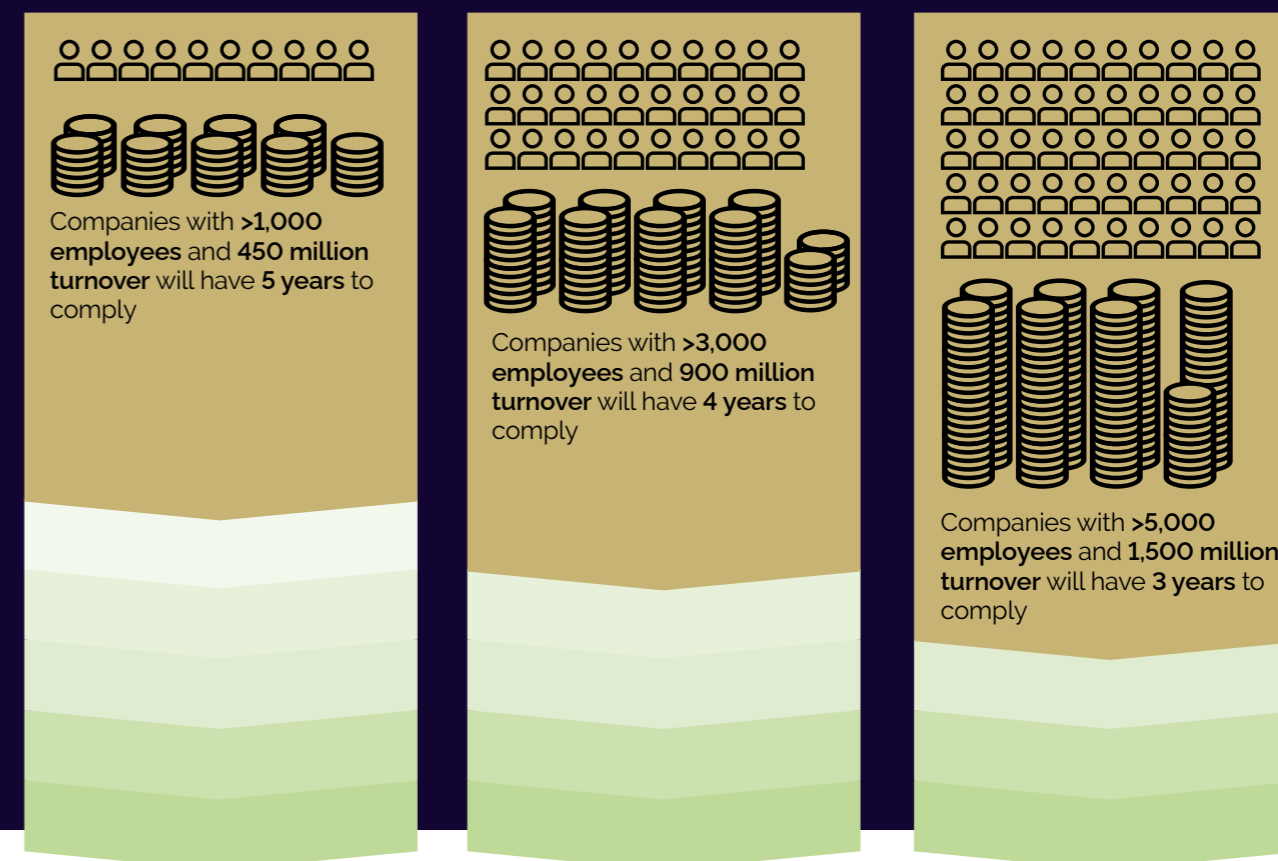
Applies to certain large EU and non-EU companies that meet the criteria set out below (per article 2):



Companies will be required to

- Integrate due diligence into policies & identify adverse impacts.
- Mitigate and reduce both potential and realised impacts.
- Establish and uphold a complaints procedure.
- Publicly communicate the effectiveness of the due diligence policy.

Once the regulation enters into force:



Source: www.esgbook.com

UNDERSTANDING THE LEGAL CONTEXT

What are corporate obligations regarding the transition plan for climate change mitigation?

Companies have a legal obligation to adopt and put into effect a transition plan for climate change mitigation aligned with the 2050 climate neutrality objective of the Paris Agreement as well as intermediate targets under the European Climate Law.

Companies are required to set time-bound targets related to climate change for 2030 and in five-year steps up to 2050.

These must be based on conclusive scientific evidence and, where appropriate, absolute emission reduction targets for greenhouse gas for scope 1, scope 2 and scope 3 greenhouse gas emissions for each significant category. They must set decarbonisation levers and implement key actions to reach their targets. These levers usually include renewable energy adoption, process optimisation, sustainable sourcing, upgrading to new or "green" technology, and changes in the company's product and service portfolio.

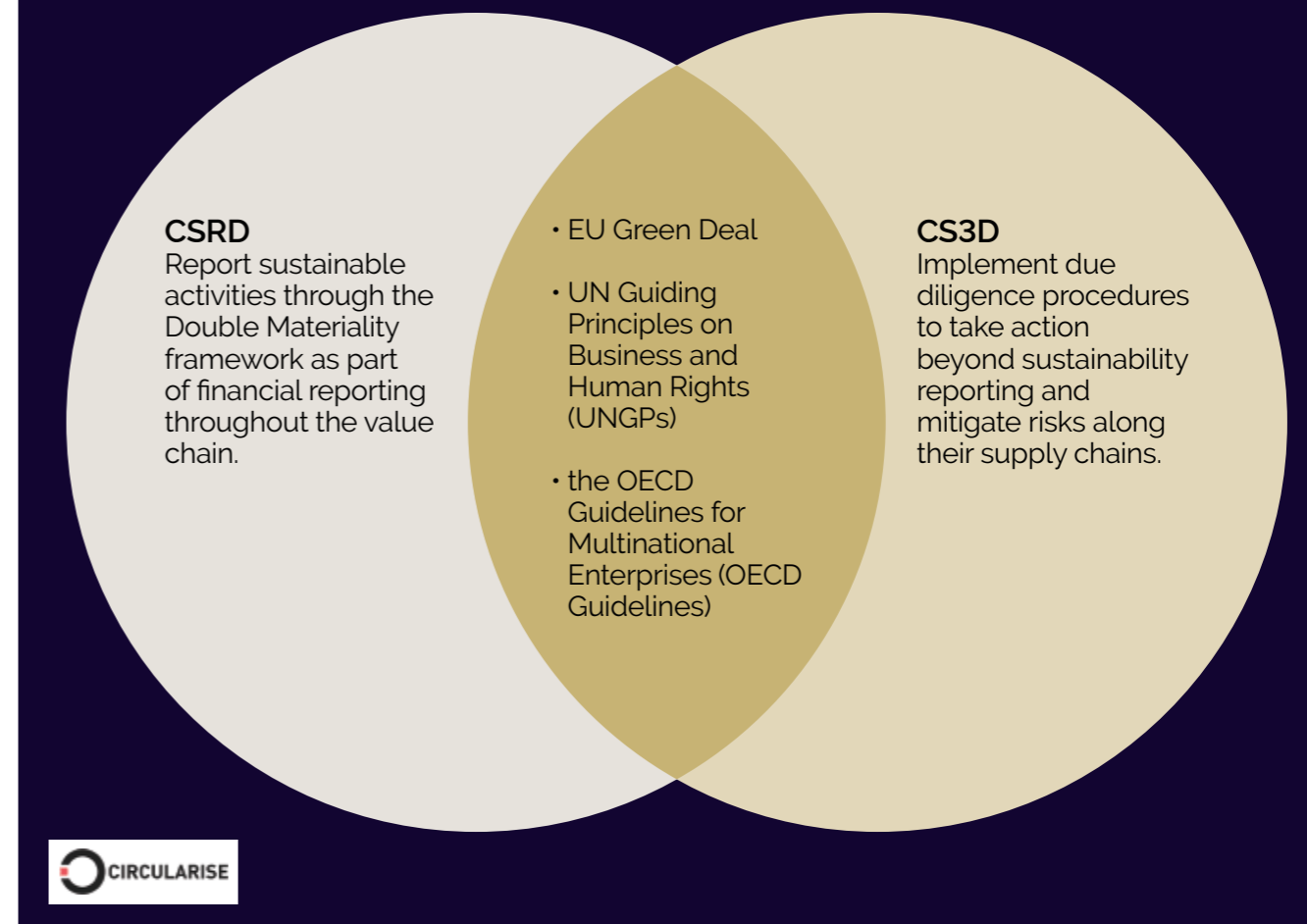
What is the interplay of the Directive with other EU sustainability initiatives?

CSDDD complements other recent EU initiatives (such as the Deforestation Regulation or the Forced Labour Regulation) and makes cross-references to existing legislation for certain duties (such as the CSRD for public communication on due diligence).

CSRD and CSDDD complement one another and are both part of the EU Green Deal.

For companies not already covered under CSRD, it complements the existing rules by providing a simplified and aligned reporting framework:

Figure 2: CSDDD and CSRD frameworks, and alignment with the EU Green Deal



For more information/guidance:

- [Corporate sustainability due diligence - European Commission](#)
- [Directive on Corporate Sustainability Due Diligence: Frequently Asked Questions - European Commission](#)
- [WJI 2030 Human Rights Navigator](#)
- [Should non-EU companies be concerned about HRDD legislation adopted in the EU?](#)
- [The Corporate Sustainability Due Diligence Directive \(CS3D\): A Paradigm Shift in Corporate Accountability](#)
- [UN Guiding Principles on Business and Human Rights](#)
- [OECD Guidelines for Multinational Enterprises on Responsible Business Conduct](#)

UNDERSTANDING THE LEGAL CONTEXT

The Corporate Sustainability Reporting Directive (CSRD)

Adopted by the European Commission in November 2022, CSRD replaced and built upon the Non-Financial Reporting Directive. Its main goal is to ensure consistent and comparable reporting of environmental, social, and governance (ESG) performance against the European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG).

The ESRS are categorised as cross-cutting, with topical standards (sector agnostic) and sector-specific standards.

CSRD and the ESRS introduce expanded legal requirements and a "double materiality" framework for reporting risks and opportunities around sustainability issues, and the impacts of their activities on people and the environment.

For more information:

- [Directive - 2022/2464 - EN - CSRD Directive - EUR-LEX](#)
- [Texts adopted - Corporate Sustainability Due Diligence, 24 April 2024 - European Parliament](#)
- [The EU's CSRD and CSDDD Regulations - KPMG UK](#)
- [CSDDD vs CSRD: Unravelling the Key Differences - Prewave](#)

Which companies will CSRD apply to and what is the timeline?

The application of CSRD will be phased in from 2025 (for financial years starting on or after 1 January 2024) to 2029 (for financial years starting on or after 1 January 2028).

Figure 3: CSRD timelines for corporate compliance according to company size and turnover

Business size	2024	2025	2026	2027	2028
Largest 500+ employees <small>*These companies were previously subject to the Non-Financial Reporting Directive (NFRD)</small>	Calculate + Report	Disclosure required – beginning with FY 24			
		Limited auditing			Reasonable auditing*
Large 250+ employees and/or €50M in turnover and/or €25M in total assets		Calculate + Report	Disclosure required – beginning with FY 24		
			Limited auditing	Reasonable auditing*	
SME 10+ employees and/or €0.9M+ in turnover and/or €0.45M in total assets <small>*Can opt out until 2028</small>			Calculate + Report	Disclosure required – beginning with FY 26	
				Limited auditing	Reasonable auditing*

*The EU will determine reasonable audit requirements by October 2028

Source: [Decoding CSRD: How to comply with the Corporate Sustainability Reporting Directive \(CSRD\) and gain real business value in the process](#)

The Directive is currently being transposed by each member state into their national legislative frameworks. For a status of transposition, see the CSRD Transposition Tracker:

- [Ropes & Gray CSRD Transposition Tracker](#)
- [The EU's Corporate Sustainability Reporting Directive: tracking transposition and goldplating across the EU \(linklaters.com\)](#)

This next section of the guidance document provides the industry with tangible insights into the three topics the WJI2030 pilot group determined as key to preparing for CSDDD.

Topic 1: Double Materiality Assessment (DMA)

Overview

Materiality refers to identifying the issues that matter most to a company's business and stakeholders and determining how important they are.

