



GUIDE:
SUCCESSFUL ESG INTEGRATION
FOR RESILIENT PUBLIC SECTOR
SUPPLY CHAINS



WHY IS ESG IMPORTANT FOR THE UK PUBLIC SECTOR?

The importance of Environmental, Social and Governance (ESG) has only grown in recent years, particularly around sustainability as climate change statistics provide a bleak picture. According to insurance broker Aon¹, economic losses from natural disasters were estimated at \$313 Billion in 2022, and July 2023 saw multiple global temperature records broken².

However, on a more positive note, ESG has emerged as a crucial framework for organisations globally, including government entities. Beyond sustainability, ESG encompasses social responsibility and effective governance practices.

Implementing ESG into the supply chain across the UK government provides immense potential to promote sustainable development, enhance reputation, and ensure long-term supply chain resilience across the public sector - for which gross spending levels were around £379 billion in 2021/22³.

Beyond its own supply chain, the UK government has an opportunity and responsibility to set standards, regulations, and an example for the private sector through its own actions.

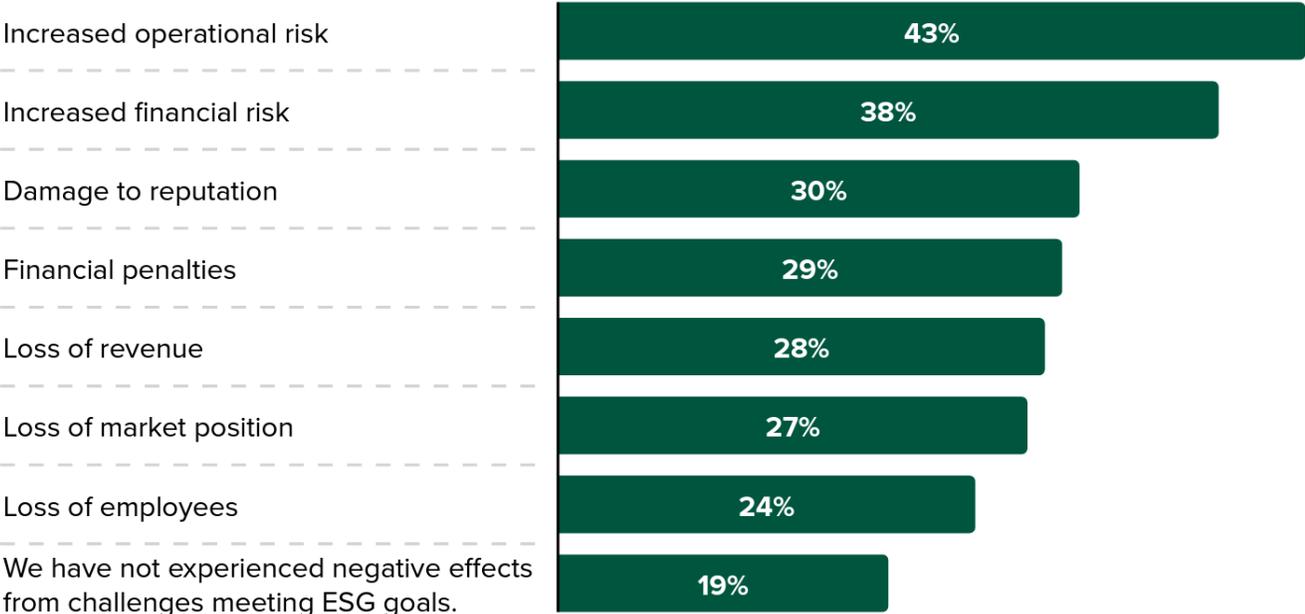
¹ <https://www.aon.com/weather-climate-catastrophe/index.aspx>

² <https://climate.copernicus.eu/july-2023-sees-multiple-global-temperature-records-broken>

³ <https://researchbriefings.files.parliament.uk/documents/CBP-9317/CBP-9317.pdf>

POOR ESG PERFORMANCE LINKED TO INCREASED RISK

“Which of the following effects, if any, has your organization experienced because of the challenges meeting ESG goals?”



Base: 268 ESG performance decision-makers in compliance, sustainability, procurement, finance, and risk roles at global enterprises in the US, Canada, and the UK

Source: A commissioned study conducted by Forrester Consulting on behalf of Dun & Bradstreet, March 2022

With the continued successful delivery of public services dependent on supplier reliability, ensuring suppliers are financially and operationally stable, as well as having strong ESG performance is undoubtedly key.

