

PROCUREMENT  
LEADERS

# Operationalizing ESG: Sourcing as a Force for Good

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### EXECUTIVE SUMMARY

- Environmental, social, and governance (ESG) performance is an increasingly important competitive differentiator for businesses. Given the majority of an organization's ESG footprint lies within its supply chain, procurement teams are assuming a pivotal role in driving improved ESG performance to deliver significant long-term value for the C-suite and, ultimately, shareholders.
- 'Greenwashing' achieves nothing: the goal within procurement is to operationalize ESG within sourcing decisions and processes. Leading organizations accomplish this within collaborative enterprise applications, rather than with legacy solutions or manual spreadsheets.
- Clarity is crucial: organizations need to select suppliers using vendor data and sensible scoring systems.
- ESG is a complex issue. One-size-fits-all solutions don't exist. When choosing an ESG-capable sourcing system, flexibility and configurability should be significant criteria.

# What Lies Beneath

With suppliers accounting for up to 95% of a business's overall emissions footprint, sustainability is an issue both procurement and the business must take seriously.

Developing and executing on an environmental, social, and governance (ESG) agenda is no longer an optional extra for businesses: these issues are too important for that. With ESG now crucial to customers, investors, legislators, and employees, an organization's ESG performance has become a genuine competitive differentiator.

Yet ESG aspirations quickly run up against an awkward fact, points out Samuel Wrest, Principal Analyst at Procurement Leaders' affiliate Sustainability Leaders.

"The truth is that whatever ESG initiatives are put in place internally, the biggest opportunities lie in organizations' supply chains," he notes. "From diversity to sustainability, and from the circular economy through to water use, organizations' suppliers have a huge impact on ESG performance. In terms of CO2 emissions, for instance, emissions in the supply chain can make

up as much as 95% of a business's overall emissions footprint."

Consequently, Wrest adds, procurement functions are very much at the forefront of organizations' ESG endeavors. In particular, it is the process of sourcing in which ESG ambitions are transformed into choices, and suppliers selected based wholly or in part on how well they complement the organization's ESG priorities and goals. ➔



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**Samuel Wrest, Sustainability Leaders**



### OVERCOMING OBSTACLES

Harnessing the supplier base in this way is not without its challenges, however. Appropriate technology is required. Scoring systems must be developed to meaningfully compare suppliers' relative ESG performance. Priorities must be chosen to align the supply chain's ESG performance with the business's ESG objectives and suppliers that fail to meet particular ESG performance levels must be identified, and either coached to improve or replaced.

Resistance will likely be encountered – both internally, among stakeholders, and within the supply chain. Procurement Leaders research carried out in 2020, says Wrest, found that 51% of procurement organizations had encountered supplier resistance severe enough to have been regarded as a barrier and 12% of respondents considered it to be a significant barrier.

Steven Carnovale, Assistant Professor of Supply Chain Management at Rochester Institute of Technology's Saunders College of Business, and Co-Editor-in-Chief of the *Journal of Purchasing and Supply Management*, says finding ESG-minded suppliers is becoming easier.

"ESG is gradually becoming 'business as usual,' and simply the way that things are done: a basic requirement, rather than a distinctive differentiator," he says. "Over time, supplier resistance will reduce, and organizations' choice of ESG-capable suppliers will broaden."

The challenge for procurement organizations is operationalizing ESG. In other words, transforming the organization's ESG aspirations and ambitions into concrete supplier selection choices using collaborative and transparent systems that do not inhibit procurement's productivity or business impact. ■



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**Steven Carnovale, Saunders College of Business,  
Rochester Institute of Technology**



# Clarity is Crucial

Investing in systems to gather, store and use ESG data to inform decision-making is crucial if procurement teams are to deliver on sustainability goals.

For procurement functions, the challenge of operationalizing ESG is simply stated.

“Organizations need to be able to define clear ways to distinguish between suppliers: they need to be able to not only score suppliers but compare between suppliers on the basis of those scores,” says Andrea Sordi, Professor of Supply Chain Management at the University of Tennessee’s Haslam College of Business, and a former procurement director with Mondelēz International and Kraft Foods. “To do this, you have to have data—warm feelings and ‘greenwash’ don’t really cut it.”

But even so, possessing ESG-related data and scores merely gives rise to another difficulty, adds Samuel Wrest, Principal Analyst at Sustainability Leaders. “Companies need systems that can store and process this ESG data,” he says. “Not legacy systems or manual spreadsheets, but collaborative enterprise systems that can deal with the ESG dimension of procurement while handling the day-to-day tasks of the procurement organization—and that can do so efficiently, without requiring a significant increase in employee headcount to monitor and measure ESG.”

One such system: Workday’s ESG-capable strategic sourcing solution, deployed not just among Workday’s global customer base, but also supporting the enterprise application vendor’s ESG endeavors.

## PUTTING FLEXIBILITY FIRST

A key requirement of any such system is flexibility and configurability, says Chris Alston, Strategic Sourcing Solution Consultant at Workday. Many forms of ESG data must reach the system—emissions data, third-party sustainability scores, diversity scores, water usage, and so on. These ESG data points enter the business through different routes, some linked to purchase orders, others through stock-

keeping units or supplier scorecards. Because of this data entry and maintenance need to be collaborative and flexible.

