

EBOOK

A Practical Guide to ESG Data and Tools

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Introduction

Global complexity is accelerating as supply chains become more interconnected, economies grow and develop, weather patterns change, and societies acquire more sophisticated technology. As organizations struggle to capture this complexity in business decision-making, and as they attempt to assess the viability of potential partners in a world that increasingly requires more sustainable outcomes. ESG data has become more relevant and sought after.

ESG — the customary abbreviation for environmental, social, and governance metrics — has been around for more than a century. ESG primarily originated with socially conscious investors who wanted to align their investments with their values. But in recent years, with the emergence of more and better data — plus an increased understanding of modern environmental and social pressures — ESG has gone mainstream as a means for organizations to measure impacts and manage risks in their value chains.

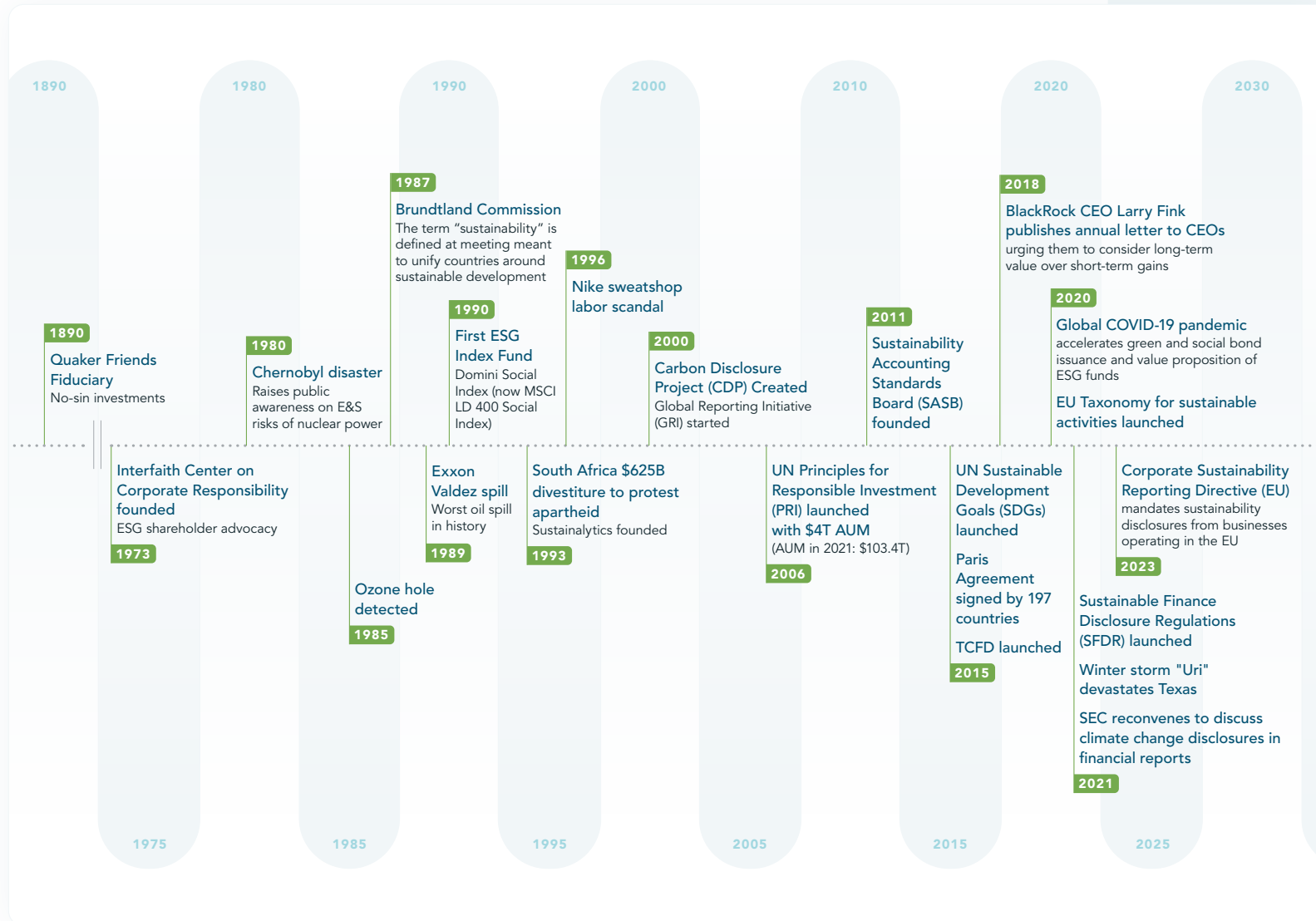


FIGURE 1
The Evolution of ESG

Source: Dun & Bradstreet

ESG encapsulates a broad range of impacts companies may have on society and the environment, as well as the effectiveness of corporate governance in managing those impacts. Today, ESG is arising as the global harmonized approach for companies to calculate and report their nonfinancial risk.

The criticality of this approach is based on three key drivers:



The pressures that have helped put ESG in the spotlight also include the impending expansion of ESG-oriented regulation, such as the U.S. Securities and Exchange Commission’s proposed ESG disclosure rules and the EU’s proposed corporate sustainability due diligence directive (CSDDD).

