

Improving Procurement Processes with Veridion ESG data



1. Driving Economic Growth: ESG as a Key Market Catalyst

Environmental, Social, and Governance (ESG) factors are continuously growing in importance, becoming primary market drivers that are shaping the economic landscape.

McKinsey's research highlights that companies investing in ESG initiatives can significantly boost their financial performance, with some reporting up to a 60% increase in operating profit due to effective ESG strategies.

This enhancement is attributed to several factors including cost reductions, improved resource efficiency, and access to new markets driven by consumer preference for sustainable products.

This growth is not just driven by corporate initiatives but also by increasing governmental action.

ESG Book, a global leader in sustainability data and technology, released new analysis showing that global ESG regulations have increased by 155% over the past decade.

This regulatory momentum is compelling companies to embed ESG principles deeply into their operations, which in turn promotes enhanced transparency, robust risk management, and long-term sustainability.

5 Key ESG Trends

that are Reshaping Business Practices

1. ESG Reporting is Required for Smaller Companies, too.

New regulations are increasing the likelihood that smaller companies, especially those in business-to-business (B2B) sectors, will need to report their ESG data. This change is driven by broader mandatory reporting requirements affecting their larger corporate partners. Regions like the EU are considering expanding directives like the Corporate Sustainability Reporting Directive (CSRD) to include small businesses in the future.

2. Greater Visibility and Transparency of Supplier ESG Data.

New regulations are set to enforce more comprehensive reporting on Scope 3 emissions, which include indirect emissions in the supply and value chains. This will require suppliers to collect and report detailed ESG data, although challenges in data accuracy still need to be addressed. Initiatives like those from the International Sustainability Standards Board (ISSB) are improving frameworks for this level of reporting.

3. ESG is becoming a key part of financial strategies for organizations.

ESG factors as key to enhancing financial performance. According to [2023 KPMG CEO Outlook](#) survey, 45% of CEOs acknowledge ESG factors as important for enhancing financial performance. ESG considerations are transitioning from optional corporate responsibilities to mandatory actions of financial strategies. This shift is influenced by changing investor attitudes and the demonstrated financial benefits of sustainable practices. [2023 McKinsey's research](#) indicates that ESG initiatives can lead to better financial performance by improving resource efficiency, reducing regulatory risks, attracting top talent, and optimizing investments. These factors contribute to a potential 10% advantage in the cost of capital for companies with strong ESG practices.

4. No More Greenwashing.

Increased transparency in ESG reporting means companies can no longer mask their actual emissions with greenwashing tactics. The EU is leading efforts to legislate against false sustainability claims, with significant fines for non-compliance, emphasizing that greenwashing is becoming a serious financial risk. For example, the Directive on Green Claims, which aims to establish reliability, comparability, and verifiability standards for environmental assertions made by businesses, introduces penalties of up to 4% of annual turnover for companies found guilty of greenwashing.

5. Investment in ESG Management.

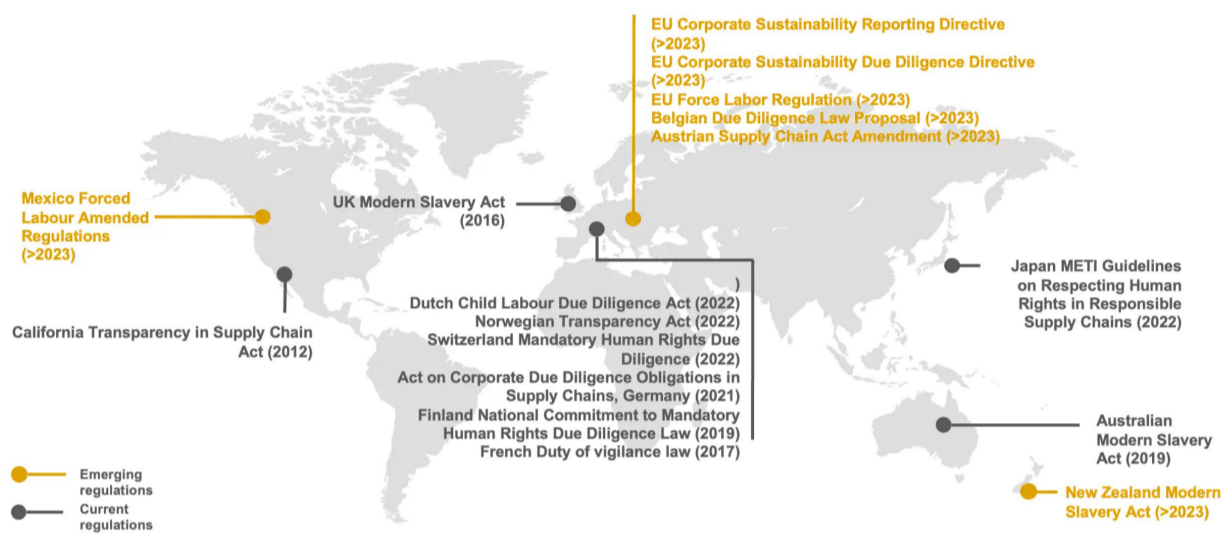
As ESG reporting becomes more integral, companies, particularly in North America and Europe, are investing in dedicated ESG personnel. These professionals are tasked with developing policies, managing ESG initiatives, and ensuring compliance with evolving standards. This trend is extending to smaller companies, which might assign these responsibilities to existing managers.