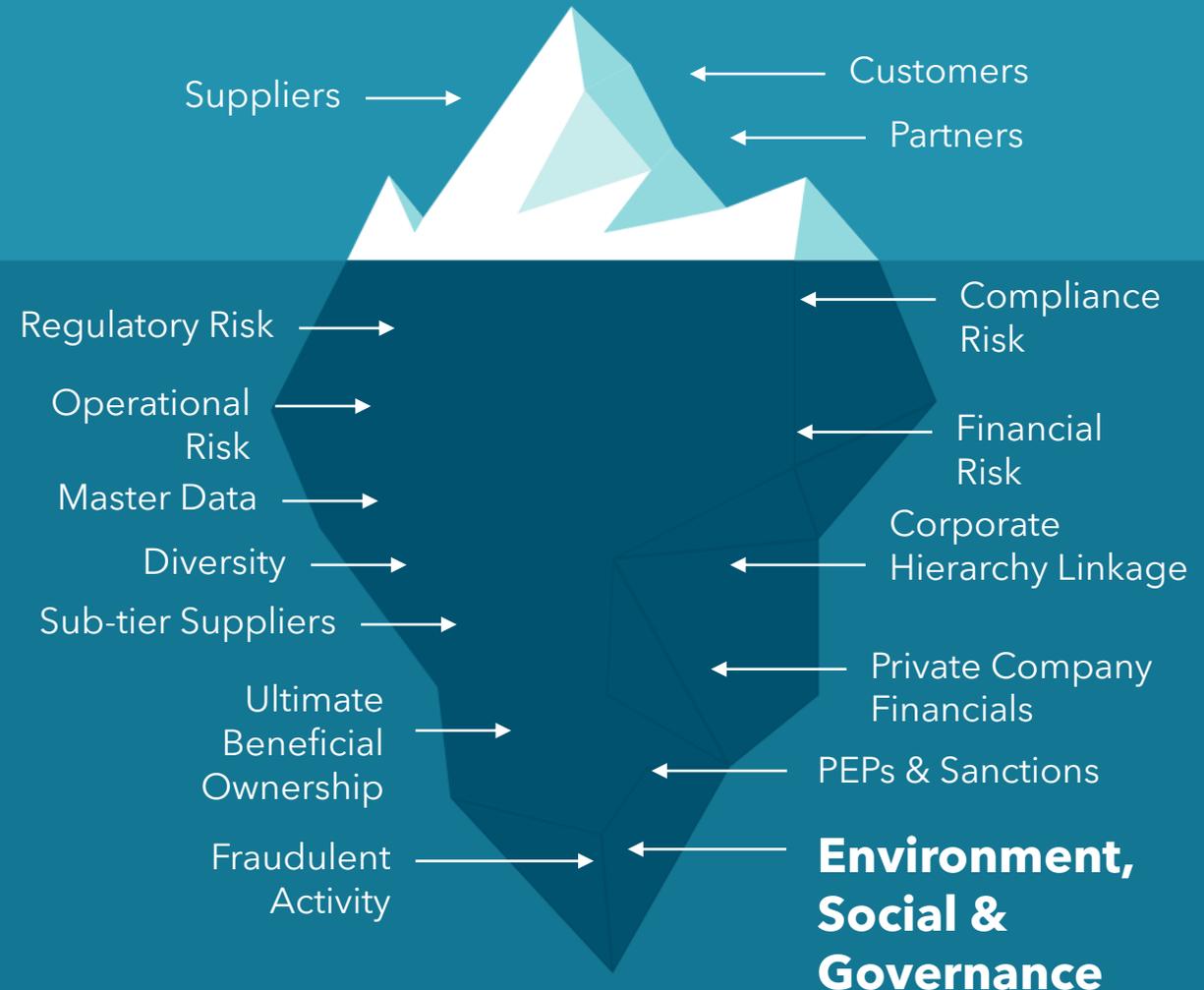
A recent study conducted by Forrester Consulting on behalf of Dun & Bradstreet found that challenges in meeting ESG goals had led to negative effects such as increased risk, damage to reputation, financial penalties and more.