But ESG should not be confused with sustainability or sustainable development, which are broader organizational concepts involving a commitment to “[meet] the needs of the present without compromising the ability of future generations to meet their own needs.”¹ This represents an aspirational vision in which profit, planet, and people can reach and maintain a state of harmony.

ESG’s definition, however, has less consensus, mainly due to the broad remit and objectives that ESG data can help advance. Most can agree, however, that it is a data-driven framework with three distinct dimensions and measurable aspects tied to independent ratings and rankings.²

International markets have increasingly coalesced around a definition of ESG encompassing three main components, as follows:³

Environmental (E)

Environmental factors involve considerations of an organization’s overall impact on the environment and the potential risks and opportunities it faces because of environmental issues, such as climate change and management of natural resources. Examples include energy consumption, waste management, and carbon footprint, including greenhouse gas emissions.

Social (S)

Social factors address how a company engages with different stakeholders — employees, suppliers, customers, community members and more. The criteria may include support for human rights and labor standards and whether they apply to the supply chain.

Governance (G)

Governance factors examine how a company polices itself, focusing on internal controls and practices to maintain compliance with regulations, industry standards and corporate policies. Examples include company leadership and management, board composition, conflict of interest rules, and whistleblower programs.

Each of the three main dimensions is further dissected into more specific themes, each of which encompasses multiple topic areas:

ENVIRONMENTAL		SOCIAL		GOVERNANCE	
THEMES	TOPICS	THEMES	TOPICS	THEMES	TOPICS
Natural Resources	Energy Management	Human Capital	Labor Relations	Corporate Governance	Business Ethics
	Water Management		Health and Safety		Board Accountability
	Materials Sourcing and Management		Training and Education		Shareholder Rights
	Waste and Hazards Management		Diversity and Inclusion		Business Transparency
	Land Use and Biodiversity		Human Rights Abuses	Corporate Behaviors	Corporate Compliance Behaviors
	Pollution Prevention and Management	Product Quality Management	Governance-Related Certifications		
GHG Emissions and Climate	GHG Emissions	Customer Engagement	Product and Services	Business Resilience	Business Resilience and Stability
	Climate Risk	Community Engagement	Data Privacy		
Environmental Risk	Environmental Compliance		Community Engagement		
		Supplier Engagement	Community Engagement		
Environmental Opportunities	Environmental Opportunities	Certifications	Supplier Engagement		
	Environmental Certifications		Social-Related Certifications		

FIGURE 2
ESG Categorization —
Themes and Topics

Source: Dun & Bradstreet — ESG data set topic architecture based on SASB standardization

A Key Shift: Public Equities to Private Markets

Until recently, ESG was chiefly associated with publicly held companies, which are often required, or expected, to include this information in their reports and filings. Private companies aren't required to submit annual reports and filings on their performance; consequently, there hasn't been a lot of available ESG data from private companies. And yet, a great deal of ESG risk sits in the supply chain, in private markets, in areas such as climate, waste, human rights, and corruption.

The global pandemic served as a worldwide wake-up call for the importance of functional

and reporting. Increasing ease of reporting for traditionally under-scrutinized segments of the global economy has, in turn, contributed to the movement to push regulatory requirements for private markets and across supply chains.

Apart from these external factors, ESG has gained traction because the data that underpins these metrics is being viewed as more trustworthy, with better consistency and rigor. ESG data compilers are increasingly using automated approaches that calculate ESG scores and rankings purely algorithmically, without introducing any human

or analyst bias. Some ESG providers are now offering ESG data collected via artificial intelligence (AI) and machine learning (ML) methods such as scraping reports and news channels using natural language processing (NLP), which

automatically processes human language in a computational manner.

ESG data may be growing in importance, but how exactly should companies be considering and using it? The urgency of this question is continuing to escalate — particularly for procurement and supply management, where ESG is becoming linked to value delivery.

This guide is intended to help procurement and supply management teams better understand the value of ESG data and how it can be used to their advantage to support risk management, decision making, and greater resiliency.

supply chains to sustain economies and societies. Integration of ESG factors throughout supply chains, comprising both public and private markets, is increasingly viewed as essential to be able to ensure the long-term viability of value chains.

These demands have aligned with the availability of more accessible technologies that can make it easier to collect the data needed for ESG analysis

In the 2023 Global Chief Procurement Officer survey published by Deloitte, “Enhancing ESG” rose to the #2 spot on the list of “Top Enterprise Priorities in 2023,” cited by 72% of survey respondents. (In the prior survey from 2021, ESG was ranked seventh on the list, cited by 68% of respondents.)⁴