2. New ESG Regulations are Revolutionizing Procurement Processes

2.1. Growing ESG Supply Chain Regulations

This year global ESG regulations are reshaping procurement practices, compelling businesses of all sizes to adhere to new standards. This shift is particularly evident from the emphasis on ethical sourcing and sustainability within supply chain management.



Source: PwC Analysis - selected regulations affecting supply chains

- ➔ Key regulations like the EU’s Sustainable Finance Disclosure Regulation (SFDR), the US Uyghur Forced Labor Prevention Act, and the EU’s Corporate Sustainability Due Diligence Directive (CSDDD) are driving significant changes and force procurement leaders to rethink their process. These regulations mandate comprehensive due diligence, requiring businesses to trace and mitigate negative impacts on human rights and the environment throughout their supply chains, both upstream and in certain downstream activities.
- ➔ Germany has set a precedent with its Supply Chain Due Diligence Act, effective since 2023, which mandates local companies to address human rights and environmental concerns in their global supply networks. Following suit, Canada is considering similar legislation with its proposed Canada Supply Chain Act.

Nonetheless, these regulations share a common goal: enhancing transparency, governance, and risk management within supply chains.

3 Key Actions

that Procurement Teams must take to comply with the New ESG Regulatory Standards

1. Map Their Supply Chains:

- Gain a comprehensive understanding of their suppliers.
- Identify and document each supplier's ESG practices and performance.

Gain Better Supply Chain Visibility and Compliance with Veridion Data:

- **Location data:** Veridion's detailed locational data provides procurement teams with crucial insights into the geographical distribution of their suppliers. This data supports risk assessment, compliance checks, and strategic planning by offering a clear and comprehensive view of where suppliers are located. By integrating Veridion's locational data, procurement teams can enhance their supply chain visibility, optimize logistics, and ensure robust ESG compliance.
- **Match & Enrich solution** provides enriched profiles of suppliers, including their locations, products and services, and ESG commitments. This helps procurement teams identify and prioritize suppliers who demonstrate strong sustainability practices and compliance with ESG standards. This supports building and maintaining relationships with suppliers committed to ESG principles.

2. Implement Due Diligence Processes:

- Assess potential ESG risks within the supply chain.
- Mitigate these risks through robust evaluation and monitoring mechanisms.

Enhance ESG risk mitigation with Veridion Data:

- **ESG News & Sustainability Commitments Data :** Veridion captures and analyzes a vast array of global and local news sources to extract precise and detailed information related to company activities, such as net zero targets, certification,

or adverse & controversial media. This real-time data enables procurement teams to stay informed about emerging risks or incidents involving their suppliers, such as environmental violations, labor disputes, or governance issues. With access to the latest ESG news, procurement teams can promptly assess potential risks and their impact on the supply chain.

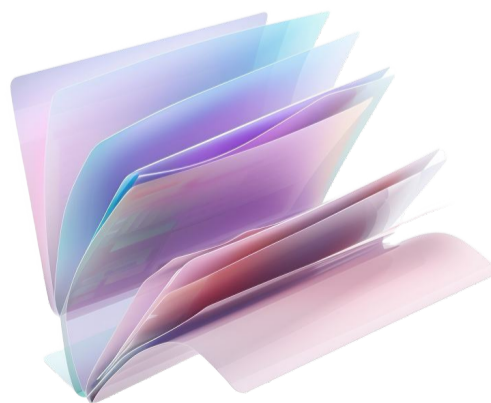
- Additionally, by examining suppliers' public ESG commitments, procurement teams can evaluate the credibility and seriousness of these commitments, ensuring alignment with the company's sustainability standards and goals.