A materiality assessment helps organisations establish their ESG strategy and prioritise their activities. By focusing on material issues, companies can ensure they are acting and reporting on the most important issues and communicating what is useful and informative.

The concept of double materiality requires companies to report on two dimensions:

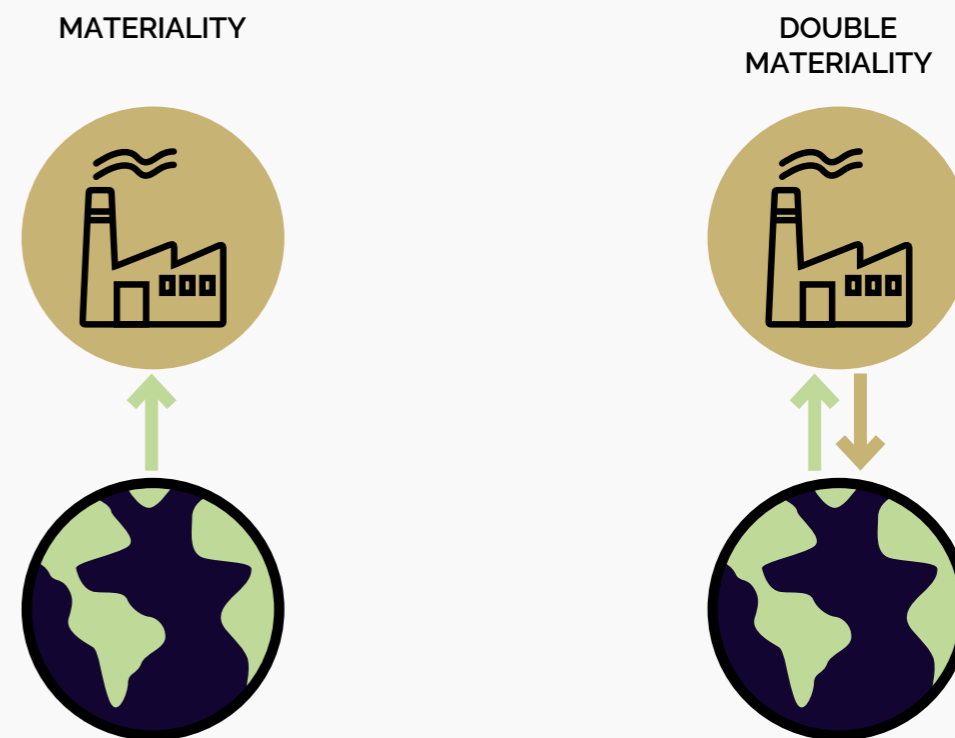
Internal Impacts / Financial Materiality / Outside-In:

How sustainability issues, such as environmental, social, and governance factors, impact the company's own business operations, financial performance, and long-term viability. (Single materiality)

External Impacts / Impact Materiality / Inside-Out:

How the company's activities, products, and services impact society and the environment. It considers the company's influence on stakeholders, communities, ecosystems, and broader societal challenges, such as climate change, human rights, supply chain sustainability, and community wellbeing.

A sustainability matter can be material from an impact perspective, a financial perspective or both. Double materiality is stakeholder-focused, not only investor-focused.



TOPIC 1: DOUBLE MATERIALITY ASSESSMENT (DMA)

The legal requirements

In its Article 19a(1) and Article 29a, CSRD requires that sustainability reporting be based on double materiality:

“both on the impacts of the activities of the undertaking on people and the environment, and on how sustainability matters affect the undertaking.”

Source: EFRAG IG 1: Materiality Assessment Implementation Guidance (efrag.org)
 Source: Decoding CSRD | Normative

CSDDD and CSRD are meant to work together and be applied in parallel, with synergies between the two:

- CSDDD as a framework for what due diligence obligations companies in scope will bear; and
- CSRD as a framework for how companies should report on these obligations.

There is a **strong link between the DMA** under CSRD and **the sustainability due diligence process** to be implemented by companies in scope of CSDDD. **Due diligence** facilitates, supports and complements corporate reporting and compliance with CSRD requirements.

Both CSRD and CSDDD reference the UNGPs and the OECD Guidelines for Multinational Enterprises as foundational international frameworks for companies to conduct sustainability due diligence.

The due diligence process will inform the materiality assessments of companies under CSRD. It will, in turn, inform the content of companies' external communication under CSDDD. The identification of material environmental or social impacts through due diligence processes feeds into the identification of material sustainability risks and opportunities (financial impacts), which are often a result of such environmental or social impacts.

How does DMA apply to the watch & jewellery sector?

Several watch and jewellery companies fall within the scope of CSRD and, therefore, will have to carry out a DMA. Others, within those companies' value chains, will be indirectly impacted. Whether you are in scope or not, it is important to realise that DMA is gaining ground and will become the norm of materiality assessment over time.

An article recently published by the World Business Council on Sustainable Development highlights that there is “a substantial shift towards double materiality.” In 2024, “77% of reviewed reports disclose a double materiality process, up from 55% in 2023. This significant shift reflects the growing importance of assessing both financial and non-financial impacts on society and the environment. Additionally, over half of the companies demonstrate a regular cadence in conducting their materiality assessments, with a smaller group (9%) adopting a dynamic approach that provides insights into how material topics evolve over time.”

Source: Reporting matters 2024: Changing Gears: How are companies navigating higher expectations and demands in sustainability reporting?

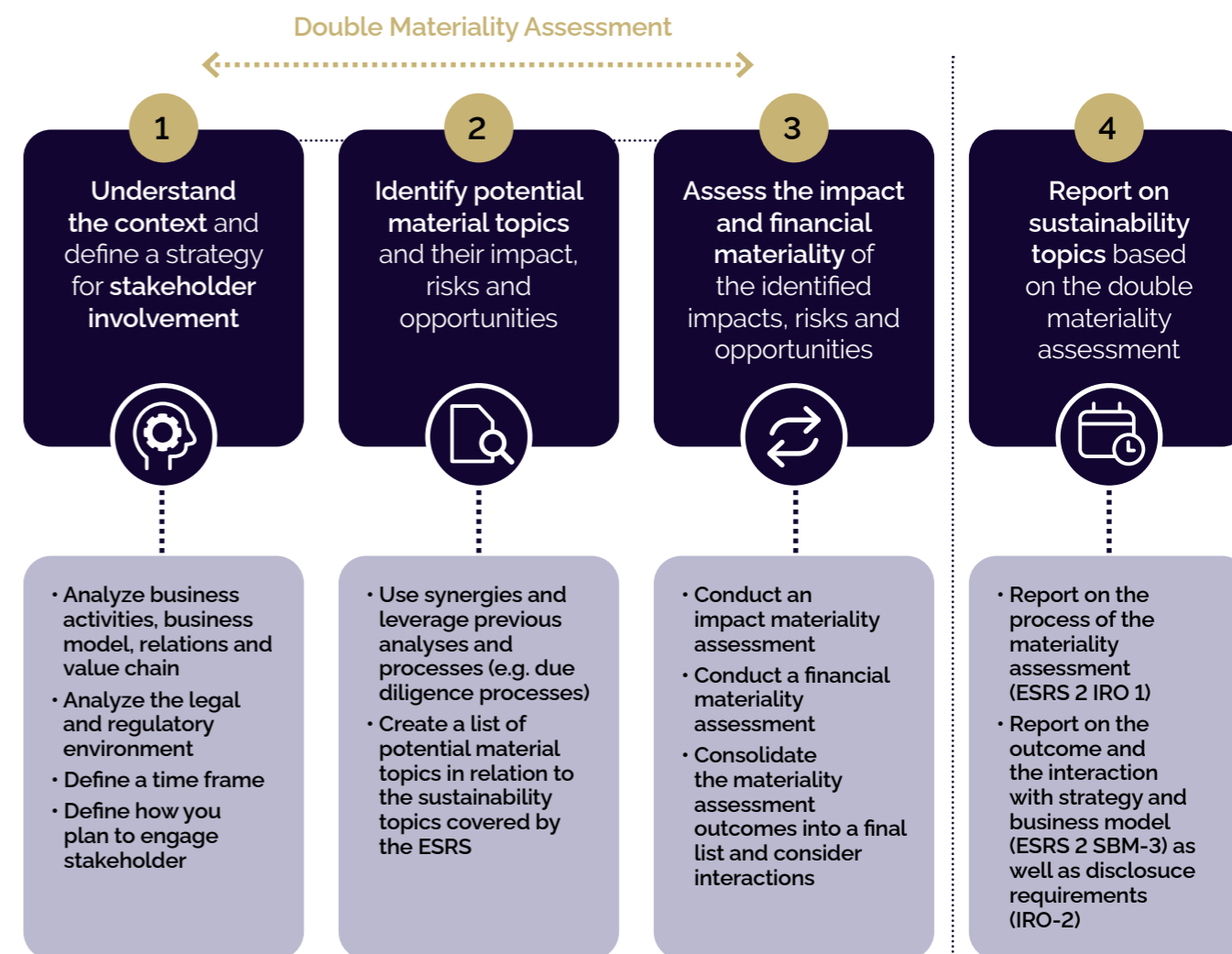
DMA has many benefits to a company beyond mere compliance. A robust DMA helps you identify your company's risks and opportunities across “traditional” areas such as human rights and corporate governance and more “modern” ones like climate change and biodiversity. However, if your assessment is not comprehensive enough, you will run the risk of not evaluating financial and environmental risks.

How to operationalise

How to perform a DMA

EFRAG has issued guidelines for carrying out a DMA, outlining the main steps for conducting the assessment:

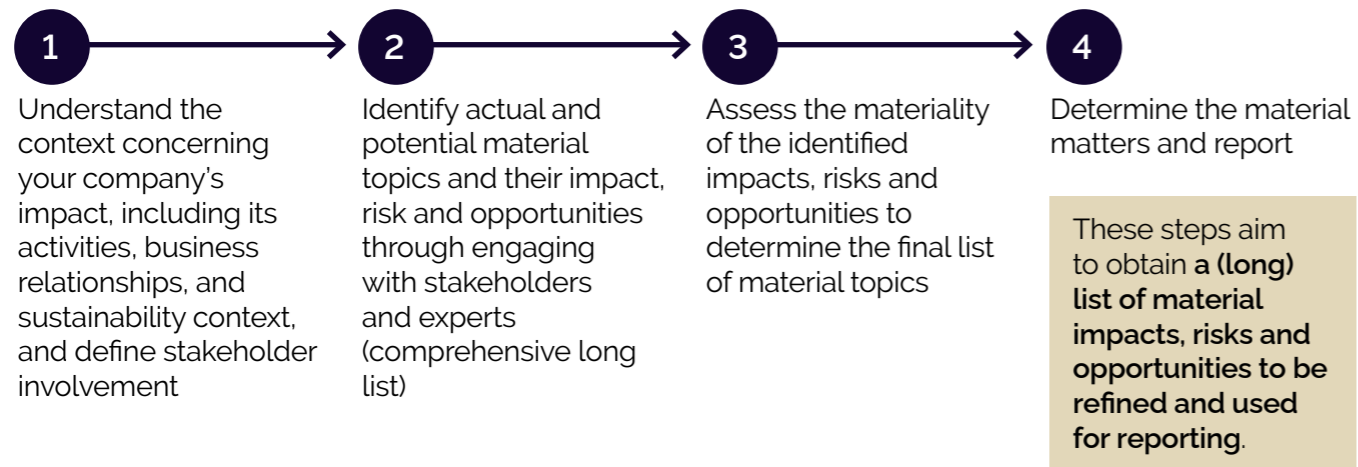
Figure 4: EFRAG implementation guidance for double materiality assessment



Source: Double Materiality Assessment under CSRD: A Guide for Implementation (getsunhat.com)

TOPIC 1: DOUBLE MATERIALITY ASSESSMENT (DMA)

Key steps to kick off the process



The discussions in the pilot working sessions focused on two main elements of an Impact Materiality assessment:

- the criteria used to prioritise sustainability matters; and
- which stakeholders to engage with and how.

