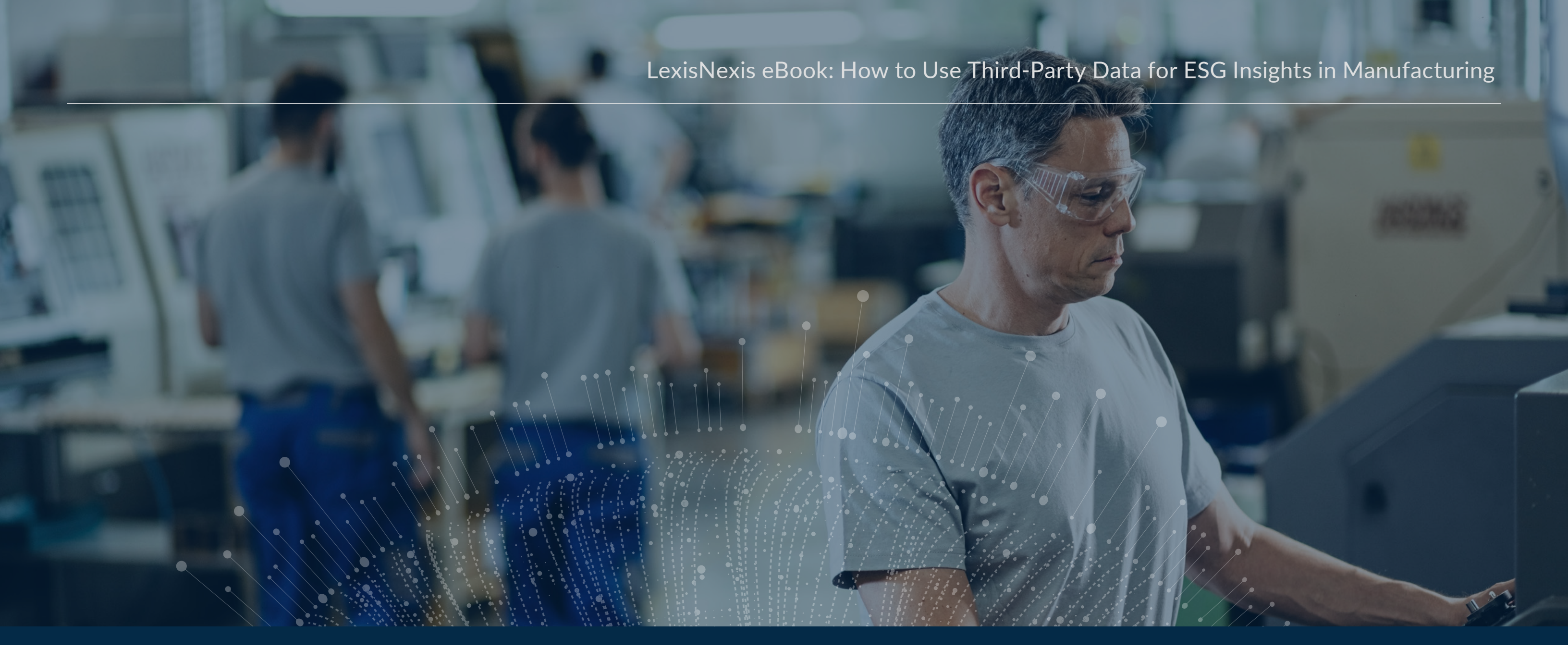
How to Use Third-Party Data for ESG Insights in Manufacturing

Using Text-Based Data to Monitor for Environmental, Social and Governance Risks and Opportunities

Environmental, social and governance (ESG) factors began rising to prominence in the financial sector after the term ESG was introduced in the 2006 United Nation's Principles for Responsible Investment report.[1] In the years since, however, ESG considerations have become table stakes for companies across all industries.

Manufacturing, in particular, faces intensifying pressure to address environmental, social, and governance within its own organization and among their extensive supply chains. **What is behind the rapid rise?**

[1] Principles for Responsible Investment



Expanding ESG regulatory requirements in manufacturing

> "If you look back at the last 50 years, we've moved from product safety to product environmental impact, to environmental, social and governance regulations. At one point or another, product safety and product environmental impact were optional best practices. Then, regulators got ahold of them and turned them into regulations. There's no reason to think ESG will be any different."[2]
>
> *~ Association of Equipment Manufacturers*

Manufacturers already have compliance considerations, but the increased emphasis on ESG has led to new regulations—with more to come. Last fall, the **Harvard Law School Forum on Corporate Governances** pointed to three key regulatory developments signaling that "Global ESG regulation is set to make a leap."[3] Here, we'll explore the main points of the EU Corporate Sustainability Due Diligence Directive, the EU Corporate Sustainability Reporting Directive, and the US Mandatory Climate Disclosure.