3. Partner with Sustainable Suppliers:

- Build and maintain relationships with suppliers committed to ESG principles.
- Prioritize suppliers who demonstrate strong sustainability practices and compliance with ESG standards.

Build Sustainable Partnerships with Veridion ESG Data:

- Advanced company screening. Pair our leading Match & Enrich API to verify companies, with Complex Search API to identify companies, suppliers or investments for priority areas, such as low-carbon products, being diverse-owned or in a specific location.
- Using Veridion's advanced search capabilities and comprehensive ESG commitments data, procurement teams can identify and partner with suppliers who demonstrate robust ESG practices. This ensures alignment with sustainability goals and regulatory standards.



CASE STUDY: Ensuring Ethical Sourcing with Veridion’s ESG Data

Context

The reputational risks from being associated with human rights abuses are becoming top of mind for all companies, increasingly so with the rise of related regulation, such as US Uyghur Forced Labor Prevention Act.

The Challenge:

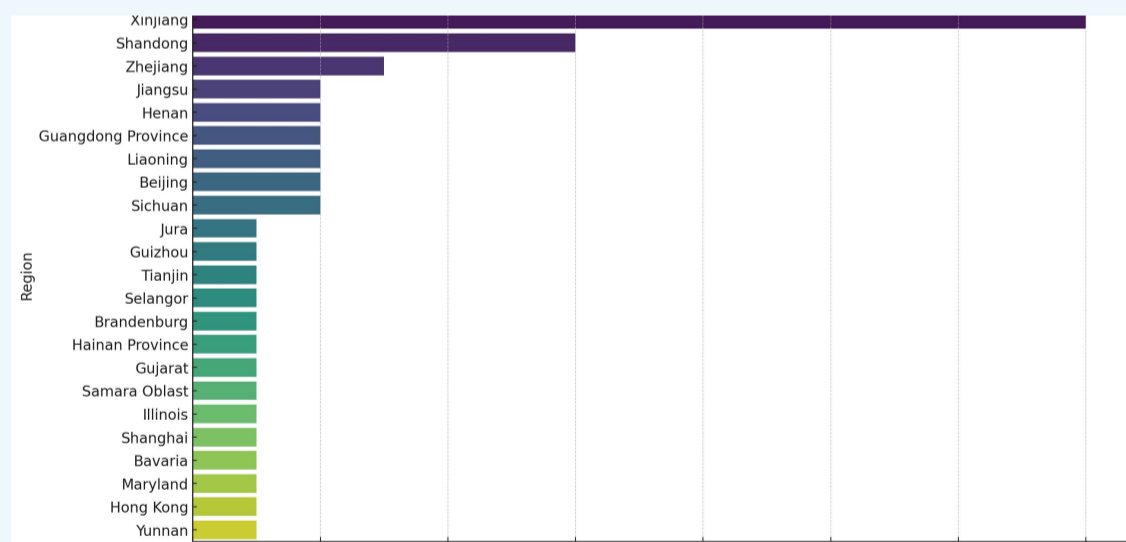
Your procurement team at a leading electronics manufacturer is tasked with sourcing quartz suppliers in China.

Given the recent enforcement of the US Uyghur Forced Labor Prevention Act, which mandates rigorous due diligence to ensure products imported into the US are not made with forced labor, especially from Xinjiang, the team needs to make sure the suppliers are compliant with the new regulations.

The Solution: Veridion’s Advanced Search API

By using Veridion’s advanced search API, procurement teams can search for companies that are located in high-risk areas or offering high-risk products & services.

- ➔ The procurement team initiated a search using Veridion’s Search Chatbot for top companies providing quartz products near Xinjiang, a region notorious for human rights abuses and currently on the U.S. Sanctions List.



- ➔ The chatbot quickly returned a comprehensive list of companies:
 - Total Number of Quartz Companies Identified in the Region: 49
 - Companies Located in Xinjiang: 14
 - Other Regions: The companies were also distributed across regions such as Shandong, Zhejiang, Jiangsu, Henan, Guangdong Province, Liaoning, Beijing, Sichuan, and others.