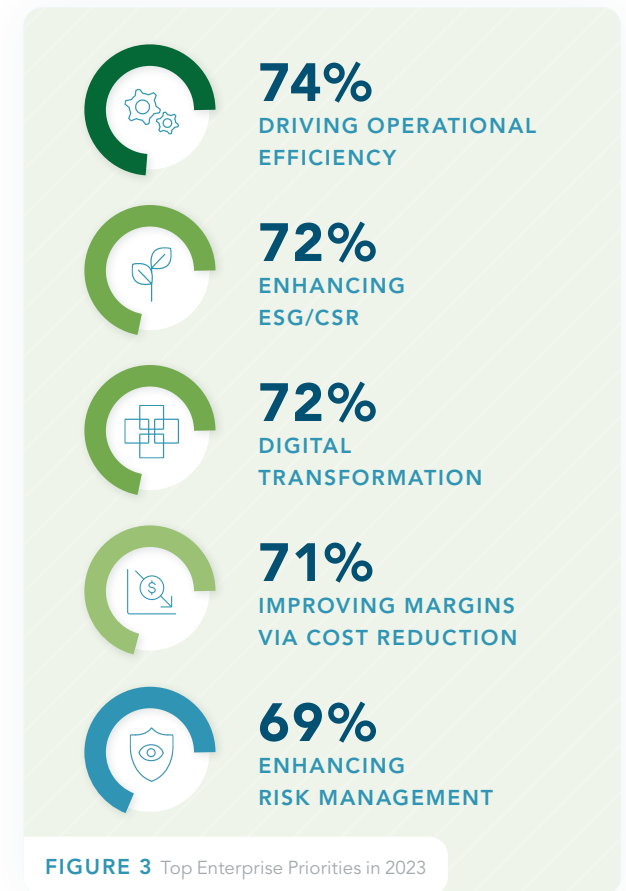


FIGURE 3 Top Enterprise Priorities in 2023

Source: Deloitte

What Makes ESG Data Valuable?

ESG is a framework that allows companies to measure nonfinancial risk to business, balanced against ethical and sustainability priorities. ESG data can help companies gauge their own performance as well as that of other entities, such as suppliers, that might be evaluated as potential business partners.

For those who are just starting to explore ESG, one common question is “Which is the most important component — the E, the S, or the G?” The answer is: it depends, because there are many different ESG use cases that vary according to industry sector and user. A procurement team focused on supplier diversity requirements might attach greater importance to the “S” dimension. In other instances, a climate-related event with international impacts, such as the Canadian wildfire smoke that reached all the way to Europe, reinforces concerns about greenhouse gas (GHG) emissions which fall under the “E” dimension.

If your particular use case attaches greater materiality, or importance, to considerations that fall under one or more particular dimensions, your data provider should be able to work with you to analyze the separate rankings in each dimension to see how they have influenced the overall ranking.



Specific use cases for ESG may differ, but the value of ESG data and rankings is being recognized and demonstrated in several significant areas:

01 ESG insights help identify and assess supply risks

The major source of a company's value today is not its real assets or its equipment, but intangible factors including intellectual property, brand equity, and reputation. From a reputational risk perspective, the potential damage done to a company's image — and subsequently its revenue — by being caught up in a controversy originating with a counterparty is significant.

Increasing transparency around business actions means that what was previously not noticed or tracked is now very visible. This has pushed companies to put more pressure on their business partners, such as suppliers, because they know that consumers and investors often shun businesses that run into environmental, social, or ethical difficulties. Reducing risk is a key priority for procurement, so it's logical for procurement teams to help minimize potential risks to their own organizations from suppliers' ESG challenges.

02 ESG helps companies be more competitive and compliant

Procurement can tap into supplier ESG rankings to fortify their supply chains and be more resilient than their competitors. Supplier ESG metrics can help companies increase supply chain visibility and make better business decisions with more useful supplier intelligence. Having a healthier, more resilient supply chain also puts a company in a stronger position to win more business with its own customers, ultimately leading to greater productivity, profit, and shareholder value. This recognition is prompting some companies to require ESG disclosure as part of their supplier sourcing and onboarding process.

From a compliance standpoint, monitoring supplier ESG practices helps ensure that a company keeps up with evolving regulations and standards related to sustainability and ethical operations. This is especially important in more heavily regulated markets and industries, which may have specific ESG standards or mandatory certifications. For example, starting on January 1, 2024, Germany's Act on Corporate Due Diligence in Supply Chains obligates companies with 1,000 or more employees in Germany to take "appropriate measures" to respect human rights and the environment within their supply chains.⁵

03 ESG helps companies shape their reputation and brand

Companies that prioritize ESG rankings — their own and their suppliers' and vendors' — are making a statement about their values and their commitment to transparency and accountability. This is especially important in an era where consumers, investors, and other stakeholders are looking for evidence that a business is a responsible corporate citizen. ESG awareness helps build trust and credibility while signaling a focus on long-term sustainability. This in turn contributes to the perception that the business is stable and dependable.

In times of crisis, companies that have built a track record around ESG practices will be better positioned to recover from negative publicity and regain the trust of their stakeholders. Alignment with ESG principles can be even more important for companies in regulated industries that want good relationships with regulators and government bodies, again reinforcing trust and credibility that could modulate the severity of enforcement actions or penalties should a problem occur.

How ESG Can Help Supplier Risk Assessments

The past few years have witnessed wave after wave of turbulence in the global business environment. This has contributed to greater public expectations for companies to confront wider social issues — which has led companies to the realization that managing ESG impacts in supply chains is as essential as quality, cost, and time to deliver.

ESG data is drawn from a range of sources; besides company reports and filings, these can include websites, news releases, and data collected directly from companies through surveys or voluntary disclosures. It can also include data provided by governments and gleaned from social media or other public sources. Taken together, this information can give companies a clearer and fuller picture of suppliers' credentials and allow them to make better decisions about how to conduct relationships with those suppliers.