Global consultancy EY suggests that "The increasing reliance on ESG reporting represents one of the most significant changes in public company reporting since the formation of the SEC nearly 100 years ago."[4]

As a result, manufacturers should expect to see more reporting requirements related to ESG and overall sustainability, as well as greater standardization in how the data is reported.

2 "Why ESG Issues Should Have Manufacturers Rethinking Regulatory Compliance and Embracing Supply Chain Sustainability," Association of Equipment Manufacturers.
3 "The Global ESG Regulatory Framework Toughens Up," Harvard Law School Forum on Corporate Governance.
4 EY article: "5 ways manufacturing companies can tackle ESG"

EU Corporate Sustainability Due Diligence Directive

Adopted in February 2022, the **EU's Corporate Sustainability Due Diligence Directive (CSDDD)** sets obligations of large companies to identify human rights and environmental adverse impacts.
It applies to:

- EU companies with more than 500 employees and more than $158,375,250 (€150,000,000) global turnover
- Companies in other countries with more than $158,375,250 (€150,000,000) turnover in the EU, with lower thresholds for organizations in "high-impact" sectors

EU Corporate Sustainability Reporting Directive

The **Corporate Sustainability Reporting Directive,** an update to the EU's Non-Financial Reporting Directive, will operate in tandem with the CSDDD. Member States are required to implement the CSRD, and its obligations will start to apply as of January 1, 2024. Like the CSDDD, the requirement reaches beyond the EU's borders to include:

- All large companies incorporated in an EU member state, including EU subsidiaries of non-EU companies with a net turnover of more than $42,250,200 (€40,000,000) and more than 250 employees
- Non-EU incorporated companies that carry on substantial activity in the EU with a net turnover in the EU over $158,502,000 (€150,000,000) two consecutive years

U.S. Mandatory Climate Disclosure

And the action isn't just happening in the EU. The U.S. Securities Exchange Commission has initiated plans for **Mandatory Climate Disclosure** rule changes, which will classify greenwashing as SEC fraud and will require all U.S. public companies and those that work with them to disclose emissions, including the entire supply chain.

Reputational drivers on the rise

Regulators aren't the only ones watching how companies engage in ESG initiatives. Shareholders have begun evaluating ESG performance on par with financial performance, so manufacturers will face more pressure from board members and investors to implement robust ESG strategies. Who else is watching?

Job seekers

Prospective employees look for organizations that address key ESG considerations:[5]

71% Human rights

66% Economic inequality

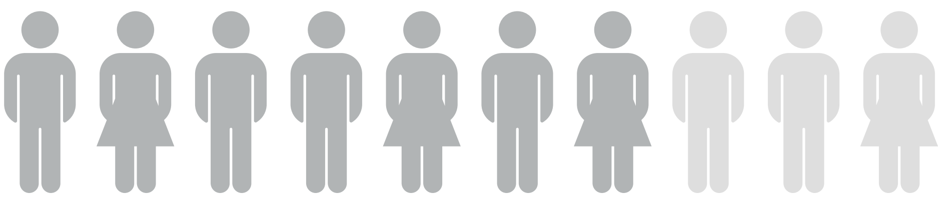
66% Racial justice

63% Climate change

63% Gender equality

Employees

7 out of 10 want to work for a company that reflects their own values and has a positive societal impact.