How Veridion ESG Data Helped the Procurement Team:

- **Enhanced Due Diligence:** The search results revealed that 14 companies were located in Xinjiang, a high-risk area for forced labor. This flagged a critical area requiring further scrutiny. The team utilized Veridion's ESG data to delve deeper into these suppliers' practices and histories, ensuring none were linked to unethical labor practices.
- **Supply Chain Transparency:** Veridion provided detailed data on the geographical distribution of all 49 companies. This transparency allowed the procurement team to map out the entire supply chain, identifying regions with higher risks and ensuring every aspect was considered and documented meticulously.
- **Risk Mitigation:** With Veridion's data, the team could proactively exclude suppliers from Xinjiang and other high-risk areas, thus aligning with the UFLPA requirements. This proactive approach mitigated potential legal and reputational risks, ensuring the company's supply chain remained ethical and compliant.
- **Efficient Supplier Management:** The detailed ESG data enabled the team to efficiently manage and prioritize suppliers. They focused on regions like Shandong and Zhejiang, where fewer risks were identified, streamlining the supplier selection and management process. This efficiency saved valuable time and resources while ensuring compliance with strict ESG criteria.
- **ESG Regulatory Compliance:** Veridion's comprehensive and verifiable data simplified demonstrating compliance with the UFLPA. Detailed records and robust documentation provided evidence of the due diligence process, proving that the procurement strategies adhered to all regulatory requirements.

2.2. The Critical Role of ESG Data in Supply Chain Management

Data remains one of the core challenges in supply chain management.

Every day, millions of data records are generated across the supply chain from multiple systems. The widespread adoption of digital technologies, IoT devices, and advanced tracking systems has accentuated the issue. This wealth of data has created greater silos within organizations, leading to disconnected data sets. Duplication and misinterpretation are becoming increasingly problematic, and the fragmentation of data impedes the creation of a holistic view of an organization's supply chain.

Moreover, the pandemic and other rare materials and ingredient shortage exposed supply chain bottlenecks around the world, highlighting the need for organizations to understand their upstream supply chain in greater depth than ever before.

In addition to increased supply chain fragility, sustainability imperatives have driven a global push towards net-zero goals, with organizations committing to disclose and drastically reduce their emissions. [The Science Based Targets initiative \(SBTi\)](#) helps companies set emissions reduction targets grounded in climate science to prevent the worst impacts of climate change. According to [SBTi Companies Taking Action](#) page over 5,000 companies globally, spanning various sectors including financial institutions, healthcare, and technology, have committed to these targets.

Bookmark

Explore our previous reports on supply chain shortages, emphasizing the essential role of accurate data and how Veridion's data solutions can address these challenges:

- [Albuterol API Shortage](#): COVID-19 exacerbated global pharmaceutical supply chain vulnerabilities, particularly impacting treatments for respiratory conditions like asthma.
- [Improving Procurement Processes with Veridion ESG Insights](#): Increased demand for electric vehicles and renewable energy has raised environmental and social concerns surrounding lithium extraction and battery recycling.



Scope 3 emission reporting - a new challenge for procurement

Scope 3 emissions can account for over 90% of a company's total greenhouse gas (GHG) emissions and are typically the hardest to measure.

Although voluntary to date, the collection and reporting of Scope 3 emissions data is becoming a legal requirement in many countries.

Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly affects in its value chain. Even though organizations have limited control over the emissions of their suppliers, there are a number of strategies they can employ.

To effectively target reductions in carbon emissions, companies need primary sources of information from their suppliers. They are increasingly using hybrid carbon accounting methodologies to produce a more accurate assessment of Scope 3 emissions. Digital platforms provide a centralized system for suppliers to input their emissions data, which can then be easily integrated into a company's sustainability reporting.



➔ **The rise in ESG regulations has amplified the importance of robust data management practices.**

Procurement leaders are particularly impacted as they must ensure that their supply chains not only operate efficiently but also comply with stringent ESG standards. The integration of ESG data into supply chain management adds another layer of complexity to an already challenging data landscape.

According to McKinsey, up to 90% of a company ESG impact originates from its supply chain activities. However, many organizations are failing to measure the environmental impact of their supply chains – mainly due to the lack of accurate ESG data and adequate assessment tools.