For example, some companies have started using ESG data to help identify suppliers whose business practices might imperil those companies' own goals and objectives. One ESG topic currently receiving particular scrutiny is GHG emissions, included in the "E" (environmental) dimension. In an analysis of a sample of 22,000 companies, Dun & Bradstreet has observed a correlation between GHG emissions management and the companies' proportional delinquency rate (a measurement of the percentage of late payments made by a company).

Environmental, social and governance (ESG) data captures extra-financial factors that typically aren't found in financial analysis, including:



Company Management of Energy and Water Use



Waste Generation



Employee Rights and Working Conditions



Community Engagement



Data Privacy Rights

...along with more traditional indicators of corporate accountability and transparency.

Proportional Delinquency Rate

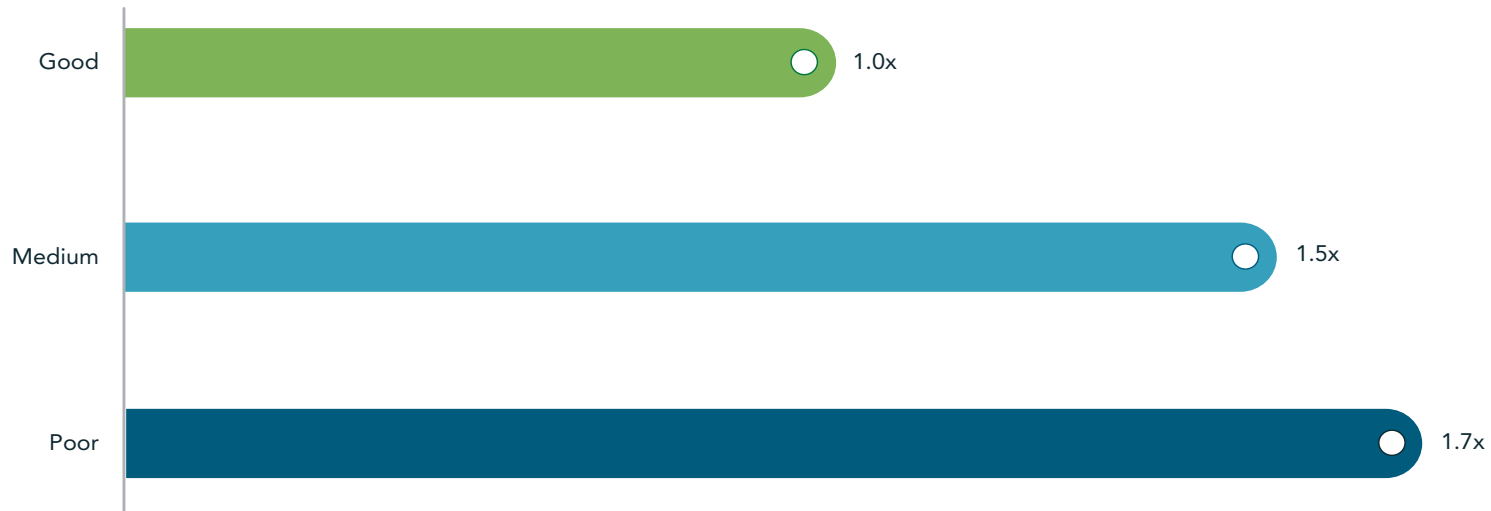


FIGURE 4 Proportional Delinquency Rate Correlated to GHG Emissions Management

Source: Dun & Bradstreet

Within the “G” (Governance) dimension, the theme of business resiliency captures how well companies recover from disruptive events, like an economic downturn or natural disaster. Companies that rank well for business resiliency show a more dramatic change in sales growth over time, as well as have 1.4 times lower delinquency rates than companies that rank poorly.