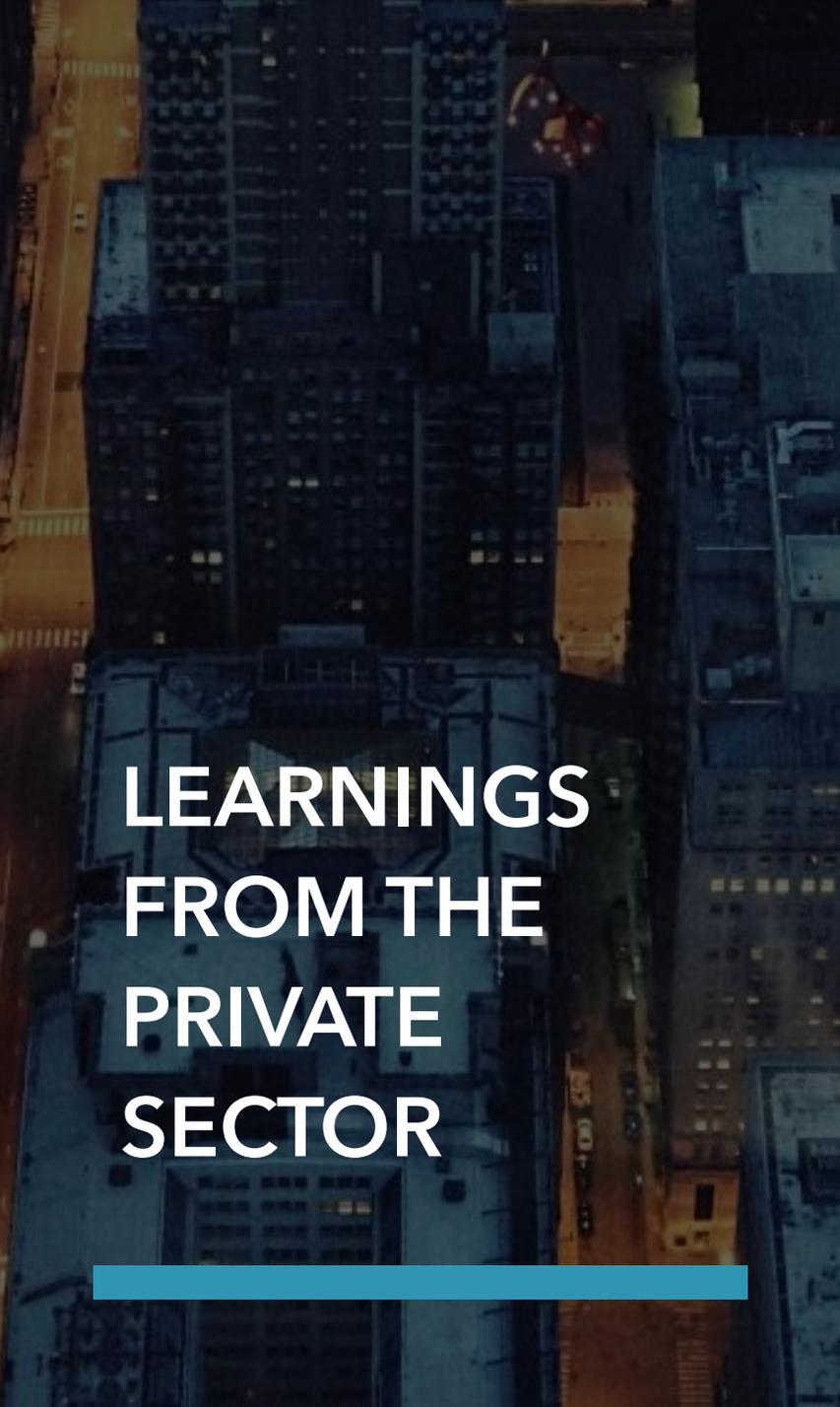
HIDDEN RISKS LURK EVERYWHERE

ESG is just one area where both the public and private sector often have poor insights on suppliers. Usually found in disparate systems and with limited information, this lack of data and visibility into suppliers - and especially the risks they pose - can lead to disruption, financial damage and reputational issues.

When looking to mitigate ESG risk and align with organisations that have shared ESG values, traditional research and due diligence processes are not enough. Predictive analytics and objective scores are required for the right level of scalable insight.