3 Key Challenges

in Supply Chain ESG Data:

1. 1. The Visibility Void: Transparency and Traceability Issues

The supply chains of most organizations are characterized by a significant lack of transparency. Only 13% of companies can map their entire supply chain network, while up to 22% have no visibility beyond their immediate suppliers (2022 CIPS & Deloitte report).

According to Oracle, only 6% of companies report complete supply chain visibility, while 69% of companies do not have any supply chain visibility at all.

2. The Credibility Gap: ESG Data Quality and Reliability

Inconsistent and unreliable ESG data due to the lack of standardized reporting standards creates what we call the "Credibility Gap."

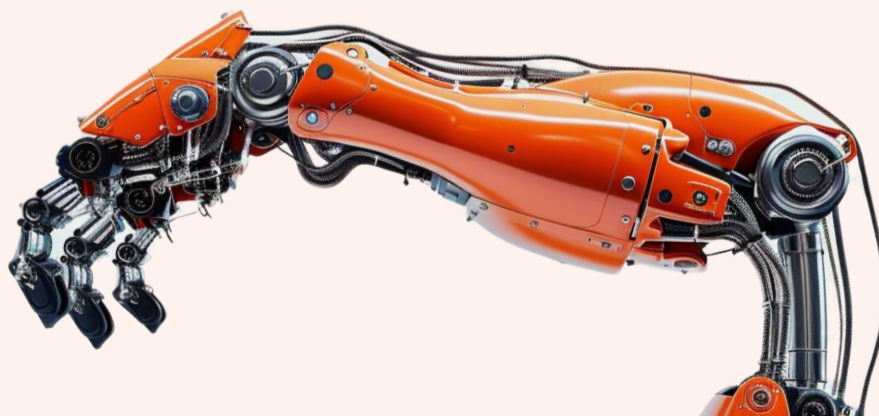
Concern about a lack of consistency between rating provider scores is more pronounced among European investors (30% vs. 21% North America, 19% Asia-Pacific). And difficulties accessing ESG information and data are more of a challenge for investors in North America (30% vs. 21% Europe, 25% Asia-Pacific). (source: [Capital Group Global Study 2022](#))

Oxford study demonstrates that ESG rating divergence is not merely a matter of varying definitions but a fundamental disagreement about the underlying data. According to their findings, the largest cause of discrepancies in ESG ratings, accounting for 56% of the divergence is Measurement Divergence, that arises when different raters measure the same attribute using different criteria or data sources.

3. The Infrastructure Deficit: Inadequate ESG Data Systems

The "Infrastructure Deficit" refers to the lack of robust systems for ESG data collection, analysis, and reporting.

In a recent survey Diligent conducted with OCEG to assess the current state of ESG planning and activity, fewer than half of respondents had a formal, documented ESG program in place, and under 10% were "highly confident" that their organization had mature, well-documented ESG capabilities.



3. Building Resilient, Future-Ready Supply Chains with Veridion ESG Data

3.1. Integrate Reliable ESG Data into Procurement Processes

- ➔ Procurement and compliance professionals are tasked with integrating ESG criteria into their third-party assessment policies and due diligence processes to meet regulatory requirements and minimize risk.

According to [EcoVadis Survey](#), digital integration of ESG (e.g. via API) averages just 10% across procurement processes.

The complexity of ESG data requirements, coupled with limited resources, often leads to internal silos that hinder the effective integration of ESG considerations into business strategies. Veridion ESG Insights simplifies this challenge by delivering extensive, high-quality coverage of public and private entities on a global scale. By leveraging advanced AI technologies to capture and analyze a vast array of global and local news sources, Veridion extracts precise, detailed data related to ESG risk criteria.

This approach allows Procurement teams to see beyond the surface level of aggregated scores and understand the underlying factors contributing to a company's ESG profile. In doing so, Veridion addresses the credibility issue of ESG rating methodologies and provides procurement teams with critical transparency and reliable data necessary to build resilient, future-ready supply chains.