Average Change in Sales Growth over a 5-Year Period

Sample of 300,000 Companies

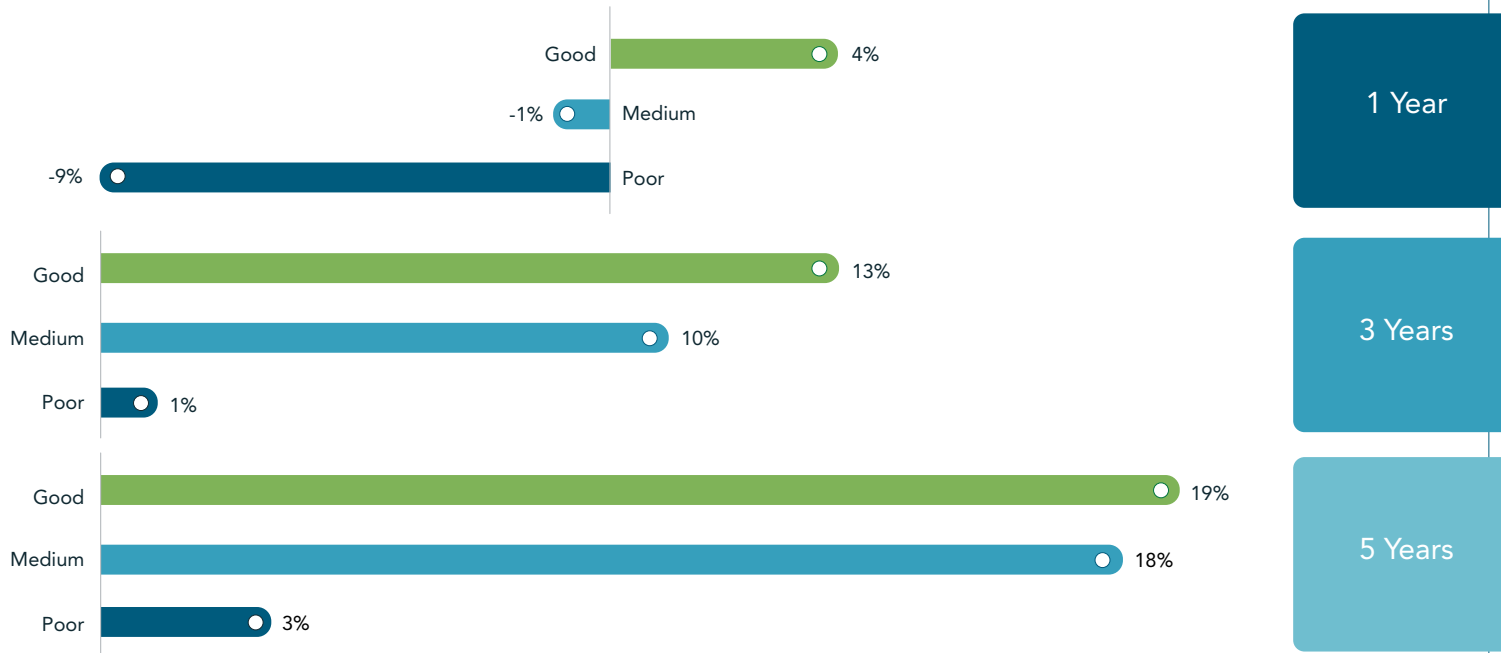


FIGURE 5
Business Resiliency Correlated to Sales Growth

Source: Dun & Bradstreet

Proportional Delinquency Rate



FIGURE 6
Proportional Delinquency Rate Correlated to Business Resiliency

Source: Dun & Bradstreet

The insight derived from ESG data can be used to better gauge the stability and success of companies, both during supplier selection and for ongoing supplier relationship management.

For example, procurement and supply management leaders can:



HOTSPOT companies that are lagging in specific areas in a quick and efficient way instead of having to survey or collect data directly on an entire supply chain portfolio



PRIORITIZE oversight on these companies and track them month to month to see if their performance continues to lag — with potential negative consequences for your business — or if it improves



ENGAGE these companies directly and encourage them to improve their performance, perhaps by setting up a performance plan or even a contractual agreement to incentivize improvement



SUBSTITUTE alternate suppliers considered too high-risk with others that offer the same services but with better ESG performance



INCORPORATE expectations for ESG performance in RFP criteria, contracting, and supplier onboarding to screen for companies that will be able to deliver the right products and services while operating with consistent reliability and responsibility

The effort to manage supplier risk can be complicated by the risks that lie hidden in the lower tiers of supplier networks. What if one of your key direct suppliers is using a vendor that's using child labor in a remote factory to make their products? It's likely that you wouldn't have any idea until the exposé hits the news media. But most companies find it extremely difficult to compile reliable data about their supply networks beyond the first tier. This is a case where monitoring supplier ESG performance helps compensate for the lack of lower-tier supplier visibility, particularly concerning environmental and labor practices.

But all ESG data is not the same, as we'll discuss in the following section of this guidebook.



A Deeper Dive into ESG Use Cases and Risk Scenarios

Aggregating a massive array of ESG-related data into manageable, decision-useful indicators has been one of the long-term aspirational goals of the sustainability field. With the greater availability of ESG-relevant data around the world alongside the rapid developments in analytics and artificial intelligence, that goal has gotten much closer to reality.

The typical process involves standardizing collected ESG data through a process of normalization to allow grouping and comparing of different metrics.

For example, 1,000 tons of carbon dioxide equivalent (tCO₂e) can be converted to a number between 0 and 100 depending on the included maximum and minimum values in the sample (which may be the entirety of companies sampled, or only companies in the same industry). Metrics can be aggregated to more general themes, such as environmental performance, which can be rolled up again into an overall ESG score.

Before such aggregation, however, topic-specific weighting can be applied based on the materiality of that topic to the company's sector. The Sustainable Accounting Standards Board (SASB) Materiality Map™, for example, provides a matrix that illustrates which ESG topics are considered financially material to distinct sectors.⁶ Weighting of topics can also vary depending on preference, such as weighting diversity more heavily because it's considered more important by specific stakeholders.



The current market for ESG data — as well as the actual practice of incorporating ESG scores and measures into portfolio risk mitigation — are considered to be early-stage. Data sets needed to cover the full range of ESG risks are broad, and different providers have different methodologies for normalizing, processing, and weighting the data they ingest to create ESG ranking frameworks.

Supplier Portfolio Case Study

As an example of how an ESG ranking data set might be used to assess a company’s supplier network, we can look at how Dun & Bradstreet’s ESG Rankings were applied to the supplier portfolio of a financial services company. In this ranking system, 0 represents the lowest risk and 5 represents the highest risk.

This organization has 1,251 suppliers in its portfolio, with an overall ESG ranking of 2.13, ahead of the industry average of 2.40. Most of its suppliers are high performing, but 36 suppliers have “poor” or “very poor” rankings, suggesting a need for further investigation and possible replacement — creating a stronger supply chain.

