



# The German Supply Chain Act—

what it is and how we can help  
organizations comply



# Introduction

Human rights violations in supply chains are common, no matter where a business is located. To ensure transparency and visibility, companies must carry out due diligence in their supply chains to identify and stop these violations. In an effort to keep human rights-related risks at bay, Germany introduced the German Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz) and it has been in effect since January 1, 2023. Cognizant can help organizations identify and implement the digital capabilities they need to automate all aspects of their due diligence programs.

# Table of contents

|  |    |
|--|----|
| From forced labor to poor working conditions—<br>human rights abuses in supply chains                | 04 |
| Due diligence and key measures to maintain it  | 06 |
| German Supply Chain Act—its scope and implications   | 07 |
| Human rights-related risks and challenges organizations face   | 08 |
| Stay ahead of the challenges with automation   | 10 |
| Cognizant identifies and implements digital capabilities to<br>enable due diligence in supply chains | 11 |



## From forced labor to poor working conditions— human rights abuses in supply chains

Industries such as consumer goods, electronics, agriculture, automotive, fashion, food and beverages, and Information and Communications Technology (ICT) are criticized for violating human rights across their supply chains. Violations include unethical purchasing practices, forced labor, excessive working hours, pay below the national minimum wage, poor/unsafe working conditions, gender and ethnic discrimination, and sexual exploitation, among other abuses.

**28 million**

people globally are trapped in forced labor and more than three million among them are children

Estimate by the International Labor Organization

### Among the world's biggest ICT, food and beverages, and fashion industries:

**50%**

don't carry out human rights risk assessments

**66%**

don't disclose forced labor risks identified in supply chains

**83%**

don't disclose remediation for forced labor cases in supply chains

**72%**

don't provide evidence of remediation

Based on briefing by KnowtheChain, which monitors and benchmarks global supply chains

## Human rights violations are reported across industries

### Case study 1

Carmaker subsidiary reportedly used underage workers at its Alabama factory

According to a July 2022 Reuters report, a subsidiary of a Korean car company in the US state of Alabama employed underage workers at its metal-stamping plant. Reportedly, there were persons as young as 12 years working at the plant. Both the car company and its subsidiary have compliance policies and procedures in place that are in line with the local state and the federal laws. In this case, both the parties denied employing underage workers knowingly. And the company that runs the plant denied the responsibility, saying it relied on temporary work agencies to fill job vacancies and expected them to follow regulations in terms of hiring.

**Read more:**

[Exclusive: Hyundai subsidiary has used child labor at Alabama factory | Reuters](#)

### Case study 2

Child labor accusations against major chocolate companies, says report

Exploitation for years without pay, travel documents or inkling on how to return to their families—these were the accusations against some of the world’s biggest chocolate companies, mentioned in a lawsuit filed in Washington DC, the US, on behalf of eight former child laborers. According to a Guardian report, children were recruited in Mali and later, trafficked to farms in Ivory Coast. Despite these companies not owning these coco plantations in Ivory Coast, where child labor was reported, they were accused of aiding and abetting the enslavement of underage persons on farms in their supply chains. And their contracted suppliers were able to meet lower price points than if they had hired paid adult laborers.

**Read more:**

[Mars, Nestlé and Hershey to face child slavery lawsuit in US | Child labour | The Guardian](#)

# Due diligence and key measures to maintain it

Human rights form the heart of responsible business, states the Organization for Economic Corporation and Development (OECD). It implies that businesses should do good while striving to avoid any harm. The OECD Guidelines for Multinational Enterprises include principles and recommendations that help businesses to ensure they are following human rights practices. Emerging acts on supply chain due diligence are in line with OECD guidelines. Therefore, adopting these guidelines ensures compliance.