Veridion's ESG Data: Key Capabilities

- **Global Coverage & Visibility:** Veridion's data covers 115.8 million (*as of July 2024) companies across 246 countries and territories, providing procurement leaders with a comprehensive understanding of global ESG activities. This extensive coverage ensures that decision-makers have access to comprehensive information to evaluate supplier sustainability and compliance.
- **Comprehensive News Analysis:** Veridion leverages AI and advanced technologies to scan a wide array of news sources, both global and local news, identifying and extracting relevant information on specific ESG risk criteria.
- **Targeted ESG Risk Criteria:** Veridion's focus on critical ESG risk factors such as atmospheric contamination, carbon footprint, illegal deforestation, water usage, waste management, and labor standards aligns with the key areas of concern under new ESG regulations. By monitoring these factors, businesses can assess whether potential suppliers meet regulatory standards related to environmental impact, ethical sourcing, and sustainability. Here is a [list of Veridion's ESG Risk Criteria and topics](#) - please view Sustainability Topics TAB.
- **Real-Time ESG Updates:** Veridion extracts real-time ESG updates from news and digital sources, delivering the latest information on business ESG initiatives. This ensures procurement teams always have current insights for strategic decision-making.
- **Flexible Delivery Options:** Veridion offers batch file delivery in CSV format updated monthly, as well as API integration compatible with various systems for seamless data refreshes.

Veridion's data deep coverage at granular levels and updated on a weekly basis allows Procurement Teams to track and report on specific ESG factors that help increase supply-chain resiliency.

By leveraging Veridion's robust ESG insights, businesses can:

- Ensure comprehensive visibility across their supply chain.
- Facilitate informed decision-making through accurate and actionable ESG data.
- Strengthen their reputation as leaders in sustainability and corporate responsibility.

3.2. **Gain Better Supply Chain Visibility and ESG Compliance**

➔ Veridion's ESG data is instrumental in identifying high-risk suppliers whose business practices may not align with responsible and sustainable standards.

According to Sustainable Procurement Barometer 2024 , only around half of companies have comprehensive visibility into over 50% of their Tier-1 suppliers, with even fewer insights into deeper tiers.

This lack of transparency can lead to significant risks, including non-compliance with ESG standards, which can affect a company's reputation and operational efficiency. Veridion addresses this gap by offering detailed and reliable data to understand private equity companies, suppliers, or small-medium enterprises.

Veridion's Data: Key Offerings & Benefits

- **Better Industry Classification.** Accurate classification ensures that companies are evaluated and compared correctly within their respective industries. This data can enhance various analytical and strategic processes, such as regulatory compliance, market analysis, and risk assessment.
- **Accurate Locational Data:** Veridion offers extensive data on the global locations of millions of companies. This data is invaluable for conducting analyses on climate, greenhouse gas (GHG) emissions, biodiversity, and human rights risks, enabling companies to assess and mitigate location-specific ESG risks effectively and help to fill gaps for company reporting. Veridion also provides revenue & employee data per location, enabling more informed decisions regarding resource allocation, risk management, and operational efficiency.
- **Products & Services Data:** Veridion offers detailed insights into the products and services offered by companies. This information is critical for sustainable procurement decisions and ensures compliance with regulations such as Carbon Border Adjustment Mechanism (CBAM) and the EU Green Taxonomy, which mandate specific product criteria. Moreover, companies can use this precise data to:
 - Develop models that accurately estimate the greenhouse gas (GHG) emissions associated with specific business activities.
 - better determine which companies contribute positively to environmental and social goals.
- **ESG News & Commitments.** Obtain primary data on company activities, such as net zero targets, certification, or adverse & controversial media. Sourced from multi-language, global and local news channels to give you the best, most updated coverage.

According to a PwC survey, investors increasingly want to hear more from companies about their ESG-related commitments, with 83% stating it is important that ESG reporting provide detailed information about progress toward ESG goals.

- **Sustainability Insights:** Veridion's datasets on "Sustainability Commitments" and "Sustainability News" provide essential context for evaluating ESG risk levels. Whether for regulatory reporting or procurement risk management, these datasets offer transparency into companies' sustainability practices, aiding in informed decision-making and fostering sustainable business practices.

Top 3 Benefits of Veridion ESG Data for Procurement:

1. Risk Mitigation:

Identifies suppliers with poor ESG performance, reducing potential risks related to business ethics, environmental impact, and social responsibility.

2. Compliance & Sustainability Alignment:

Helps procurement teams align with corporate sustainability goals and regulatory frameworks.

3. Enhanced Supplier Relationships:

Fosters long-term relationships with suppliers who share similar values and commitments to sustainability.