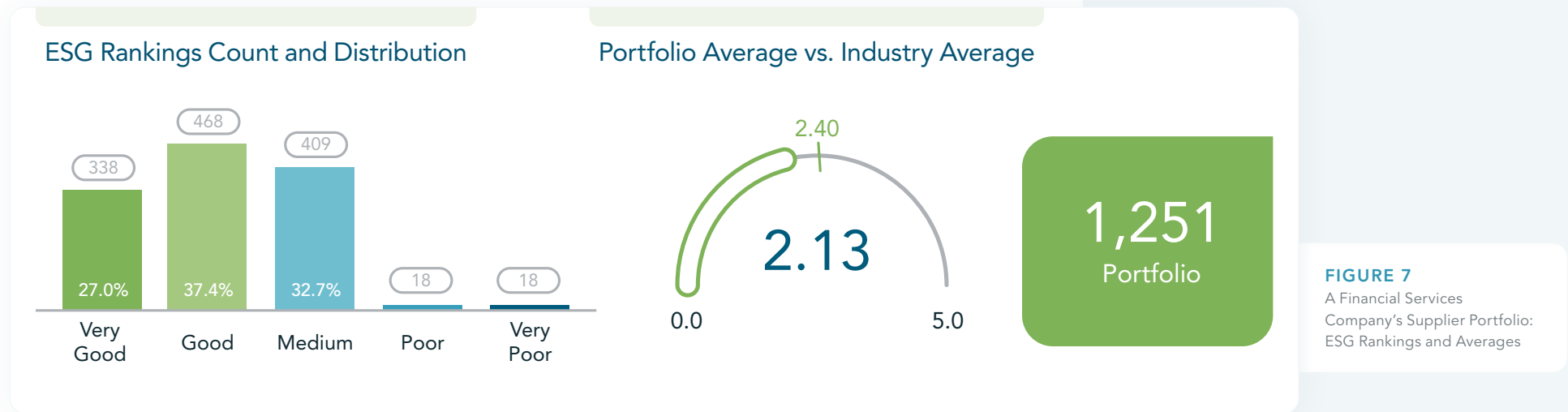


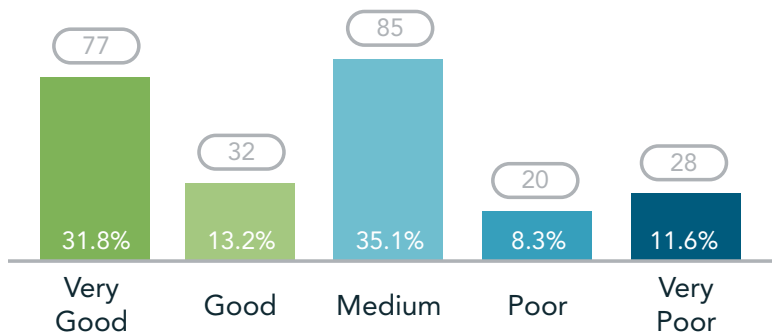
FIGURE 7
A Financial Services Company's Supplier Portfolio: ESG Rankings and Averages

Source: Dun & Bradstreet

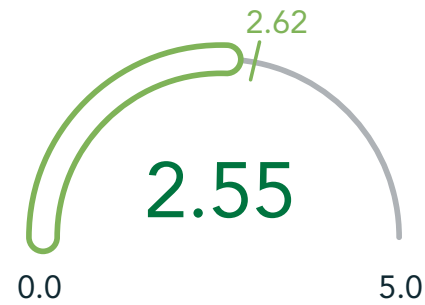
In the environmental dimension, the majority of the company’s suppliers perform well, but 48 of those suppliers have “poor” or “very poor” performance (see fig. 8). This is in part driven by the 17 suppliers that have negative environmental compliance indicators (typically related to fines or noncompliance)

and concerns with some suppliers regarding their energy management, materials sourcing, waste management, climate risk, and water management (see fig. 9).