[5] 2022 Edelman Trust Barometer Special Report on Trust in the Workplace

Consumers

83% of consumers[6] think companies should actively shape ESG best practices

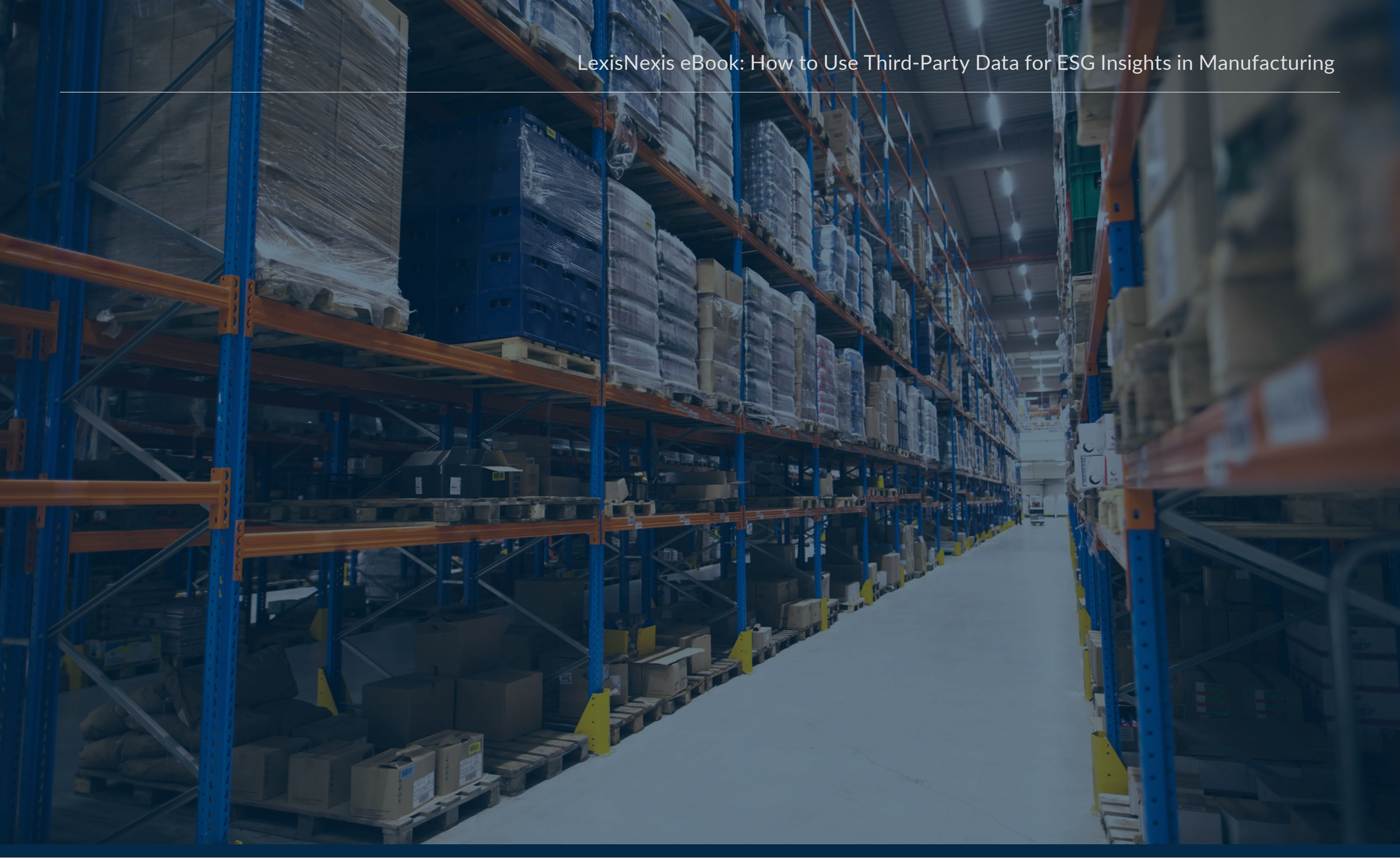
More than 75% would stop doing business with organizations that treat the environment, employees, or the wider community poorly

Even perceived failures on ESG commitments can lead to serious consequences among your stakeholders, employees, and consumers, including:

- Lasting brand and reputation damage
- Lost revenue from consumer boycotts
- Reduced access to capital from investors withdrawing support

And, of course, as the ESG regulatory landscape evolves, the potential costs of real ESG failures will be significant, including fines and legal fees, plus the cost of remediation and further strengthening compliance processes.

[6] PWC article: "How much does the public care about ESG"



The upside of implementing ESG monitoring

Committing to ESG is good business given the regulatory, reputational, and financial pressures surfacing today. But risk isn't the sole consideration. ESG standards can also open doors to new opportunities.

> "Purpose-driven brands achieve more than twice the brand-value growth of brands that focus purely on profit generation."[7]
>
> *- Erica Sweeney*

By engaging in data-driven ESG monitoring, manufacturers demonstrate ongoing commitment to rigorously pursue positive ESG performance and identify potential ESG problem points throughout the business, including within supply chains and other third-party associations.