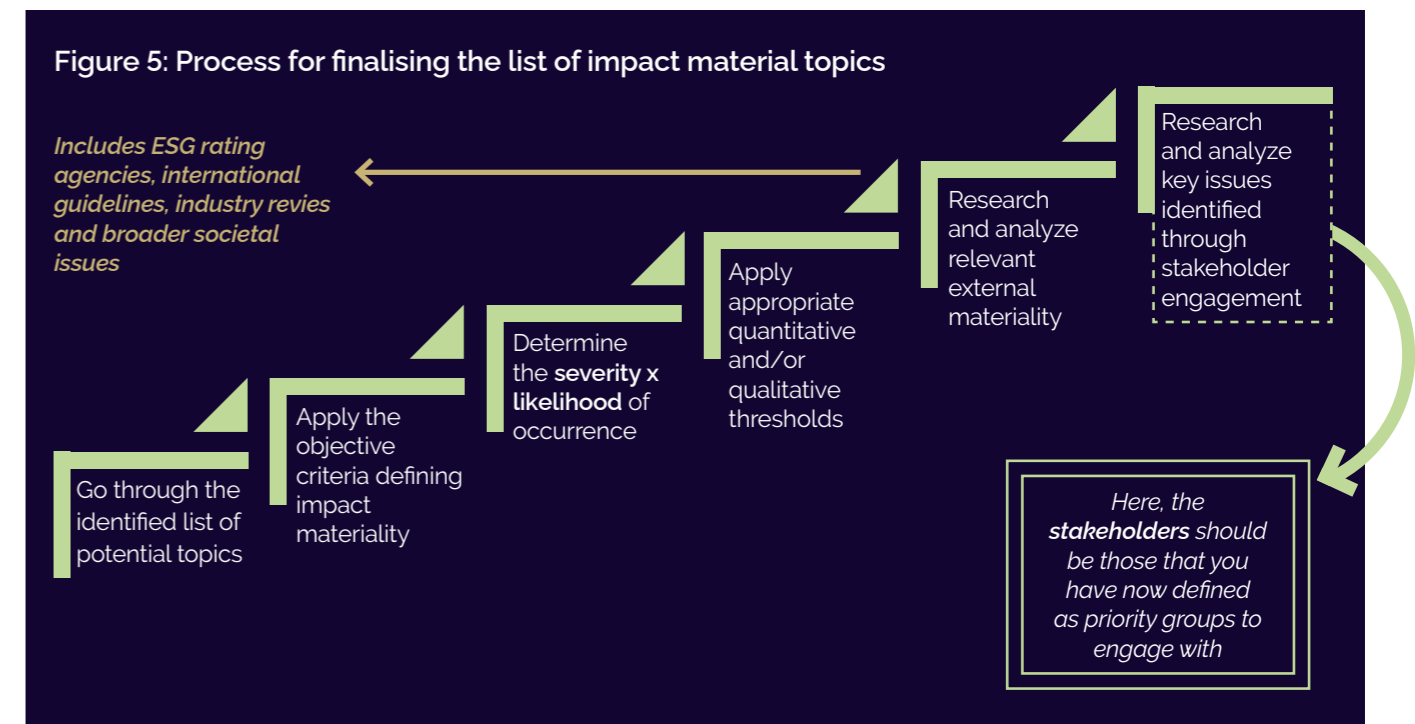
Tips:

- ▶ It is better to add more potential material issues than to overlook one. Go as **granular** as you can. Classify by topics / sub-topics / sub-sub-topics.
- ▶ The list in ESRS paragraph AR 16 is a good starting point for identifying sustainability matters. However, you need to also consider sector-specific and entity-specific sustainability matters.



Focus on finalising the list of impact material topics

Once you have the “long list,” you can start assessing impact materiality to establish the final list of material topics.



You must engage with relevant key stakeholders: their contribution is important to validate or ensure the completeness of the final list. See section on Stakeholder Engagement below.

Tips:

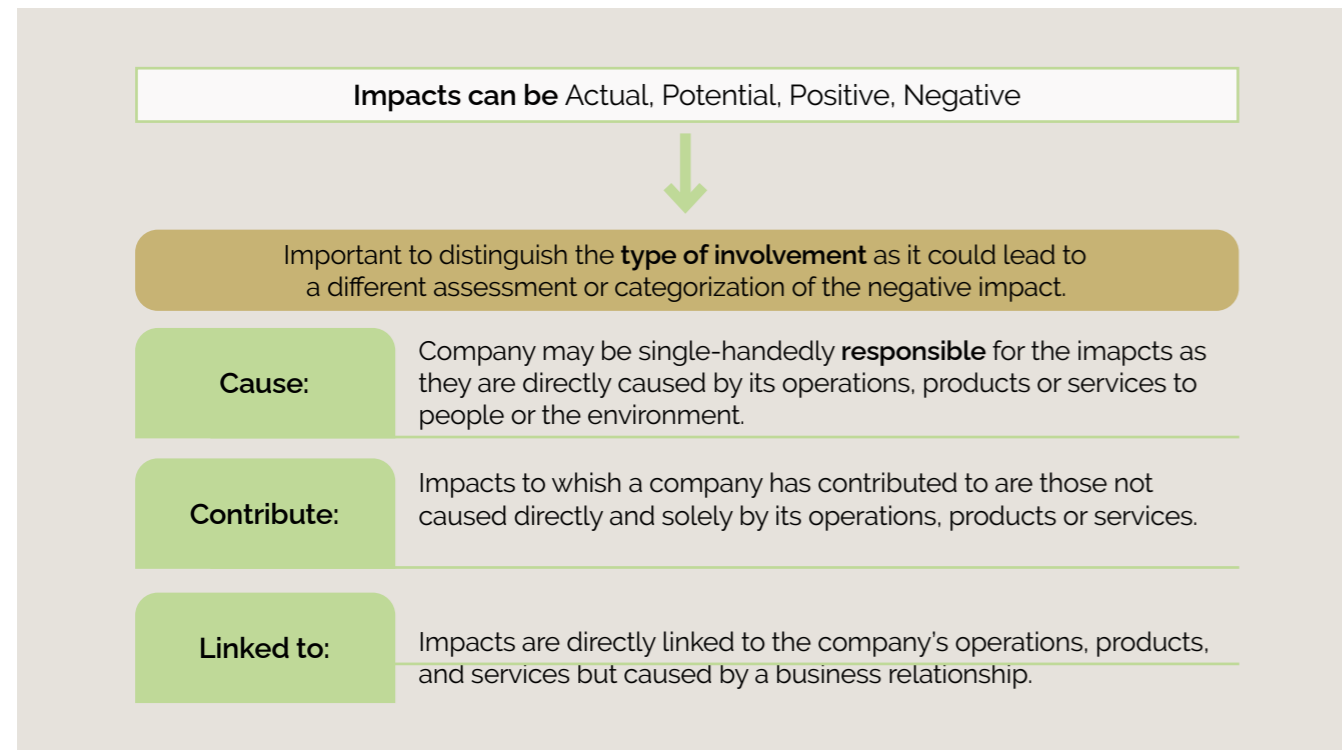
- ▶ Use quantitative data whenever possible to assess the materiality of current and potential impacts. When quantitative data is unavailable, inaccessible or may result in additional costs, use qualitative insights from stakeholder engagement.
- ▶ Always document the rationale behind your process.

TOPIC 1: DOUBLE MATERIALITY ASSESSMENT (DMA)

How to prioritise which impacts are most important

You must differentiate between the different types of impact: **Actual / Potential / Positive Negative**.

Also, just as you do with human rights due diligence under the UNGPs, it can be useful to distinguish your company's relationship with the impact, identifying whether you **Cause**, **Contribute** or are **Linked** to an impact:



Now you need to **consider several factors**:

Impact	Criteria
Actual Positive	Scale & scope
Actual Negative	Severity (scale, scope, irremediability)
Potential Positive	Severity & likelihood
Potential Negative	Severity & likelihood

Severity is assessed from the perspective of the affected people / the environment and is determined by

Scale: how grave is the impact?	Scope: how widespread is the impact?	Irremediable character: can the impact be reversed or remediated
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Example of process to follow

- **Scale:** a negative impact that leads to the contamination of drinking water by toxic chemicals used in your production.
- **Scope:** the number of people/households or regions affected by the negative impact.

To determine the materiality of actual impacts, you should review the scale, scope, and irremediability.

To determine the materiality of potential impacts, the likelihood dimension is to be considered together with the severity of the impacts.

Once this step is complete, you can aggregate the resulting material impacts, risks and opportunities and consolidate them in a matrix (or any other visual/graphic representation).

Tips:

- **The perspective of stakeholders** is particularly important to assess the scale and irremediability of impacts as well as to estimate their likelihood of occurrence. See section on Stakeholder Engagement below.
- Note that ESRS 1 states that **severity takes precedence over likelihood** when identifying material matters related to human rights impacts.

Tips:

- Keep in mind that most impacts can give rise to financial risks and opportunities.
- For some material impacts, a risk and/or opportunity related to that impact may not be identifiable at the time of the assessment but could emerge over time – hence the importance of repeating the assessment regularly.
- Benefit from synergies by integrating with your enterprise risk management process.
- Don't focus only on current/known topics and consider emerging trends and topics.

Working example #1

- A gemstone mining company in Brazil has identified a significant risk from failing to consult or secure an agreement with Indigenous Peoples for land use and community relocation. While no protests are expected currently, future actions by the community could disrupt gemstone production, leading to material costs from halted operations, legal expenses, or project cancellation.

Working example #2

- An American jewellery company has several cases of gender discrimination when promoting employees. At the time of performing the materiality assessment, the company does not expect the employees to pursue legal proceedings. However, this group of employees, individually or as a whole, pursue legal proceedings on the grounds of gender discrimination and seek financial compensation within the medium term and cause reputational damage to the undertaking.

TOPIC 1: DOUBLE MATERIALITY ASSESSMENT (DMA)

Focus on Stakeholder Engagement

The role of Stakeholders has shifted under CSRD. Now, they are requested to identify a company's most significant impact on people and the environment instead of only being asked which topics they consider important.

CSDDD, however, is more prescriptive:

*"Companies are required to carry out **meaningful engagement with stakeholders throughout the due diligence process.**"*

The requirements under ESRS specify that:

- *"Disclosure is required on the assessment and its outcomes, but ESRS does not mandate specific behaviour on stakeholder engagement or the due diligence process."*
- *However, the impact materiality assessment is informed by the undertaking's due diligence process" and "engagement with affected stakeholders is central to the undertaking's on-going due diligence process and sustainability materiality assessment."*
- *Dialogue with affected stakeholders may assist during various steps of the materiality assessment. However, engagement with affected stakeholders in each step of the materiality assessment separately is not necessary, as undertakings may already have ongoing engagement with them to use."*

Sources:

[Draft EFRAG IG 1: Materiality assessment implementation guidance](#)
[Draft ESRS 1 General Requirements](#)
[EU Corporate Sustainability Due Diligence Directive - final agreed text](#)

The objective of this stakeholder engagement approach is to ensure that the measures taken by businesses match the **actual** risks and needs of individuals or groups whose rights are negatively impacted.

How do you bring stakeholder engagement into the DMA process?

Meaningful stakeholder engagement should be:

Informed by a **mindset** that is characterised by co-ownership and sensitive to context;

and

Designed in a way that is based on trust, fit for purpose, and rights-based.

You can follow three main steps:

STEP 1: Define a strategy for stakeholder involvement

- 1 Map out who your affected stakeholders are and how you plan to engage them.
- 2 Define the mode of engagement:
 - Interviews allow for relationship-building and deeper engagement
 - Surveys are useful for reaching a large number of stakeholders and can facilitate getting quantitative input (e.g. for assessment)
- 3 Decide whether remote or in-person.
- 4 Define when and how often to involve stakeholders in the materiality assessment process - e.g. at the stage of validating the list of potential sustainability topics and/or assessing the impact (and financial) materiality.

STEP 2: Identify potential impact material topics

- 1 Engage with affected stakeholders or build on past or ongoing engagement to map the impacts that they experience.

STEP 3: Assess the materiality of the identified impacts

- 1 Involve affected stakeholders in the assessment of severity and likelihood of negative impacts that are relevant for them.
- 2 Request stakeholder validation or feedback on serious impacts that have been assessed as material.

Categories of stakeholders to consider:



Note: ESRS defines Nature as a **silent** stakeholder so companies should gather data and input from scientific sources and experts to give nature a voice.

Tips:

- Stakeholder engagement does not have to take place separately and can fit into your ongoing Human rights and environmental due diligence.
- Be pragmatic -Start by looking at stakeholders included in existing processes and initiatives such as risk/impact assessments, sustainability initiatives, incl. multi-stakeholder initiatives, etc.)