Environmental Rankings Count and Distribution



Portfolio Average vs. Industry Average



Environmental Themes Averages

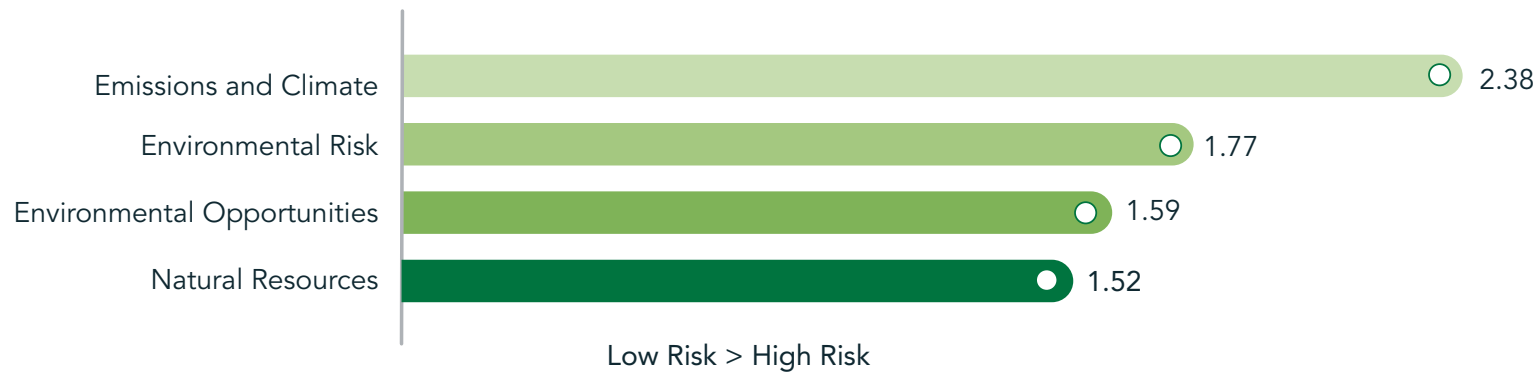


FIGURE 8
A Financial Services
Company's Supplier Portfolio:
Environmental Rankings
and Averages

Environmental Reason Codes

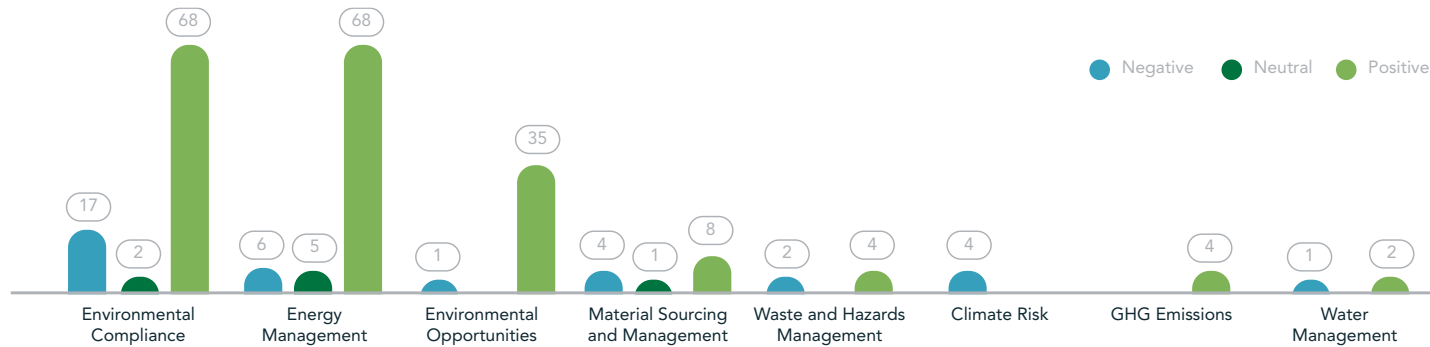


FIGURE 9
Breakdown of Primary Reasons Influencing the Environmental Ranking

Source: Dun & Bradstreet

Being associated with a supplier that has poor environmental credentials poses a real risk to a company — not just in terms of reputation. If a preventable environmental accident threatens the supply or shipping of goods or components to the company, that means customer demands may go unfulfilled, resulting in lost profits on top of the damaged reputation. Using sustainable sources and operating in a responsible fashion can reassure customers, senior leaders, shareholders, and supply chain managers.

In the social dimension, ESG rankings suggest that the majority of the company's suppliers have good or average performance, but some appear problematic (see fig. 10). This is partly due to negative supplier engagement (often related to poor supply chain management, including poor payment history). However, there are also issues with product and service quality as well as data privacy, which may involve security breaches of customer information.

Social Reason Codes



FIGURE 10
Breakdown of Primary Reasons Influencing the Social Ranking

Source: Dun & Bradstreet

The governance dimension for the financial services company shows generally higher supplier ESG rankings, but there are concerns about a few suppliers that may require further exploration (see fig. 11). These largely have to do with business resiliency — which encompasses financial stability and the ability to respond to climate events, among other factors.

Governance Reason Codes

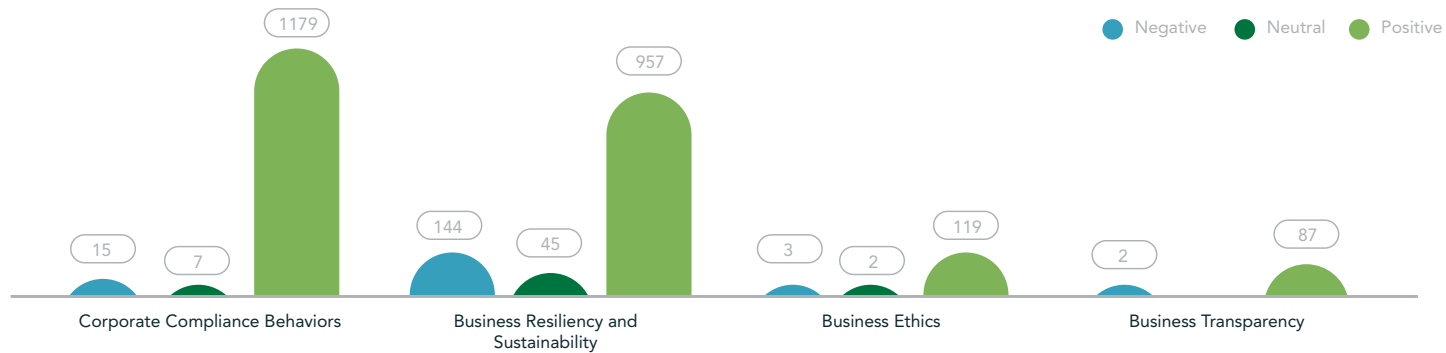


FIGURE 11
Breakdown of Primary Reasons Influencing the Governance Ranking

Source: Dun & Bradstreet

Getting Started: Creating an ESG Strategy

The example in the previous section serves to illustrate how ESG data and analytics can be put to practical use to support supplier risk assessments. But it's understandable that companies just starting to get their heads around ESG need more guidance on how to get hands-on with it.

