

Taking the Lead in ESG: Actionable Next Steps for Procurement Leaders

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FOR MORE INFORMATION



GERARD SENG
 Executive Director
 BDO Digital
 Direct: +65 6990 2645
 Mobile: +65 9337 5357
 gerardseng@bdo.com.sg

BDO BLACKLIGHT PTE LTD
 600 North Bridge Road
 #23-01 Parkview Square
 Singapore 188778
 Tel: +65 6828 9118
 Fax: +65 6828 9111

www.bdo.com.sg

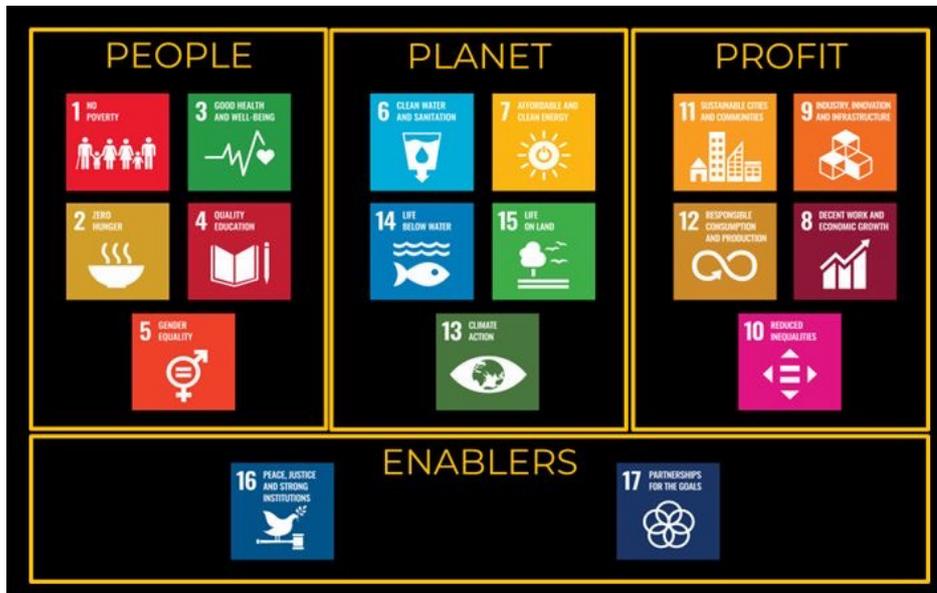
Preamble

Environmental, Social, and Governance (ESG) standards are becoming key considerations for procurement leaders today, as companies increasingly recognise the need to operate sustainably and responsibly. However, with 80 over different ESG standards, it can be overwhelming to determine which ones are the most relevant to them.

This article—the second in a **series on ESG and procurement**, underlines the need for a simple, contextualised ESG standard and outlines how procurement leaders can pave the way to make ESG a practical reality in their organisations.

ESG standards: Current gaps in understanding

The starting point for any organisation in their ESG journey is an understanding of the main elements of the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 to guide global efforts towards sustainable development by 2030. These 17 interconnected goals cover a range of economic, social, and environmental issues including poverty, hunger, health, education, gender equality, clean water and sanitation, renewable energy, and climate action.



Source: *The ESG Institute*

From a procurement perspective, the SDGs represent an opportunity for businesses and governments to align their purchasing practices with sustainable development objectives. Procurement plays a critical role in achieving the SDGs by ensuring that goods and services are sourced in a socially responsible and environmentally sustainable manner.

However, as has been pointed out by Jonathan Cheung, our moderator, and Regional Development Advisor (ASEAN) of the Chartered Institute of Procurement & Supply (CIPS), current practical gaps in understanding of the SDGs mean that some companies find it difficult to tie SDGs to business strategies. With over 80 ESG-related standards, procurement leaders find it challenging to determine which ones are applicable to their companies or the products they procure, according to Joanne Flinn, Chairperson of the ESG Institute and author of Greensight: the Sustainability Guide for Company Directors. She adds, "Some industries are exposed to many variations of ESG standards. This creates cost and complexity. When we look at ourselves as a value chain, and for fast movement and decision-making, we need simplicity."

How procurement leaders can pave the way: Localising ESG benchmarks

Tiow Wei Yeong, Procurement Head at Mondelez and panellist at our recent Procurement igNite event, emphasised the importance of taking a step back from your local operational landscape to map out your starting point before moving on to selecting or adopting ESG standards. Every organisation has its unique set of histories and legacies to contend with, not only in the organisational context but at the country and regional levels as well. ESG must be tailored to specific local needs, objectives, and goals for it to become an actionable reality.

Panellist David Fogarty, Head of ESG Consulting and Sustainability Services at CBRE, expanded on this point, explaining in-depth how the real estate industry localises and applies their industry-specific standard, the Global Real Estate Sustainability Benchmark (GRESB). This benchmark helps their industry with a standardised framework to assess the sustainability performance of real estate portfolios around the world, but also verification of ESG-related policies including management and performance of ESG factors such as energy efficiency, water management, and social responsibility. Although participation in GRESB, is more holistic for real estate companies who can benchmark their performance against their peers, identify areas for improvement, and drive positive change in the industry—it's not yet enough for making ESG value chain-relevant and an actionable reality.