3.3. Build Sustainable Partnerships

- ➔ **Partnering with ethical companies has become a key priority for organizations aiming to mitigate risk, enhance resiliency, and drive business performance.**

To achieve this, Procurement Departments must prioritize understanding the ESG performance and offerings of their suppliers, ensuring essential information guides their decisions. Effective supplier management is not only a key to reducing exposure to ethical and environmental risks but also to building a more resilient and responsible supply chain.

- ➔ **Furthermore, with increasing regulations, such as the Carbon Border Adjustment Mechanism (CBAM), companies are striving to reduce the carbon footprint of their procurement decisions.**

Compliance with such regulations is crucial not only for avoiding penalties but also for demonstrating a commitment to sustainability and responsible business practices.

- ➔ **Veridion's ESG data coupled with Advanced Company Screening solutions makes it simpler than ever to select and maintain relationships with ethical and sustainable third parties.**

Advanced Company Screening Solution

Veridion offers a powerful suite of APIs designed to enhance company screening processes, ensuring organizations can identify and verify companies, suppliers, or investments that align with their strategic and ESG goals.

- 1. Match & Enrich API:** Verifies company information, ensuring accurate and comprehensive supplier data.
- 2. Complex Search API:** Identifies suppliers and investments in priority areas, such as low-carbon products or specific locations.

Veridion's Advanced Search capabilities will provide:

→ Comprehensive Supplier Information:

- **Company Names and Contact Information:** Our database includes detailed information on the top companies providing green steel, including contact emails, phone numbers, and website URLs.
- **Geographical Data:** Information on company location (city, region, country) helps identify suppliers within preferred logistical zones, facilitating efficient supply chain management.

→ Financial and Operational Metrics:

- **Revenue and Employee Count:** Insight into the financial health and scale of operations of potential suppliers, which is crucial for assessing reliability and capacity to meet large orders.
- **Year Founded:** Historical context on company longevity and industry experience.

→ Detailed Business Descriptions:

- **Product and Service Offerings:** Detailed descriptions and URLs link directly to the suppliers' green steel product pages, ensuring businesses can quickly assess the suitability of their offerings.
- **Company Descriptions:** Provides an overview of each company's operations, helping to evaluate their alignment with specific sustainability goals.

→ Industry and Sector Classification:

- **SIC, NAICS, NACE, and ISIC Codes:** These industry codes facilitate targeted searches for companies within specific sectors of the steel industry, ensuring more refined and relevant search results.

→ Social Media and Online Presence:

- **Social Media Links:** Direct access to LinkedIn, Twitter, Facebook, Instagram, and YouTube profiles allows for a comprehensive view of a company's public engagement and marketing activities, which can be indicators of corporate transparency and reputation.

Veridion ESG Data: Use Cases by Industry

Use Cases for

Procurement Providers

Integrating ESG Data into Procurement Processes

- Enhance your Procurement Platform to identify suppliers that comply with ESG standards. One of our customers, a leading procurement platform, integrated Veridion's ESG-related products and services data into its "supplier recommendations" feature. By leveraging Veridion's comprehensive dataset, the procurement company enhanced its platform to prioritize suppliers with strong ESG commitments. Procurement leaders using the enhanced procurement platform can now easily identify and prefer suppliers that align with sustainability goals, thereby promoting responsible sourcing practices across their supply chains.
- Enhance Supplier Visibility to ensure compliance to new ESG regulations. Another example is a customer that is specialized in supply chain risk management, who incorporated Veridion's product and services data along with industry classifications into its data flow. This integration enabled the company to validate and expand its roster of suppliers, overlaying criteria such as sustainability certifications, diversity, equity, and inclusion (DEI) initiatives, and ESG commitments. By leveraging Veridion's insights, the supply chain risk management company enhanced supplier visibility and ensures compliance with ethical standards, mitigating risks associated with non-compliant or unethical practices.

Use Cases for

Market Intelligence

Enriching Private Company Data with ESG Insights

- Expand coverage & enrich your database with critical ESG insights. Leading market intelligence providers can benefit from Veridion's match and enrich capabilities, locational data, and ESG news/commitments data. By integrating Veridion's comprehensive dataset, these providers expand their coverage of private companies, enriching their databases with critical ESG-related information. This enhancement enables more thorough risk assessments and investment analyses, empowering financial institutions and corporations to make informed decisions that align with sustainability objectives and regulatory requirements.
- If you want to learn more about our Match&Enrich solution for Procurement, click [here](#).