One common initial problem has to do with acquisition of ESG data. Insufficient or nonexistent data is a significant challenge that holds many companies back from starting to address ESG goals. Immature data collection, management, and analysis practices hinder a company's ability to draw insight and apply ESG analytics at scale, which limits progress and the speed at which ESG maturity can be achieved.

In addition, ESG adoption hurdles are largely driven by the inadequate technology that many firms use to manage, analyze, and report ESG data. Finding a reliable ESG data resource that can be automatically integrated with your first-party or proprietary data can vastly help increase visibility into ESG risk management.

The current landscape for ESG data providers contains many established vendors offering broad data sets to cover the widest possible range of ESG risks. Different firms distinguish their offerings from each other by different criteria — for example, the depth of their coverage of Scope 1, 2, or 3 emissions; whether the available data covers private or public entities, or (ideally) both; and which of the leading sustainability frameworks, such as the Carbon Disclosure Project (CDP), Global Reporting Initiative (GRI), and SASB, are leveraged as part of the data provider's ranking methodology. Several analyst firms issue regular reports on products and providers of tools for managing ESG and sustainability initiatives; these reports may be helpful in matching your organization's needs with the right data resource.



Here are some key steps to take toward ESG strategy implementation:

STEP 01 Identify the ESG criteria that are most relevant to your industry and your organization's goals.

Reduction of GHG emissions is a common one, but others that might be important could include diversity and inclusion credentials of suppliers, or their employee health and safety records.

STEP 02 Decide which standards and metrics to use to measure supplier performance against others in the same industry and in your own supplier portfolio.

These metrics can be tracked over time to see how supplier performance is changing and to help determine whether corrective action should be requested.

STEP 03 Start collecting ESG data using the selected metrics and sources.

Depending on your resources and technology, you may use internal data, external ESG data providers, or a combination of both. Invest in data collection and analysis tools as needed.

STEP 04 Engage your suppliers and vendors.

Collaborate actively with these partners to ensure that they align with your ESG goals and standards. If the supplier is essential to your core business, offer to help them find more sustainable sources or improve their working practices or manufacturing methods.

STEP 05 Report and communicate progress and achievements.

Develop a clear and transparent ESG reporting strategy to help raise awareness of your supplier ESG program with internal and external stakeholders, including investors, customers, employees, and the public.

STEP 06 Stay informed about ESG-related laws and regulations that may affect your industry.

Ensure compliance with reporting requirements and other relevant regulations.

STEP 07 Tap into the knowledge of your data partner.

If your company is new to ESG, ask the experts or consultants at your ESG data provider to help you navigate the complex, continuously evolving landscape of ESG data, rankings, and analytics.

A Final Thought

You may still hear some casual references to ESG as a “fad,” but the fact is that ESG is here to stay; there is now a credible ESG ecosystem contributing to an active feedback loop accelerating innovation in this space. Even if it's not called ESG in the future, there will still be an underlying need to better manage nonfinancial risks encompassing environmental, social, and governance factors. ESG has gone well beyond theory, and it's time for organizations to take action — especially now that ESG data on both public and private companies is becoming more widely available.

As the ESG landscape becomes more defined by incoming regulation, harmonization, and expectations around sustainability, supply chain management teams should capitalize on the opportunity to lead the business in instilling ESG into its operations and strategies.

Learn more at:

¹ G.H. Brundtland, "Our Common Future: Report of the World Commission on Environment and Development," United Nations and Oxford University Press, October 1987. Retrieved from <https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>

² "The Difference Between ESG and Sustainability, and Why It Matters," Ideas on Purpose, 22 February 2022. Retrieved from <https://www.ideasonpurpose.com/on/difference-between-esg-sustainability-why-it-matters/>

³ Craig Stedman, "ESG Strategy and Management: Complete Guide for Businesses," TechTarget, 19 April 2023. Retrieved from <https://www.techtarget.com/whatis/definition/environmental-social-and-governance-ESG>

⁴ Aaron Addicoat et al., "2023 Global Chief Procurement Officer (CPO) Survey: Orchestrators of Value," Deloitte, 5 June 2023. Retrieved from <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/consulting/us-2023-global-chief-procurement-officer-survey.pdf>

⁵ Jenny Gesley, "Germany: New Law Obligates Companies to Establish Due Diligence Procedures in Global Supply Chains to Safeguard Human Rights and the Environment," Library of Congress, 17 August 2021. Retrieved from <https://www.loc.gov/item/global-legal-monitor/2021-08-17/germany-new-law-obligates-companies-to-establish-due-diligence-procedures-in-global-supply-chains-to-safeguard-human-rights-and-the-environment>

⁶ "Exploring Materiality," Sustainability Accounting Standards Board (SASB), 22 June 2023. Retrieved from <https://materiality.sasb.org>

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