OECD defines three key measures that help in successful implementation, effectiveness and transparency of human rights due diligence

## Understand

- OECD recommendations and domestic laws
- Operation and supply chain risks
- Business relationships and your counterparties

## Ensure

- Adopt, develop, and disseminate institutional and company policies on issues relating to responsible business conduct (RBC)
- Identify and assess actual and potential impacts with business operations, products and services
- Prevent activities that are adding to the RBC issues
- Track implementation and effectiveness of due diligence

## Practice good governance

- Collaborate with stakeholders to establish accessible and effective grievance mechanisms
- Collaborate with stakeholders to help them establish their own due diligence systems
- Estimate and manage potential conflicts of interest between stakeholders
- Provide publicly available information on internal governance structure

## Due diligence stimulates business

It helps enterprises identify opportunities for:

- Reducing operation costs and risks
- Improving sourcing strategies and compliance levers
- Decreasing exposure to systemic risks
- Enhancing overall image of the brand

# German Supply Chain Act— its scope and implications

Germany’s mandatory human rights legislation has been in effect since January 1, 2023. It is called the German Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz).

## Applicable to

- The act applies to all the companies with headquarters, main branches, center of administration or registered offices in Germany, and have 3000 or more employees as on January 1, 2023
- Starting from January 1, 2024, all companies with 1000 or more employees will come under the ambit of the act

## Measures required

- **Identify:** In your supply chain, identify the human rights risks by considering where the materials are sourced from, how they are produced, the skill of labor required, etc
- **Assess:** Find different risk indicators. Weigh and combine them into the risk model of your supply chain. Collect data using self-audits or with the help of a third party. Then, assess the data gathered from your supply chain against the risk model
- **Remediate:** Make decisions on matters involving direct and indirect vendors in your supply chain if they are found involved in human rights violations, remediation measures and the steps that must be taken to avoid recurrence
- **Report:** Be transparent with your findings and the actions undertaken. Showcase how your products have been produced with ethical business practices. It helps increase sales and attract top talents to your company

## Penalties in case of breach

- For non-compliance, fines can reach up to €50,000
- For violating the act on purpose, companies can be fined up to €8M
- For companies with an average annual turnover of more than €400M, the fine amount can go up to two percent of their average annual turnover. They may also be excluded from public tenders for up to three years

The act holds a company accountable for its own actions and for those of its suppliers—direct and indirect—regardless of where they operate from.

Showcase how your products have been produced with ethical business practices. It helps increase sales and attract top talents to your company.

# Human rights-related risks and challenges organizations face

## Common risks in supply chains

Human rights-related risks in the German Supply Chain Act catalog



Child labor



Risks around health and safety of employees



Forced labor



Restriction on freedom of association



Modern slavery



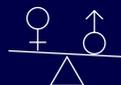
Lack of access to clean water



Human trafficking



Use and manufacture of mercury-related products



Ethnic and physical discrimination



Produce, use, trade, storage and waste of hazardous materials

## Challenges companies face

### Limited visibility:

Most companies fail to identify even the second level of suppliers, making it cumbersome to trace parties all the way to the source of raw materials. This is due to a lack of relationship with indirect suppliers and the presence of several intermediaries who are involved in the supply chain.

### Highly dynamic supply chains:

By the end of a product's lifecycle, those producers who were part of the supply chain may no longer be part of it. For instance, in fast fashion, a product's life cycle may last only a few weeks.

### Manual effort and data quality:

Self-audit is the standard procedure for data gathering. In most cases, data is collected manually using questionnaires. This increases the workload to gain insight from the collected data. Different business lines and verticals use different collection methods and risk models compounding data quality issues and increasing the effort required to obtain insight into the company-wide compliance status.

### Trust issues:

Vendors may not admit to human rights violations. What's important is to identify the risk indicators, which if present warrant further investigation.

Only 22 percent of companies have implemented effective due diligence in line with the German National Action Plan (NAP) on Business & Human Rights

Survey details shared by federal ministers at a press conference on July 14, 2020

# Stay ahead of the challenges with automation

Following are ways in which automation can help smoothen the process of complying with due diligence:



Automation makes it possible to issue and process audits in a matter of few minutes as compared to self-audits that may run into several days. It can help organizations carry out audits with minimum frictions while dealing with supply chains that are large and complex, and where risks are not evenly distributed.



Assesments should happen as soon as a potential vendor joins a company's supply chain. Automating the due diligence process can help deal with supply chains that are dynamic.