TOPIC 1: DOUBLE MATERIALITY ASSESSMENT

Which affected stakeholders should you prioritise?

This depends on three criteria:

1. Severity of impact:

Individuals, groups and communities significantly affected by a company's activities, relationships, products, and services

2. Vulnerable stakeholders:

Workers, groups and communities who are particularly unprotected

3. Dependent stakeholders:

Those dependent on natural, human and social resources.

Tip:

► **Due diligence processes** can help a company to directly identify affected stakeholders, which must also be considered when carrying out a materiality assessment.

Resources:

- [ESRS implementation guidance documents | EFRAG](#)
- [The New Double Materiality Assessment: A Toolbox for Companies - BCG](#)
- [10 pitfalls companies should avoid when conducting a CSRD-aligned double materiality assessment - PWC](#)
- [CSRD Essentials: The definitive guide to the EU Corporate Sustainability Reporting Directive - GRI](#)
- [e-Reader | The Routledge Handbook on Meaningful Stakeholder Engagement \(taylorfrancis.com\)](#)

CASE STUDY

SWAROVSKI

Swarovski

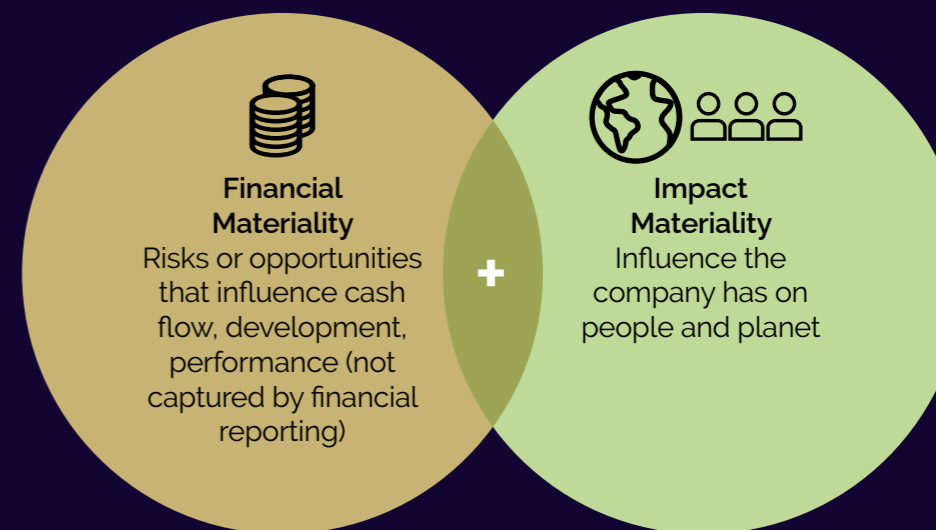
Swarovski's 2024 ESRS-aligned double materiality assessment (DMA)

Swarovski has been taking materiality assessments since 2015. Its first DMA was performed in 2022 and looked at 'inside-out' & 'outside-in' impacts.

As part of 2026 CSRD readiness, from July to Oct 2024, Swarovski's Sustainability and ERM teams partnered to conduct a group-level and ESRS-aligned DMA to prepare its 2024 Sustainability Report. The DMA was supported by Upright Project's tech platform and sense-checked by Swarovski's Big4 auditor.

What was assessed

Sustainability matters are material from the **double materiality** perspective if they are material in short-, medium-, or long-term from financial perspective, impact perspective, or both [union of two sets]



- Magnitude of effect
- Likelihood of occurrence
- Severity (scale, scope, remediability)
- Likelihood of occurrence

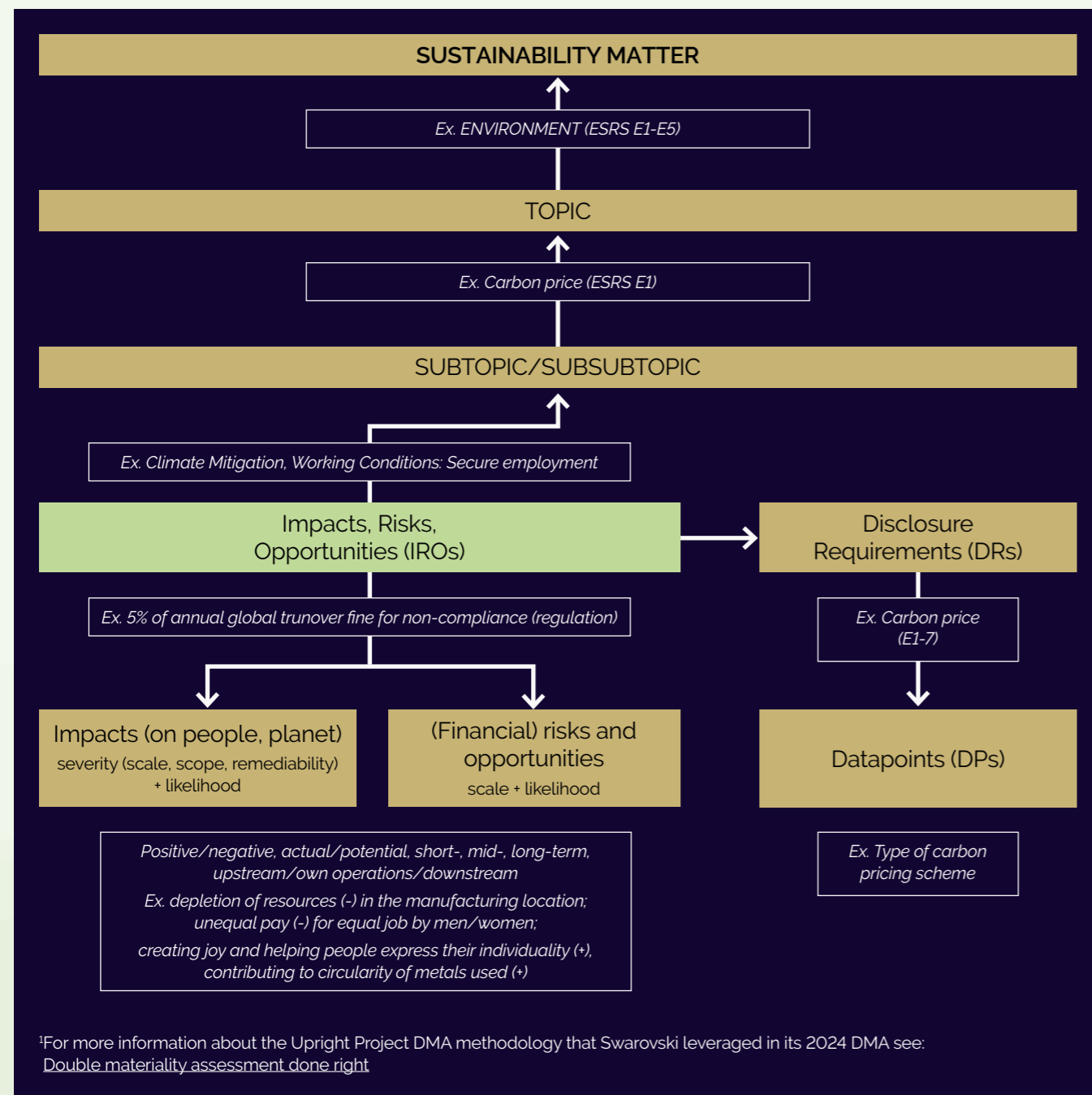
- Positive/negative, actual/potential
- Short-, mid-, long-term
- Upstream/own operations/downstream
- Gross (before action to mitigate is taken)

TOPIC 1: DOUBLE MATERIALITY ASSESSMENT (DMA) | CASE STUDY: SWAROVSKI

Swarovski mapped its entire chain of activities, identified 10 stakeholder groups (7 affected stakeholders, 3 users of sustainability information), and leveraged the science-based Upright Project's data platform to identify and assess Impacts, Risks and Opportunities (IROs).

Some of the key parameters for the DMA methodology¹:

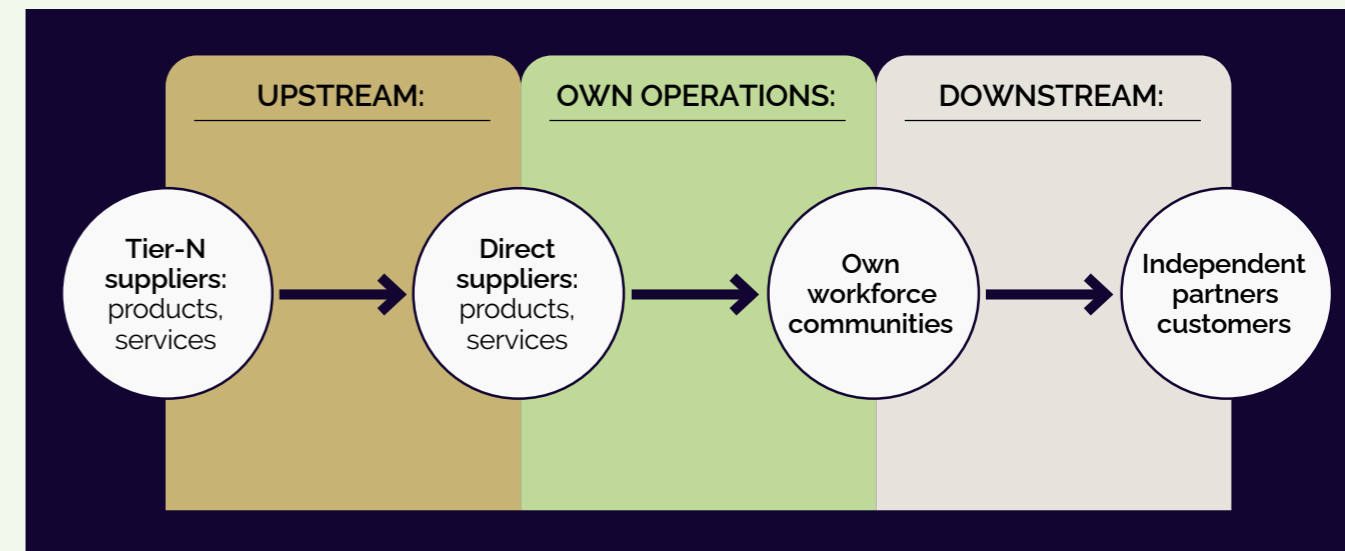
- Sustainability matters considered as per ESRS 1 Appendix A and company-specific matters
- Time horizons are aligned with ESRS 1 and coordinated with Swarovski's ERM
- Gross impact approach: positive and negative aspects were not netted
- Materiality thresholds recommended by Upright's engine – calibrated based on DMAs of >50K companies – were used



Some of the key elements in the DMA process:

- **Chain of activities mapping** was done, covering upstream, own operations, and downstream, and enabling stakeholder identification.

High-level view of the chain of activities:



Data-based assessment

- **Big data:** CORE research papers database (300 million articles), 3rd party databases e.g. ILOSTAT, World Bank, WEF, OECD
- **Swarovski value chain-specific data:** GRIs, geographies of operation, sourcing, and sales, detailed product split by revenue

Judgement-based assessment

- **Stakeholder survey:** 12 internal, 23 external direct and proxy respondents to targeted surveys e.g. EHS, Finance, Suppliers, Employees, among others, supported by a 'cheat sheet' to explain (sub)topics in scope
- **Stakeholder engagement:** 1 internal, 5 external stakeholders to support the completion of survey

In overall group-level assessments / reporting

- DMA is complemented by human rights saliency assessment.

TOPIC 1: DOUBLE MATERIALITY ASSESSMENT (DMA) | CASE STUDY: SWAROVSKI

Results

Overall, the 2024 DMA:

- ✓ Reconfirmed the company's strategic choices: Mitigate Climate Change, Preserve Resources & Minimize Waste, and Promote Fairness & Celebrate Individuality
- ✓ Yielded list of impacts, risks & opportunities to be continuously managed
- ✓ 30 material sub(sub)topics from ESRS E1-5, S1, S2, G1 + 1 company-specific topic based on ca.70 impacts (20 risks, 4 opportunities) were identified
- ✓ Narrowed down the list of topics & data points for inclusion in the company's CSRD-aligned report

Lessons learnt

can be summarised in two categories as follows.