Getting executives and operations teams ESG-ready

Taking senior leadership teams onboard the ESG journey is critical in moving the needle on ESG initiatives. Executives need to understand and commit to the importance of ESG standards to embed them into the organisation's strategic targets and objectives.

Fellow panellists at our igNite event addressed the need to get started by first understanding your corporate culture and the principles related to ESG, and then break them down into practical steps: "For instance, if you want to focus on the social part of ESG, would it encompass fair wages or modern slavery?" Beginning by breaking down the company's ESG objectives into key actionable goals will then allow executives to select and adopt the most relevant ESG standards to benchmark against and drive toward through continuous action.

It is important to keep in mind that there is much more to ESG than the environmental aspect. As Joanne Flinn reiterates, there is a massive imbalance within the ESG discussion whereby social and governance standards are frequently ignored. When social and governance initiatives are prioritised with environmental ones, our progress toward our sustainability goals is exponential. For this to happen, every aspect of ESG must be considered in the discussion for a standard that is valuable across value chains.

Locking in official buy-in from executives is, however, often easier said than done. Other considerations, like cost-related factors, may act as the impediment to sustainability efforts. An audience member in our igNite event remarked that she really wants to push the ESG agenda but finds it so challenging when the facts present a 30% cost increase for her key stakeholders. Panellists acknowledged the similar challenges they faced in the past and recommended starting with small steps—for example, with a pilot to demonstrate how reductions in carbon footprint outweighs the upfront cost component of the ESG initiative. Conversations with the CFO and other key stakeholders are critical to ensure that financial officers understand and support the quantification of ESG impact, not only from an environmental perspective but in terms of costs: both the cost of supplies, and to reducing cost of funds.

ESG can also be adopted as a risk-mitigation strategy, as pointed out by Andrew Stafford, Head of Ivalua Asia Pacific. Long-term cost implications can be significantly damaging if companies do not manage their operations in a sustainable way—this can be a key consideration to reinforce the return-on-investment benefits of ESG efforts.

That said, operational readiness is equally important to the entire organisation's ESG journey. This means not only roadmaps and plans, but also adopting ESG as part of the organisational DNA. Benefits of this paradigm shift include the reduction of operating costs, developing talent in a trail-blazing area, and attracting new investments in the company.

Wrapping up

Embracing ESG readiness and initiatives is no longer optional in today's world, where companies are increasingly responsible for managing their resources and risks in a sustainable way. Despite the multiple ESG standards available globally, procurement leaders can start acting and lead the way on their organisation's ESG journey. First steps can be taken to understand their local regional and industry landscape and to identify the most appropriate starting point. Subsequently, breaking down ESG goals into practical steps is essential to embedding the right ESG standards and benchmarks for their industry and organisation. The guidelines and benchmarks selected should be simple and easy to digest for fast deployment and decision-making.

The ESG journey will not be smooth sailing, with other corporate considerations like cost potentially hindering the ESG agenda. However, procurement leaders' continuous conversations with executives and key stakeholders like financial officers will create alignment on strategic goals, and emphasising the benefits of ESG initiatives can lead to pivotal changes in corporate mindset and bring about real positive changes.

Procurement can play a critical role in driving ESG initiatives by providing both strategic and operational readiness. Procurement leaders must steer the way towards a paradigm shift to incorporate sustainability as a core value in decision-making, taking their teams and organisations to the next level. To this end, technology will prove to be a key enabler in ESG, through tracking, measuring, and making intelligent decisions relating to sustainable procurement. This will be part of the discussion at our second Procurement igNite event this year—with a focus on **Procurement and AI—on June 8th, 2023**.

BDO is proud to partner with the ESG Institute which was officially launched in Singapore on February 17, 2023 where they were joined by senior government representatives from Singapore, Australia, US, UK and EU countries, as well as founding members and professional associations such as HRM Asia. With increasing global pressure for action, compliance, and opportunity creation through sustainability, the ESG Institute works on advancing the transition to a net-zero economy while also advocating for equity and justice in the context of social and governance. The Institute focuses on simplifying the complexity of sustainability standards, creating alignment and action for businesses across their international value chains, and providing tools that support business leadership in this crucial transformation. The ESG Institute integrates science-based insights with business pragmatics, leveraging research initially conducted at HEC Paris (the Harvard of France) and the University of Oxford, to empower leaders and help them report, benchmark, and advance their sustainability goals swiftly and effectively.

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Thank you to the following knowledge contributors who made this Procurement igNite Event successful.



Andrew Stafford
Vice President & Head of APAC
Ivalua



David Fogarty
Senior Executive Director, Head of ESG
Consulting & Sustainability Services,
Singapore & Southeast Asia
CBRE



Joanne Flinn
Chairperson
The ESG Institute



Jonathan Cheung
Regional Development
Advisor (ASEAN)
The Chartered Institute of
Procurement & Supply (CIPS)



Kai Ling Phui
Chief Procurement Officer
DBS



Lucas Shi
Director
Energy & Sustainability,
APAC Regional Lead
CBRE



Tiow Wei Yeong
Vice President
Global Supplier Management,
Sourcing & Procurement AMEA
Mondelēz International

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