Most companies already have a supplier vetting and screening systems for direct suppliers. These systems can be leveraged to include human rights due dilligence. Once standardized, the same process can be deployed to screen all tiers of suppliers through automation and thereby, ensure data quality.



Tackle trust issues through automation in three ways. One, identify the risk indicators, depending on factors like region, sector, company size, etc., to prioritize the audit effort. Two, identify certification bodies based on these factors. Three, maintain registers of whitelist suppliers based on certificates.

# Cognizant identifies and implements digital capabilities to enable due diligence in supply chains

Cognizant identifies and can implement the following digital capabilities required to automate due diligence in supply chains:

## Identifying:

- Supply chain mapping involves mapping all vendors, their position in the chain, geographical locations, the products that come from them, bills of materials for those products and the risk indices
- Risk modelling identifies risk indicators and weighs them to create an automatable risk model
- Complaints portal enables identifying risks that may have been missed in the materiality assesment

## Assessing:

- Vendor onboarding helps automate the process of onboarding direct and indirect vendors. It ensures fit-for-purpose audit through configurable surveys taken by vendors or auditors
- A centralized platform to house all Environmental, Social and Governance (ESG) data for consistent use throughout the organization
- Validation of collected data can be enabled through providing auditor access or through integration with third-party data providers
- A risk-assessment engine runs the audit results through a risk engine and obtains risk metrics

## Remediating:

- Case management functionality to track the execution and efficacy of remediation cases

## Reporting:

- Automates compliance report generation
- Offers data visualization dashboards to help CSR officers obtain company-wide insight into their compliance status
- Provides customers reassurance about the provenance of products through mobile applications



## About the contributors



### **Maria Nikolaidou**

Sr. Advisor

Maria is Senior Advisor and strategist expert with 15 years' experience in supporting companies to build and grow their sustainability strategies. Maria is supporting companies to improve their supply chain resilience and manage their ESG risks by leveraging the most suitable digital technologies. Maria leads multidisciplinary teams to develop and deploy digital solutions into the corporate sustainability environments. Key areas of expertise include sustainability topics such as end-to -end supply chain risk management, human rights due diligence, biodiversity ESG reporting. Maria is passionate about connecting the dots across the entire business ecosystem that impact the companies' assets and communities' well-being.

[Maria.Nikolaidou@cognizant.com](mailto:Maria.Nikolaidou@cognizant.com)



### **Thijs van Krimpen**

Manager - Projects

Thijs is a sustainability architect focused on realizing sustainable solutions using digital technology to drive the world in a greener and more humane direction. With over 10 years of experience in designing hard, soft and operational solutions across industries, he is passionate about making organizations more effective and sustainable in a data-driven way.

[Thijs.VanKrimpen@cognizant.com](mailto:Thijs.VanKrimpen@cognizant.com)



Cognizant (Nasdaq-100: CTSI) engineers modern businesses. We help our clients modernize technology, reimagine processes and transform experiences so they can stay ahead in our fast-changing world. Together, we're improving everyday life. See how at [www.cognizant.com](http://www.cognizant.com) or [@cognizant](https://twitter.com/cognizant).

### **World Headquarters**

300 Frank W. Burr Blvd.  
Suite 36, 6th Floor  
Teaneck, NJ 07666 USA  
Phone: +1 201 801 0233  
Fax: +1 201 801 0243  
Toll Free: +1 888 937 3277

### **European Headquarters**

280 Bishopsgate  
London  
EC2M 4RB  
England  
Tel: +44 (0) 20 7297 7600

### **India Operations Headquarters**

5/535, Okkiam Thoraipakkam,  
Old Mahabalipuram Road,  
Chennai, 600 096 India  
Phone: +91 (0) 44 4209 6000  
Fax: +91 (0) 44 4209 6060

### **APAC Headquarters**

1 Fusionopolis Link,  
Level 5 NEXUS@One-North,  
North Tower  
Singapore 138542  
Phone: +65 6812 4000

© Copyright 2023, Cognizant. All rights reserved. No part of this document may be reproduced, stored in a retrieval system, transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the express written permission of Cognizant. The information contained herein is subject to change without notice. All other trademarks mentioned here in are the property of their respective owners.