- | | |
|--|--|
| <p>1 Key Components to consider for achieving a comprehensive DMA:</p> <ul style="list-style-type: none"> i. Sources of material and non-material IROs and their scoring must be well documented, e.g. reports and articles used to identify and assess IROs need to be available ii. Reasonable stakeholder engagement may not be clearly prescribed in the ESRS but it makes sense as stakeholders, particularly external ones, may bring additional valuable insights iii. Critical review of the outcomes by the company is a must to ensure their relevance to company's context and to support continuous review outcomes by IROs/topic owners iv. Continuous management of the IROs identified by respective owners, adding quantitative aspect to qualitative, it key to ensure that assessment outcomes are taken on board and actioned by respective owners through ongoing work. | <p>2 Subjective view on how to approach the ESRS-aligned DMA:</p> <ul style="list-style-type: none"> i. Consider either using a tech solution or a group of subject matter experts who are able to navigate all the 80+ ESRS topics and know the company ii. Do not plan to fully outsource the DMA, as a lot of follow-up work by the company will always be required, including but not limited to defining context to IROs, continuous review by owners iii. Aim to consult the auditors during the DMA process to ensure a robust approach ahead of assurance in the year when it applies iv. Make sure to document every step clearly and comprehensively for traceability and auditability. |
|--|--|

For more information see: [Sustainability and Corporate Responsibility | Swarovski AA](#) or reach out to sustainability@swarovski.com

Other examples from the sector

AWDC-Sustenuto conducted a sector double materiality assessment for the Antwerp diamond industry. Key results and 'practical implications will be published during a workshop on January 15th, 2025. In the meantime, a summary is available.

The objective of the sector DMA, commissioned by AWDC, is to create a benchmark that individual companies can build on for their own DMA. Specifically, it identifies the critical topics that all companies should report on and provides insights into the materiality of other relevant topics.

The study identified two critical topics:

1. Responsible business conduct; and
2. Workers in the value chain.

These topics are no stranger to the diamond industry. However, the range of issues is expanding, from corruption/AML and child labour, towards a much wider range of governance and human rights topics.

In addition to these critical topics, two other topics were identified as having very high materiality:

1. Climate change (greenhouse gas emissions throughout the value chain); and
2. Affected communities.

In both cases, these issues emerge primarily as a result of diamond mining.

For further sector examples, RICHEMONT and DE BEERS have conducted DMAs. See below for information:

- [Richemont Non-Financial Report 2024](#)
- [De Beers Group Sustainability Data Basis of Reporting 2023.pdf](#)
- [De Beers Group Building Forever 2023 Sustainability Report.pdf](#)

Key factors for success

- 1 Start early and plan
- 2 Allocate sufficient resources
- 3 Ensure meaningful and careful selection of stakeholders
- 4 Document each step of the process
- 5 Communicate regularly, internally and externally
- 6 Renew the process regularly

Tip:

- Keep in mind that what is determined as material versus immaterial will vary depending on the organisation. Something material for a large business might be immaterial for a small business. Something that is material for a diamond jewellery retailer might be immaterial for a diamond trader, cutter or polisher. Therefore, be careful when relying on peers/competitors DMA.

Topic 2: Human Rights and Environmental Due Diligence (HReDD)

Overview

Human Rights and Environmental Due Diligence (HReDD) is a holistic approach companies can adopt to manage and mitigate the risks their activities pose to people and the planet, looking at both human rights and environmental impacts together rather than in isolation. Climate change and environmental degradation are not only considered as issues impacting the environment but additional focus is placed on how they affect people and the enjoyment of their rights.

Taking an HReDD approach therefore means identifying and utilising synergies of both areas by tackling root causes together and creating long-term solutions by mitigating environmental impacts whilst protecting people and vice versa. It is key to engage communities in decision-making and addressing their needs.

The legal requirements

CSDDD addresses HReDD in two ways:

- 1 Companies must conduct due diligence on actual and potential human rights and adverse environmental impacts that result from either:
 - a) violations of international environmental obligations and prohibitions, or
 - b) from environmental degradation that interferes with human rights.
- 2 Companies must adopt and put into effect a transition plan for climate change mitigation

According to CSDDD, adverse environmental impacts are considered those that "cause any measurable environmental degradation, such as harmful soil change, water or air pollution, harmful emissions, excessive water consumption, degradation of land, or any other impact on natural resources, such as deforestation, that substantially impairs the natural bases for:

- the preservation and production of food,
- denies a person access to safe and clean drinking water,
- makes it difficult for a person to access sanitary facilities or destroys them,

- harms a person's health, safety, normal use of land or lawfully acquired possessions,
- substantially adversely affects ecosystem services through which an ecosystem contributes directly or indirectly to human wellbeing."

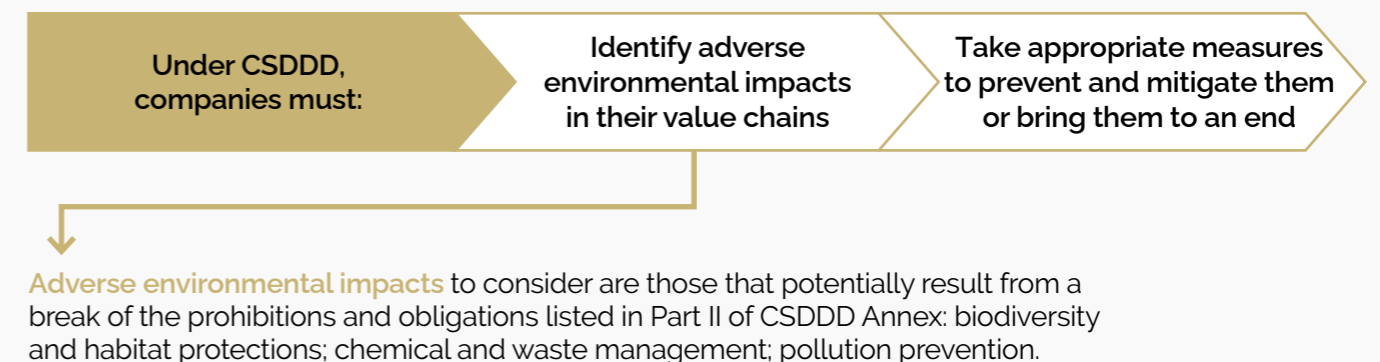
It also refers to breaches of the prohibition to "unlawfully evict or take land, forests, and waters when acquiring, developing or otherwise using land, forests and waters, including by deforestation, the use of which secures the livelihood of a person."

To assess whether the damage to ecosystem services is substantial, companies should consider the following elements where relevant:

- the baseline condition of the environment affected,
- whether the damage is long-lasting, medium-term or short-term,
- the spread of the damage, and
- the reversibility of the damage.

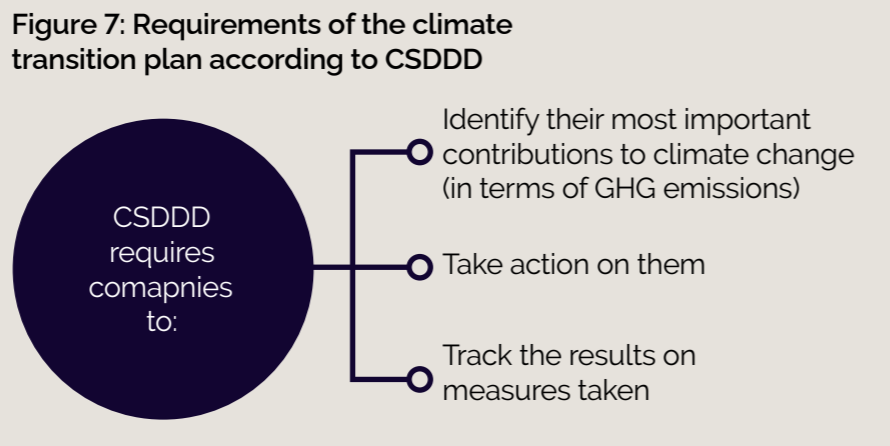
Source: [EU Corporate Sustainability Due Diligence Directive - final agreed text](#)

Figure 6: CSDDD environmental due diligence requirements



TOPIC 2: HUMAN RIGHTS AND ENVIRONMENTAL DUE DILIGENCE (HREDD)

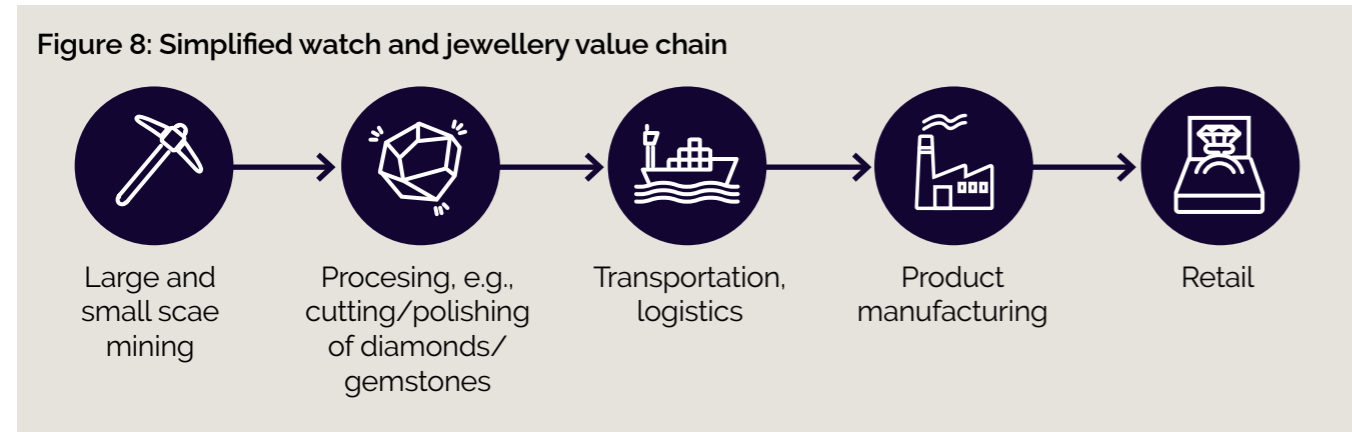
With the requirements for companies to implement a transition plan, CSDDD aims to transition to a sustainable economy, as well as to limit global warming to 1.5 °C and achieve climate neutrality as per European Climate Law.



How does HReDD apply to the watch and jewellery sector?

The companies in scope of CSDDD will be required to take an integrated approach to due diligence by managing their human rights as well as their environmental impacts through their due diligence.

Regardless of legal compliance requirements, applying an integrated approach through HReDD is increasingly on companies' agendas across sectors as they become aware that the environmental impacts from their operations and their efforts to transition to a green economy can affect people.



The following example scenarios demonstrate how potential human rights, and environmental impacts interrelate along the watch and jewellery value chain (see figure below).

Scenario 1: Mining activities can lead to deforestation by land being cleared to access minerals and impact biodiversity in the area as a result. Both may affect surrounding communities or indigenous peoples who use the land for their livelihoods (cultural or subsistence purposes) which can cause land rights conflicts, for example.

Scenario 2: Refining and general processing of minerals may cause the release of toxins that can pollute the air and waterways. This may affect both the health and safety of workers in the processing facility, as well as the water quality for surrounding communities.

How to operationalise

Companies need to demonstrate their efforts to identify, prioritise, and address human rights and environmental impacts in line with international due diligence standards and CSDDD requirements to apply an HReDD approach.

Analysis provided by BSR

This requires standard best practices as per Human Rights Due Diligence guidance given in the [UN Guiding Principles on Business and Human Rights](#) and the [OECD Guidelines for Multinational Enterprises](#). It, therefore, encompasses the identification of impacts, their prioritisation according to severity and likelihood, engaging affected stakeholders and providing remedy.