86% to 95% of a manufacturer's ESG impact is a result of supplier activities.[8]

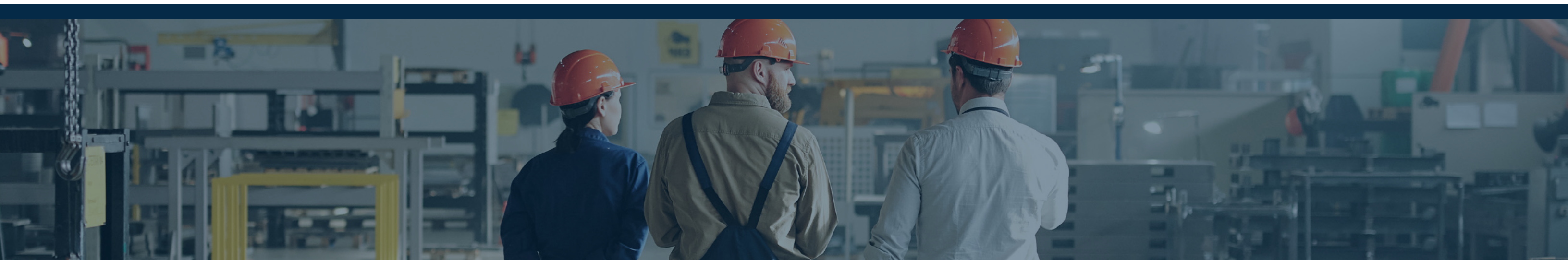
[7] Erica Sweeney, "Study: Brands with a purpose grow 2x faster than others," Marketing Dive
[8] Principles for Responsible Investment

When establishing an ESG monitoring process, it can be helpful to look at ESG using the four pillars set by the World Economic Forum for common metrics and consistent reporting of sustainable value creation. The pillars also align with the essential elements of the United Nations Sustainable Development Goals (SDGs):

Pillar 1: Principles of Governance	Pillar 2: Planet
• Setting purpose • Governance body composition • Material issues impacting stakeholders • Anti-bribery and corruption • Protected ethics advice and reporting mechanisms • Integrating risk and opportunity into business processes	• Greenhouse gas (GHG) emissions • Implementation of climate-related financial disclosures • Land use and ecological sensitivity • Water consumption and withdrawal in water-stressed areas
Pillar 3: People	**Pillar 4: Prosperity**
• Diversity and inclusion • Pay equality • Wage level • Risk of child, forced or compulsory labor • Health and safety	• Absolute number and rate of employment • Economic contribution • Financial investment contribution • Total research and development expenses • Total tax paid

By establishing an ESG monitoring process, manufacturers can solidify ESG commitments, improve ESG risk awareness across the supply chain and other third-party relationships, and even identify opportunities to meet ESG standards through product innovation.

Plus, improved reporting and other ESG-focused communications can drive engagement with stakeholders, employees, and consumers.



5 steps to take for effective ESG monitoring

1

Identify the relevant ESG metrics for your organization

ESG concerns for organizations in chemical manufacturing or oil and gas extraction may look very different than those in automotive or aerospace manufacturing. Prioritize metrics based on your ESG commitments, along with stakeholder and regulator expectations, to create targeted monitoring.

2

Identify third-party data providers

Effective monitoring starts with sourcing the right data for your needs. While some of the data you use comes from within or is self-reported by suppliers, incorporating ESG-related data can expand visibility into emerging risks or opportunities.

3

Assess the quality and relevance of the data

When choosing a data provider, consider how the data is aggregated and enriched. Does the provider aggregate from multiple sources, including licensed content not available on the open web? Is the data normalized and enhanced with tags and metadata to make it easier to find relevant insights in big data?

4

Integrate data into your ESG monitoring system and continuously analyze results

Depending on your specific approach, you may want to ingest data using a Search and Retrieve API that delivers a steady flow of data based on the criteria you set. On the other hand, a bulk API delivering high-volume news related to environmental issues, for example, could fuel more advanced analytics to understand trends over time.

5

Share the data with internal stakeholders and external stakeholders, such as investors, customers, and regulators.

Reporting standards are a work in progress. Regardless of the framework you use, transparency in your communications is key.

What to look for when sourcing text-based ESG data

Not all text-based datasets are created equal. When starting your ESG monitoring process, make sure to look for a dataset that includes the following:

Comprehensive

- Licensed and open web sources
- Global to local coverage

Timely

- Current data for in-the-moment awareness
- Historic data for deeper analysis

Relevant

- Industry-specific publications
- ESG-focused news feeds

Source Provenance

- Aggregation of data from reputable sources
- Single source for multiple datasets, reducing billing complexity

Enriched

- Semi-structured to improve usability, reduce wrangling
- Enhanced with index tags and other metadata

Without all these features, you could risk missing key information—leading to lost revenue, fines and threatening growth. That's why it's so crucial to make sure you're getting the complete picture. A dataset that includes the above will be the best starting point for company and third-party ESG monitoring and make sure you have all of the information you need.

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