“Sometimes it will be the procurement organization entering data, the stakeholder, or the supplier—perhaps during supplier onboarding, for instance—and sometimes it will be sourced from a third-party scoring system provider, pulled in through an open API,” he says.

What’s more, adds Alston, larger organizations’ system requirements may differ greatly from those of smaller enterprises. Depending on where a business is located, it may be obliged to meet specific government-mandated ESG targets in respect of issues such as diversity, emissions, employee welfare, support for smaller suppliers, and labor standards.

“For larger organizations, it can be important to automatically populate sourcing events with particular and specific ESG targets to not only be able to comply with these targets, but to do so automatically, and in a way that is straightforward to demonstrate for the purposes of compliance audits.”

## SUSTAINABILITY BEGINS AT HOME

Within Workday’s own procurement organization, where Workday Strategic Sourcing is deployed to operationalize the company’s ESG aspirations and goals, Alston’s characterization of the importance of flexibility and configurability finds ready endorsement.

“Every company and every procurement organization has its own ESG priorities and ways of working—and Workday’s no different,” says Kim McGlinn, Head of Global Services Sourcing and Travel at Workday. “We have standard ESG questions that we ask and standard data that we require. We may also have context-based additional requirements at times, as well as category-by-category instances in ➔



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**Andrea Sordi,**  
**Haslam College of**  
**Business, University**  
**of Tennessee**

which we have specific ESG requirements and targets that we want reflected in sourcing events for those categories. Configurability and collaboration are very important.”

Another example of configurability, collaboration, and flexibility helping to operationalize ESG is seen in the approach to supplier scoring and the subsequent evaluation of ESG performance against price, adds Chris Lang, Workday’s Senior Manager for Supplier Programmes.

“There are some ESG criteria with which all vendors must comply and criteria where partial compliance is acceptable or criteria where we’re looking for certifications or registrations with various agencies to demonstrate that vendors are genuinely on



Configurability and collaboration is very important.

**Chris Lang, Workday**

an ESG journey. The result, from a vendor assessment point of view, is that there will be instances where vendors meet all our requirements fully, and others where vendors don’t meet our requirements, or only meet them partially. Flexibility and configurability are crucial because businesses will otherwise find the system too constraining as they go forward.” ■

### WORKDAY’S STRATEGIC SOURCING CAPABILITY AT WORK FOR UBER

Uber Technologies—the company behind the ubiquitous ride-hailing app—has been using Workday Strategic Sourcing throughout its global operations for the past six years, says Brish Bhan Vaidya, Head of Strategic Sourcing And Supply Chain at Uber India, who leads sourcing for the company’s Asia-Pacific operations.

“It reduces paperwork, improves efficiency, and enhances transparency and visibility, so suppliers can see we are working in an open and honest manner,” he explains.

That said, Vaidya adds, it is important that the system’s approach to ESG is flexible and configurable, to reflect Uber’s ESG priorities and programs. Among the company’s key ESG objectives are issues such as reducing emissions, helping to create more sustainable cities, reducing waste, economic empowerment, and diversity and equality initiatives, he notes.

“ESG isn’t our sole focus when sourcing, but it is a very important one,” Vaidya says. “Uber is always trying to make a positive difference in the world, and procurement’s ESG focus is one way we can.”

Vaidya points to Uber’s plans to build two offices in the APAC region, where Workday Strategic Sourcing has been deployed to support the goal of having them built in a sustainable manner, and a way that reflects Uber’s objectives of economic empowerment and equality. Likewise, when an engineering and R&D building was being developed, a similar initiative sought to see it designed to use renewable energy wherever possible.



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Similarly, Vaidya adds, Workday Strategic Sourcing has seen successes in sourcing eco-friendly packaging for food delivery, as well as sourcing recycling and waste processing capabilities sourced from a properly certificated supplier genuinely focused on ESG principles.

Vaidya concludes Workday Strategic Sourcing has proved useful in rolling out supply chain compliance with the company’s economic empowerment and equality ESG requirements across its APAC operations.

“Modern slavery, child labor, labor underpayment, and a lack of basic employee welfare facilities—all of these can, unfortunately, be challenges in Asia. Workday Strategic Sourcing helps Uber and our sourcing organization ensure that our supplier base isn’t part of the problem.” ■



# Operationalizing ESG: Four Areas of Focus

**Workday GM for Spend Management Chris Wada provides insight into the steps CPOs and their teams should take to build ESG criteria into the day-to-day running of the function.**

1

**Prioritize and focus.** ESG is a complex area, and it is impossible to tackle everything at once. Start with the overall business's ESG objectives and then align procurement's sourcing objectives to these. Then pick special areas of focus where 'easy wins' look attainable.

2

**Assessing and comparing suppliers.** Ultimately, there are decisions to reach and choices to be made. Data will be required, and this must be data that is sensibly comparable. Consider starting with a collaborative 'record of truth' system that allows procurement, finance, and stakeholders to easily score suppliers, and communicate regulatory needs with suppliers.

3

**One size does not fit all.** From a systems point of view, flexibility and configurability are highly valuable. Otherwise, there's a danger staff will develop alternative solutions outside of the procurement workflow.

4

**The more that ESG data is built into a business's standard workflows and supplier onboarding procedures, the easier it becomes to obtain meaningful and timely ESG data.** When selecting an ESG-capable strategic sourcing system, collaborative data entry and recordkeeping during supplier onboarding are critical capabilities.



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