Analysis provided by BSR

TOPIC 2: HUMAN RIGHTS AND ENVIRONMENTAL DUE DILIGENCE (HREDD)

Key tips on how to get started

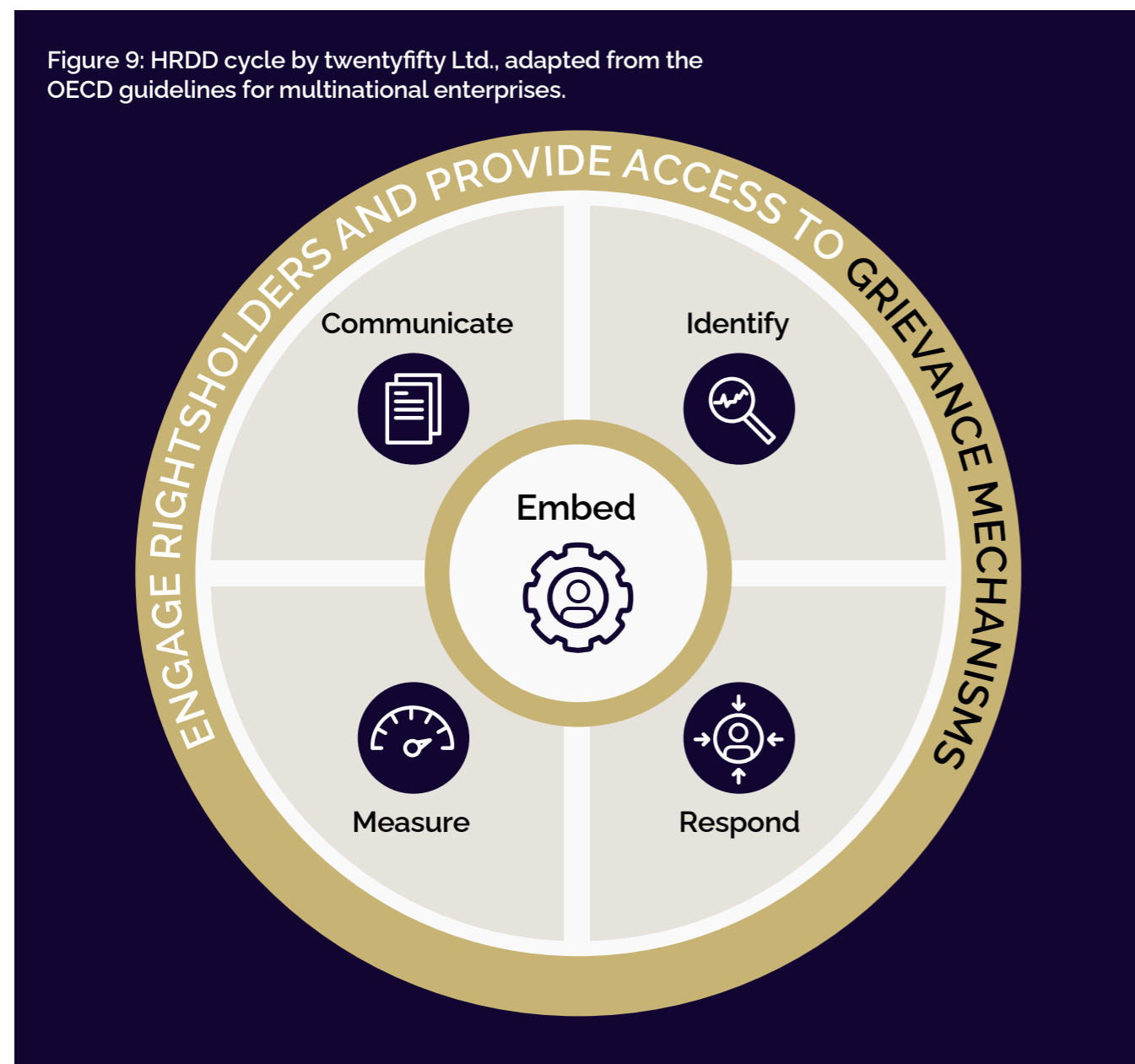
The good news is that companies don't have to reinvent the wheel. Companies can build on progress and momentum that already exists. Implementing HReDD is like putting any management system in place.

- Firstly, start with commitment and vision
- Then, understand the issues before taking action to close the gaps.

This management system emphasises continuously improving awareness of interconnected issues for people and the environment. Successful HReDD requires processes, people skills, and collaboration to create solutions to position businesses to achieve strong financial results and net-zero goals through a just transition.

As a first step, companies should consider where an integrated management of both, human rights and environmental impact makes sense and where a separate approach is advisable.

For example, where environmental degradation, such as landslides, or a company's actions as part of a Just Transition, such as electrification of operations, are likely to impact people, **both social and environmental teams should work together more closely**. However, many impacts, like scope 3 emissions and child labour, may be distinct and not require joint management. Even when impacts are managed separately, maintaining an aligned and comprehensive view of priorities can help ensure resources are effectively allocated.



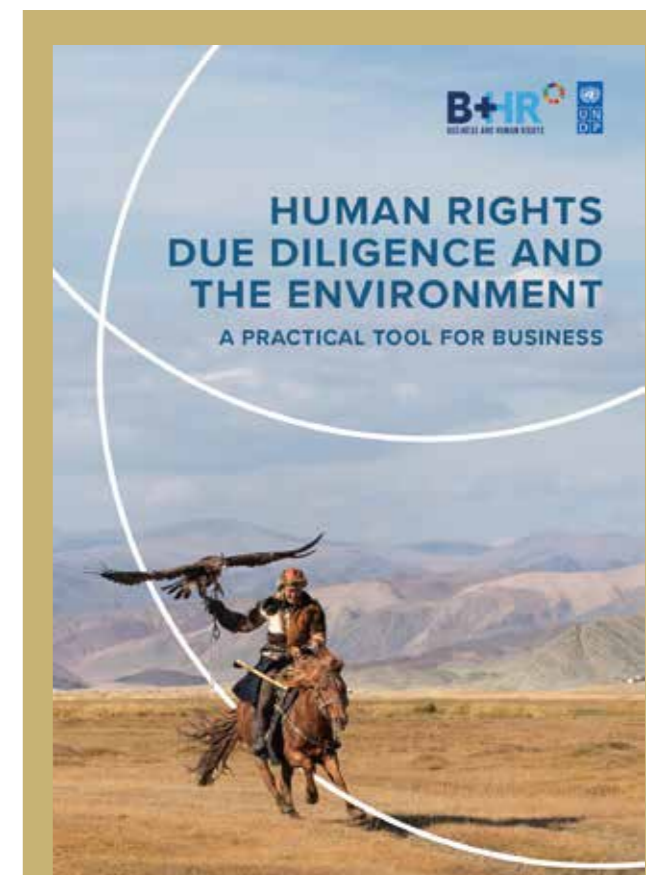
Tips:

- Establish cross-functional working committees to develop a new integrated due diligence approach, raise awareness and enable collaboration between social and environmental teams.
- Where HRDD is well established, build on that methodology to integrate environmental elements. A central HReDD team can support the development of aligned methodologies.
- Establish a top-down mandate or dedicated resource to explore connections and shift accountability for social/human rights and environmental due diligence to operating functions (e.g., procurement, business units).

Reach out to suppliers with one unified due diligence request for both human rights and the environment.

Examples of coordinated due diligence where impacts are linked:

- Integration of *human* in Environmental, Social, and Health Impact Assessments.
- Deforestation or other commodity-specific risks in the supply chain.
- Community impacts of physical infrastructure.



An emerging tool

The United Nations Development Programme and the UN Working Group on Business and Human Rights, in consultation with 180+ stakeholders, have developed a practical tool for businesses on HReDD. The tool offers businesses practical advice, experiences, and insights on how to integrate environmental dimensions into their human rights due diligence to identify, prevent, mitigate, and account for how they address adverse impacts on human rights resulting from environmental harms, including on the new right to a healthy environment.

Click [here](#) to access the tool.

TOPIC 2: HUMAN RIGHTS AND ENVIRONMENTAL DUE DILIGENCE (HREDD)

Taking a closer look at some due diligence elements

Identify and prioritise adverse impacts through regular **risk assessments**, covering both global environmental and human rights risk indicators (e.g. deforestation, water scarcity and quality, land rights). This requires taking the following steps:

- 1 Assess inherent risk based on country and sector risk indicators
- 2 Identify high-risk countries and high-risk areas
- 3 Take a risk-based approach and carry out a deep dive on key topics and countries in the supply chain

Example indicators to use:

- Climate change: [EPI Adjusted emissions growth rate for carbon dioxide 2024](#)
- Deforestation: [EPI Forests 2024](#), [EPI Primary Forest Loss 2024](#)
- Water quality and scarcity: [EPI Sanitation and Drinking Water 2022](#), [WRI Aqueduct Projected Water Stress Country Rankings \(BAU 2030\)](#)

Table 2: Example outcomes from risk assessments conducted in the mining sector



Water access and Indigenous rights

Risk of violating communities' and Indigenous peoples' right to water due to past water extraction and use. Water access has been made more vulnerable due to the cumulative impacts of multiple mines in the area.



Work and standard of living

Risk of violating the right to work and to an adequate standard of living of individuals in the local community due to marine pollution and the negative environmental impact caused by operations and accidents over the years.



Air Quality

Risk that operations negatively impact air quality and the health, quality of life, and access to a clean and healthy environment for surrounding communities.

Analysis in table provided by BSR

Based on the results of your risk assessment and the potential adverse risks/impacts identified, further evaluation and analysis should be conducted to understand:

- What does your supply chain look like in those countries (tier 1 and beyond)? What activities do they carry out (e.g., trading, processing, mining)?
- What activities of your direct suppliers / deeper supply chain may impact/be impacted by deforestation, water scarcity or land rights?

Take a unified approach with your suppliers, requesting both human rights and environmental due diligence.

- ✓ Clarify outstanding questions with suppliers (e.g., *Where/Who do they source from? What is their awareness of potential issues (based on the indicators)?*).
- ✓ Carry out deep dive in collaboration with suppliers to understand potential issues (e.g., *through Human Rights Impact Assessment and/or environmental assessments in areas that might be most affected*).
- ✓ Share learnings with rightsholders, suppliers/ supply chain stakeholders to then identify appropriate mitigation actions.

Monitor the risks and impacts identified, as well as your response measures, for example, by analysing audit data gathered, evaluating human rights and environmental performance or requiring certification, e.g., for mines, smelters and refiners.

Tips:

- Combine corporate-wide human rights and environmental impact assessments, or human rights assessments that extend to the right to a clean, healthy environment.
- Leverage the just transition framework to identify linked impacts.
- Companies can consider the following questions as a first step in exploring possible HReDD approaches. Addressing these questions will help support you in determining what actions to prioritise:
 - What could you do to identify what risks might be present?
 - What information is available?
 - What questions might you ask?
 - Who might you speak to?
 - What action might you take?

Respond using your purchasing practices by setting requirements for suppliers in contractual agreements to adhere to existing legislation, such as on environmental protection and implementing robust standards, or disposal of hazardous waste.

Engage your suppliers by collaborating with them to create awareness and ownership for risk mitigation, for example, through training, and regular reporting on issues and solutions.

Tips:

- Companies should feed the results of monitoring and evaluation results into their risk assessment. Learnings from these results should be considered when improving existing or developing new mitigation measures to respond to prioritised risks. For example, the monitoring of existing mitigation measures shows that a risk has not been effectively prevented despite actions taken. If the risk, therefore persists, the company should find improved ways of mitigating it, for example, by consulting potentially affected rightsholder groups.

Topic 3: Supplier Engagement

Overview

Supplier engagement refers to the process of building positive relationships between suppliers and buyers, based on openness, trust, and transparency. This engagement is essential for improving working conditions in supply chains and involves generating impactful relationships with suppliers.

This guidance will focus on two main areas concerning supplier engagement:

1. **How to prioritise suppliers and related actions**
2. **Where to focus your attention**
 - a. Responsible purchasing practices
 - b. Supplier due diligence - going beyond audit
 - c. Multi-stakeholder collaboration

The legal requirements

There are a few articles within the CSDDD legislation that refer to engagement with stakeholders. However, it's important to remember suppliers are just one of many stakeholders. Stakeholders also include employees, communities etc. The most relevant section of the legislation that refers to stakeholder engagement is Article 13; see a cut-down summary of this article below.

Article 13 - Meaningful Engagement with Stakeholders

1. ...companies take appropriate measures to carry out **effective engagement** with stakeholders
2. ...when consulting with stakeholders, companies shall, as appropriate, provide them with relevant and comprehensive information, in order to carry out **effective and transparent consultations**.
3. Consultation of stakeholders shall take place at the following stages of the due diligence process:
 - (a) when gathering the necessary information on actual or potential adverse impacts, in order to identify, assess and prioritise adverse impacts
 - (b) when developing prevention and corrective action plans and developing enhanced prevention and corrective action plans
 - (c) when deciding to terminate or suspend a business relationship
 - (d) when adopting appropriate measures to remediate adverse impacts
 - (e) as appropriate, when developing qualitative and quantitative indicators for the monitoring required
4. Member States shall ensure that companies are allowed to fulfil the obligations laid down in this Article through industry or multi-stakeholder initiatives, as appropriate, provided that the consultation procedures meet the requirements set out in this Article.