What you know about the entities you do business with is only the tip of the iceberg





LEARNINGS FROM THE PRIVATE SECTOR

- **There's no one-size-fits-all approach.** ESG implementation differs by industry sector, and even between companies within the same sector dependant on their appetite, size and priorities. ESG needs to be aligned to the overall organisation or departmental goals.
- **ESG as a part of supplier due diligence.** Combining ESG checks with existing financial or regulatory due diligence is a good way to introduce and understand ESG performance as part of a bigger picture and is less onerous on the supplier.
- **Use performance rankings as a first step in understanding portfolio risk.** It is key to understand benchmarks for specific sectors and is a good indicator for how suppliers are performing. By understanding the ESG performance of the full supplier portfolio, departments can save resources and focus in on areas or third-parties with potential high risk for a deeper dive.
- **High risk is not necessarily negative.** If a strategic supplier is flagged as high risk, it's an opportunity for the supplier and contractor to work together to improve their ranking and performance over time. For more transactional relationships, it's an opportunity to source more ESG-friendly vendors.
- **Consider carbon emissions reduction and alternative energy sources.** Understanding scope 1, then 2 and potentially 3 emissions for up and downstream production/usage, as well as evaluating the energy sources of supplying countries can help in making decisions on where to invest. For example, production in India will most likely use traditional energy sources, while somewhere like Brazil will leverage more friendly, renewable ones.



SOCIAL RESPONSIBILITY - MAKING STRATEGIC CHANGES

Out of the 3 ESG themes, social responsibility often feels the most all-encompassing and overwhelming to address. There are many areas for consideration - from ensuring suppliers have fair and ethical labour practices and corporate social responsibility, to championing diversity, inclusion, and gender equality.

Truth vs Reality - Often third parties will provide lots of information on their strategies, but what are they doing in practice? It's important to conduct due diligence to find the true picture. The performance rankings in D&B ESG Intelligence can help in understanding the underlying risks a supplier may pose.

Frameworks, Processes & Data - Governments are rightly concerned with prioritising human rights, health, and safety standards. So, establishing robust governance frameworks and processes is paramount. As well as implementing transparency and anti-corruption measures, data can serve as an effective proxy for differentiating between responsible and less responsible suppliers.



MOVING TO NEW WAYS OF WORKING

- **Transforming the sourcing playbook.** Adding expectations around ESG practices to the UK government's sourcing playbook would be a good way to support the wider public sector in establishing robust sourcing frameworks and incorporating ESG elements.
- **Best practices and benchmarking are always beneficial.** At Dun & Bradstreet we have found that the most successful private sector clients are organisations that have developed clear goals and strategies for where the company wants to be, along with measurable, quantitative targets to benchmark against on the way.
- **Creating processes and procedures is also key.** Once policies are in place, companies and departments need to design and implement processes and procedures to ensure they are adhered to. New ways of working like continuous monitoring and measuring progress are key to understanding performance, and whether there are adjustments to be made on the goals and policies. This is not a one-time exercise, but rather a new way of working that clear processes support.

KEY TAKEAWAYS

- 1. Supply chain visibility is no longer a 'nice to have'.**
It's helpful to understand ESG risk beyond direct supplier relationships further down the chain for a full picture.
- 2. Climate impact is real, but supply chains are fraught with wider risks.**
Consider sanctions, macroeconomic risks, social aspects and company governance too.
- 3. Understand the wider portfolio risk e.g., how many people are impacted when part of a supply chain fails.**
Particularly if it's a critical supplier that can no longer reliably supply key parts or goes insolvent.
- 4. Think of it as an ongoing journey.**
ESG isn't a one-time check. Things change and it takes commitment and collaboration with internal and external stakeholders, and monitoring.
- 5. Be the change.**
Public sector supply chains can be viewed as defining the operating model for the private sector too, inspiring them to contribute to a better future.
- 6. Third-party data can help - you're not alone.**
Using third-party data and rankings can be an objective and scalable way to introduce ESG checks into supplier due diligence.



D&B ESG Intelligence

A risk-based approach, Dun & Bradstreet uses third-party sustainability analytics to help companies manage ESG risk and increase supply chain resiliency.

DATA GATHERED FROM MILLIONS OF SOURCES

Dun & Bradstreet Data

News

Legal & Government Data

Company Reports & Websites

Certification

NGO & Third-Party Database



RISK RANKING FROM 1-5

Easy metrics to help prioritise third parties with high ESG risk



UNIVERSALLY-RECOGNISED ESG TOPICS

3 Dimensions

13 ESG Themes

31 ESG Topic



INSPIRED BY GLOBAL SUSTAINABILITY STANDARDS TOPICS

CDP

GRI

SASB

TCFD

UN PRI

UN SDGs



FREQUENT UPDATES

Monthly updates for the most up-to-date results



LARGE DATA COVERAGE

74 Million* Businesses Across the Globe



* Among D&B's 74M universe, at least 99.9% are SMEs since there are approx. 58K public companies world-wide

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