Under CSDDD, companies must:

Take **appropriate** measures to carry out **effective** engagement

Consultation of stakeholders shall take place at **multiple stages** of the due diligence process

How to operationalise

Best practices for effective supplier engagement

The legislative text refers to effective engagement with stakeholders. When thinking about this in terms of suppliers, we see this as generating positive relationships between suppliers and buyers, based on openness, trust and transparency.

Trust and **engagement** are essential for effective and impactful relationships with suppliers. In an [analysis](#) conducted by NYU Stern Center for Sustainable Business for Ecovadis, results revealed that 39% of suppliers considered sustainability to be "important to their customers on paper, but it is not reflected in any practical way in the way they work together." So, suppliers are really looking to buyers and companies to show they are taking sustainability and human rights seriously.

Building trust, openness and transparency with your suppliers will help you to:

- Map higher-risk supply chains
- Identify decent work deficits in your supply chains
- Understand whether local agents are used to identify subcontractors or hire workers and understand their practices
- Collaborate in identifying and addressing root causes
- Get feedback on your purchasing practices and whether any of them adversely impact workers' rights
- Co-operate to remedy negative impacts when appropriate
- Help track performance improvements

Building blocks of how to build trust with your suppliers:

<p>Build engagement Share your own experiences</p>	<p>Demonstrate respect Listen and be mindful of tone</p>	<p>Create a dialogue Openness is built over time</p>	<p>Role-model the behaviours you expect</p>
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There are many different channels to communicate with your suppliers to help build these open and trusting relationships. These could include regular company communications, supplier conferences, individual supplier meetings, supplier visits, online tender processes or awareness-raising and training sessions.



Tip:

- There are a few questions to consider when communicating and engaging with your suppliers to help you understand them better:
 - What are the terms of the relationship with your supplier? Some of these might be implicit or unacknowledged.
 - Where does the power and leverage in the relationship lie? How could this influence your conversations with suppliers?
 - What do you think your suppliers' objectives are? To impress you? To gain work? To not lose existing work?
 - What are the language or cultural differences that affect your suppliers' understanding of decent working conditions?

SUPPLIER ENGAGEMENT CASE STUDY:



MCGP

MCGP use two critical tools for meaningful supplier engagement:

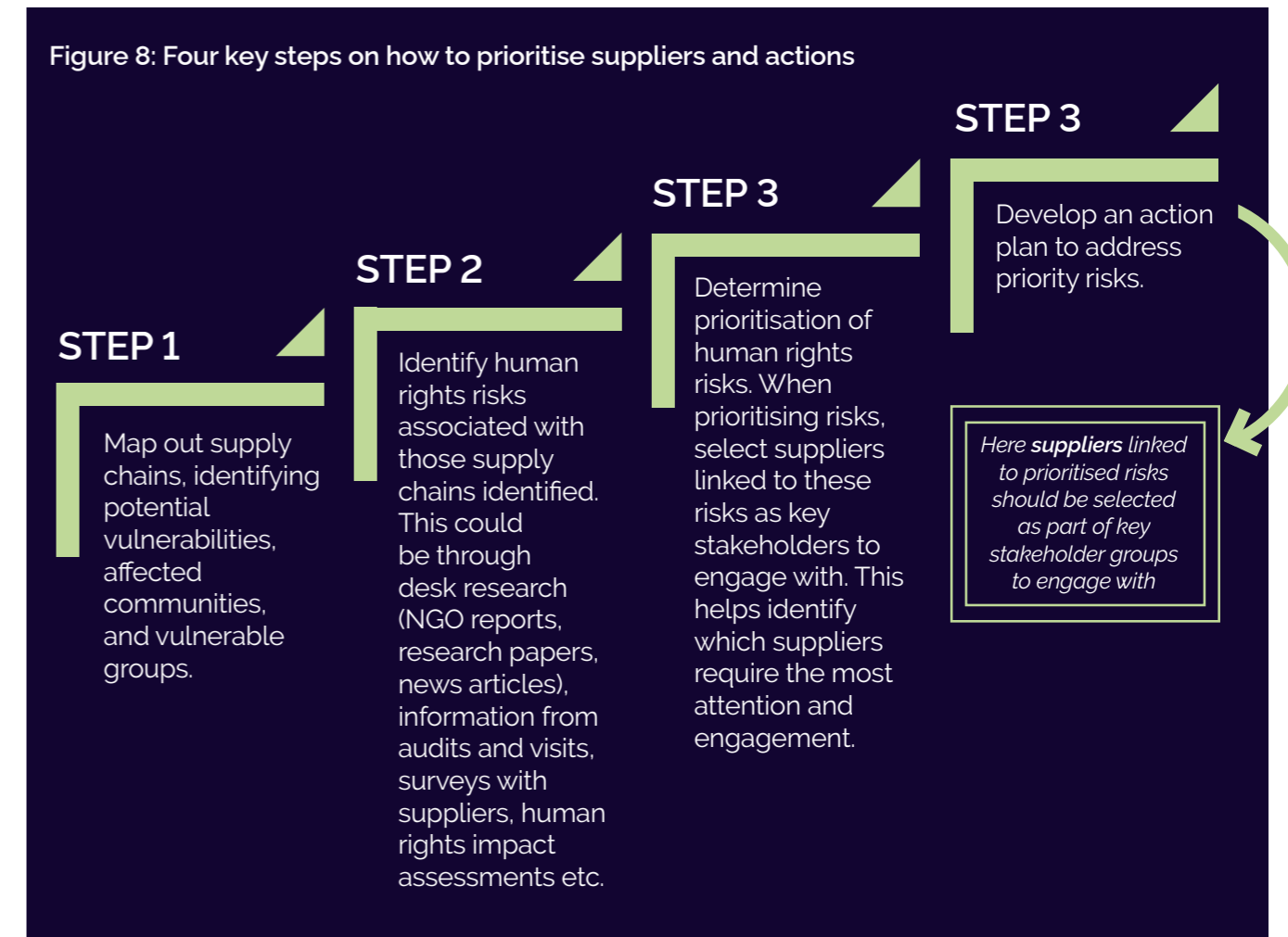
- 1. RJC (Responsible Jewellery Council):** this key framework promotes responsible practices throughout the supply chain by requiring companies (MCGP, for example) to conduct due diligence with their counterparts to achieve certification.
- 2. OECD Framework:** this tool helps identify and manage supply chain risks. The first step involves collecting accurate information about potential risks.

In addition to this, **MCGP focuses on building collaborative partnerships through ongoing dialogue with their customers and suppliers.** The company focuses on gemstone suppliers as this segment poses the greatest risk in the supply chain. Maintaining a consolidated supplier database facilitates follow-up and engagement. Whenever possible, audits encourage subcontractors and suppliers to improve their own internal systems and ensure compliance. MCGP also provides an anonymous complaints mechanism, applicable to both their operations and suppliers.



1) How to determine which suppliers to prioritise and what actions to take

In today's complex landscape, it is crucial for companies to prioritise their supplier engagement and strategically allocate resources where they are most needed. There are 4 key steps on how to prioritise:



TOPIC 3: SUPPLIER ENGAGEMENT

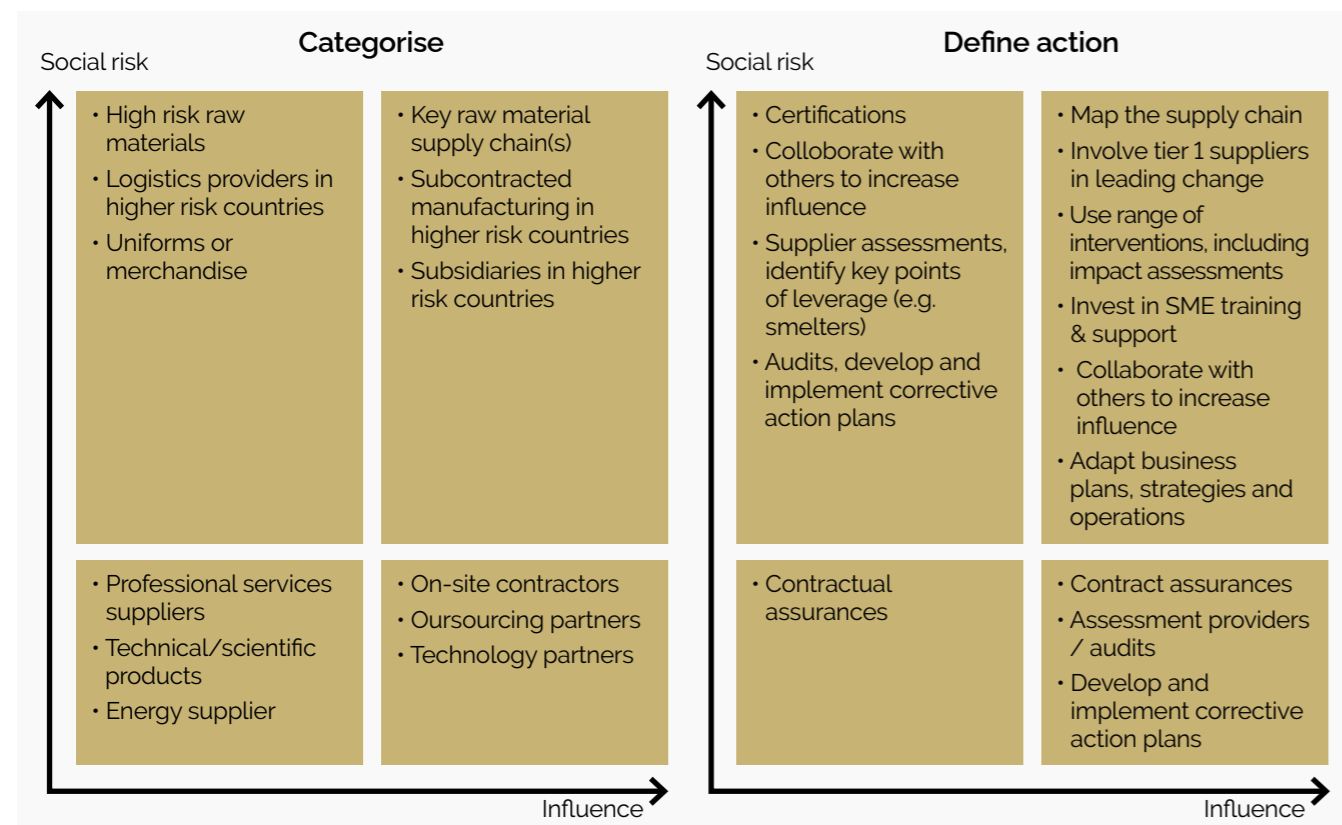
The criteria for prioritisation include the severity of the risk and the likelihood of its occurrence. This together can be considered the "social risk." The relationship between the company and the risk, as outlined in the CSDDD language, focuses on the company's direct involvement, the contribution of business partners, and the link to the supply chain.

This relationship determines the company's level of influence and responsibility. If there is direct contact with the risk, appropriate action must be taken.

The image below illustrates how different areas of the business and supply chain could be categorised based on social risk and influence.

For example, a company's key raw material supply chain(s) would be considered high risk and high influence whilst an energy supplier considered low risk and low influence.

The matrix on the right-hand side offers some practical examples of actions companies can consider taking according to where suppliers are placed on the matrix.



Tip:

► There are terminology differences between UNGPs and CSDDD that is worth noting:

UNGPs:

- Use terms like "cause" and "contribute to" when defining relationships with human rights risks.
- In this context, if your company causes or contributes to harm, you must stop or mitigate your involvement. The focus is on direct linkage or contribution to abuse or human rights impacts.

CSDDD:

Draws on the UNGP concept of influence, particularly around potential human rights impacts, but uses slightly different language. It emphasises the importance of understanding your influence on these risks.

Where to focus your attention

1) Responsible purchasing practices

Responsible Purchasing Practices are **actions taken by a buying company to purchase a product or service (in whole or in part) from a supplying business that does not negatively impact the human rights of workers in supply chains**, reflected in things like reasonable payment timelines, agreeing on order changes, forecasting accuracy, on-time payments, communication with suppliers and responsible exit strategies.

Key Elements of Responsible Purchasing Practices

- **Selection and reporting:** KPIs, incentives, values and behaviours that guide supplier selection and purchasing decisions
- **Equal partnership:** Communication, contracts and length and trust of relationships
- **Collaborative Production Planning:** Order timeline and process, including product development, forecasting, lead times and changes to orders
- **Fair payment terms:** Including length of terms, on-time payment and penalties
- **Sustainable Costing:** Costing strategies and price negotiations

A usual resource to consider when addressing Responsible Purchasing Practices is the Responsible Contracting Project. They have defined three Core Responsible Contracting Principles to buyers create a relationship of shared responsibility with their suppliers;

1. Responsible allocation of risks and responsibilities: a joint commitment to cooperate in carrying out HReDD. Included within the Supplier Code of Conduct and the contract
2. Responsible purchasing practices: Commit the buyer to engage in purchasing practices that can support effective HReDD, for example, pricing clauses that enable price adjustment with rising sustainability costs
3. Remediation first and responsible exit: If an adverse impact happens, provide remedy to victims and take measures to ensure the harm stops and does not reoccur before turning to traditional contract remedies (e.g., suspending payment and cancelling orders). Exit should only be pursued as a last resort, taking measures to mitigate the impact.

Tip:

- Make sure responsible exit is considered within your contracts with suppliers. Contractually prioritise remediation (cure) ahead of suspension and termination, clarifying that termination is a last resort. Include a joint commitment to exit responsibly by addressing the adverse impacts caused and by providing reasonable notice to business partners when suspending or terminating a business relationship and to pay for outstanding invoices incurred prior to the termination date

TOPIC 3: SUPPLIER ENGAGEMENT

2) Supply chain due diligence – beyond an audit approach

Supply Chain Due Diligence describes **processes and practices that businesses implement to identify, prevent or mitigate and account for how actual and potential adverse impacts are addressed**. E.g., supplier audits, risk assessments, corrective action plans, supply chain mapping, human rights impact assessments, and supplier capacity building.

Limitations of social audits

Most companies **rely heavily on social audits**, such as SMETA or BSCI, as the main form of due diligence in monitoring suppliers.

Social audits are a useful tool in the toolbox but **not fit for purpose as a robust solution** on their own. Audits are a compliance check, capturing information in a specific timeframe with most audits **doing very little to uncover the root causes** of systemic issues **or to drive remedial action**. Continual improvement in supplier sustainability demands an approach, and a commitment, that extends beyond simply auditing compliance.

Multiple reports have indicated that social auditing may not effectively capture human rights issues in supplier factories and may not adequately support workers in its current form.

Events like the Rana Plaza collapse in Bangladesh and the Ali Enterprises fire in Pakistan, both of which were audited shortly before these incidents occurred, highlight potential limitations of social auditing in the textile sector.

Research highlights that vulnerable workers, such as women, children, and migrants, are particularly affected. Human Rights Watch found that audits in the textile industry overlook gender discrimination and sexual harassment.



BEYOND AUDIT CASE STUDY:



Philips

Philips have a program called the Sustainable Supplier programme and this builds on their existing auditing programme with the main aims of collaboration, transparency and clear agreed targets. These targets are met via intensive support from Philips, remote support from Philips, and peer-to-peer networking based on suppliers' maturity.

Philips split their relevant suppliers into categories: best-in-class suppliers who have little improvements to make, DIY suppliers who are remotely guided and supported, and then Sustainable Improvers who need more support.

All suppliers have access to online training modules and, depending on their category, some will have visits twice a year from subject matter experts on overtime, for example. The improvement plan and the KPIs are agreed upon with the supplier's buy-in and the costs of improvements are split between Philips and the suppliers. They also have a peer-to-peer cohort so suppliers can share really practical tips on how to make improvements that work in their particular field or country.

BEYOND AUDIT CASE STUDY:



Levi's

"We expect a lot of suppliers and understand that many of them simultaneously try to meet our expectations as well as those of other brands. That's why our capacity building support is specific and based on need."

Levi's runs a Better Work programme, focusing on supplier capacity building. The programme features focused webinars on common issues such as working hours or health and safety. It is designed to move beyond the compliance approach to a more holistic worker wellbeing approach.

This programme also provides training to suppliers on key issues like the worker-management relationship, worker dialogue, communication for supervisors and other soft skills that can really make a difference.

TOPIC 3: SUPPLIER ENGAGEMENT

3) Multi-stakeholder collaboration

Multi-stakeholder collaboration can be highly beneficial when addressing human rights impacts.

By working together with other companies, civil society organisations, government organisations, and affected people (or their representatives), companies can build effective solutions to human rights challenges, raise standards, and improve communication and stakeholder relationships.

This collaborative approach can help strengthen a company's leverage to prevent or mitigate adverse impacts and ensure that human rights issues are addressed comprehensively. CSDDD allows companies to participate in such initiatives to support the implementation of their due diligence obligations. (Article 13.6)

In addition, multi-stakeholder initiatives can perform a wide variety of functions, such as awareness-raising, creating mutual understanding, cross-sector learning, capacity-building, standard-setting, and verification of good practices.

Looking forward

Inside-out Impact Assessment & Stakeholder Engagement

Due to the evolving regulatory landscape, assessing double materiality is becoming increasingly relevant for companies.

Double Materiality Assessment is the future of materiality assessment and is gaining prominence.

In connection with this and building on the learnings from the pilot and the needs expressed by the pilot participants, the WJI 2030 will be extending the pilot to provide additional support to WJI 2030 members and the wider industry.

In 2025, the WJI 2030, supported by expert consultants, will be launching a new project that will focus on:

- Carrying out the inside-out impact assessment, within DMA, for the sector, including facilitating stakeholder engagement
- Working on the interlinkage between CSRD and CSDDD and how DMA feeds into the wider due diligence activities; and
- Linking with other priority topics addressed by Pillar 2 & 3 of the WJI 2030 workstreams.

This analysis will provide a better understanding of the industry's total impact, identify issues relevant to stakeholders, enhance collaboration between businesses and stakeholders, and provide insights into future trends.

The scope of the project will cover:

- Identification of the typical impacts of the sector on people and nature
- Establishment of the "long list" of topics and impacts by category of player in the watch and jewellery value chain
- How to assess and prioritise impacts
- How to identify and select indicators
- Facilitation of industry stakeholder engagement (value chain actors & industry, WJI 2030 partners working on Pillar 1 and 2, other working groups within WJI 2030, other experts, civil society, regulators)
- Development of a guide to inside-out materiality assessment
- Update the CSDDD pilot guidance document.

INDUSTRY COLLABORATION CASE STUDY:



Palm Oil Transparency Coalition

The Palm Oil Transparency Coalition (POTC) is a group of 16 companies, together with the Consumer Goods Forum Forest Positive Coalition, who are working to critically assess key importers in the supply chain and ensure issues on deforestation and exploitation are being addressed.

Alongside this, POTC engages and challenges importers on their responses to facilitate an open and honest level of disclosure. POTC facilitates this level of openness due to its nature as a business-to-business initiative and the confidentiality granted to answers provided where desired by the importer.

Since the POTC was founded in 2016, a questionnaire has been shared on an annual basis with identified key importers in POTC member supply chains. The purpose is to give these importers an opportunity to update members on progress and action being taken against stated commitments on deforestation, labour, land and climate challenges in their operations.

References

Abbreviations

CSDDD: Corporate Sustainability Due Diligence Directive

CSRD: Corporate Sustainability Reporting Directive

DMA: Double Materiality Assessment

UNGPs: UN Guiding Principles on Business and Human Rights

HReDD: Human rights and environmental due diligence

ESG: Environmental Social Governance

GHG emissions: Greenhouse Gas emissions

External resources

International human rights frameworks

- [UN Guiding Principles on Business and Human Rights](#)

General guidance on conducting human rights due diligence

- [OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, updated June 2023](#)
(provides recommendations addressed by governments to multinational enterprises. They aim to encourage positive contributions enterprises can make to economic, environmental and social progress, and to minimise adverse impacts on matters covered by the Guidelines that may be associated with an enterprise's operations, products and services)
- [OECD Due Diligence Guidance for Responsible Business Conduct, May 2018](#)
(provides practical support to enterprises on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain-language explanations of its due diligence recommendations and associated provisions)
- [OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, April 2016](#)
(provides detailed recommendations to help companies respect human rights and avoid contributing to conflict through their mineral purchasing decisions and practices. This Guidance is for use by any company potentially sourcing minerals or metals from conflict-affected and high-risk areas. The OECD Guidance is global in scope and applies to all mineral supply chains)
- [Helpdesk on Business and Human Rights](#)
(a free support service of the Federal Government, the Helpdesk advises companies of all sizes on the implementation of human rights due diligence processes)

- [UNDP, Heightened Human Rights Due Diligence for Business in Conflict-Affected Contexts: A Guide](#)
(offers guidance to businesses and other actors on how to meet their responsibilities to carry out a heightened version of human rights due diligence in conflict-affected areas. UNDP developed this guide with the UN Working Group on Business and Human Rights)
- [The SME Compass: Managing supply chains more sustainably](#)
- [WJI 2030 Human Rights Navigator](#)

CSRD

- [The CSRD Directive, adopted by EU Parliament on 14 Dec 2022](#)
- [EFRAG IG 1: Materiality Assessment Implementation Guidance, May 2024](#)
- [EFRAG, ESRS implementation guidance documents](#)
- [EFRAG, Implementation of ESRS: Initial Observed Practices from Selected Companies \(State of Play as of Q2 2024\), July 2024](#)
- [Ropes & Gray CSRD Transposition Tracker](#)
- [Linklaters, The EU's Corporate Sustainability Reporting Directive: tracking transposition and goldplating across the EU](#)
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(CSRD Essentials simplifies the EU's new Corporate Sustainability Reporting Directive (CSRD) and is created by GRI, Pascal Durand (CSRD Rapporteur and MEP), and Lefebvre-Sarrut Group)
- [Novata, From Strategy to Spend: How Companies Are Preparing for CSRD Compliance \(Novata's 2024 CSRD Survey\)](#)
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(The handbook offers four thematic sections seeking to explore the multiple aspects of meaningful stakeholder engagement; the introductory chapter explains key elements of the concept and causes for the current surge in expectations, including a rise in demands for risk-based due diligence)
- [Prewave, CSDDD vs CSRD: Unravelling the Key Differences, April 2024](#)
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- [Corporate Sustainability Due Diligence. Texts adopted by European Parliament, 24 April 2024](#)
- [European Commission. Corporate Sustainability Due Diligence](#)
(high-level Q&A on the scope of the Directive)
- [European Commission. Directive on Corporate Sustainability Due Diligence: Frequently Asked Questions](#)
- [Anti-Slavery International. EU Corporate Sustainability Due Diligence Directive: Anti-Slavery International's analysis, Oct 2024](#)
- [Baker McKenzie. European Union: The new Corporate Sustainability Due Diligence Directive – what does it mean for companies? Sept 2024](#)
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- [The Danish Institute for Human Rights. The EU Corporate Sustainability Due Diligence Directive: Maximising impact through transposition and implementation, April 2024](#)
(publication summarises the key elements of the Corporate Sustainability Due Diligence Directive, considers steps for effective implementation, and recommends strategies for aligning with the UN Guiding Principles on Business and Human Rights)

DMA

- [BCG. The New Double Materiality Assessment: A Toolbox for Companies, Feb 2023](#)
- [PwC. 10 pitfalls companies should avoid when conducting a CSRD-aligned double materiality assessment](#)

HReDD

- [UNDP. A Practical Tool for Business on Human Rights Due Diligence and the Environment \(HRDD+E\), Nov 2024](#)
- [Aim Progress. Converged HREDD assessment tool](#)
(this tool intends to converge assessment approaches to HREDD across industries. It allows companies to self-assess HREDD systems in own operations and supply chains, engage suppliers in identifying and addressing potential risks, and streamline due diligence processes, aligned with OECD and UNGP standards)
- [KPMG UK. The EU's CSRD and CSDDD Regulations: Synergies, Differences and Key Considerations, June 2024](#)
(KPMG explores the key similarities and differences between CSRD and CSDDD in terms of HREDD requirements, including what these mean for companies' internal processes)

Supplier Engagement

- [Responsible Contracting Project](#)

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