



Leveraging the “S” in ESG Through a Diverse Supply Chain

It is clear that the makeup and efforts of suppliers in supply chains can have a truly positive impact on people and the environment. From increasing inclusion of people with disabilities to reducing greenhouse emissions, supply chain performance is key to progress.

Diversity, Equity, and Inclusion (DEI) is a term heard a lot today, but mostly in reference to the workforce. As focus is placed on Environmental, Social, and Governance (ESG) practices, DEI is increasingly broadened to include supply chains, as well as the workforce. Placing Diversity under the purview of “Social” makes sense, because it impacts the organization’s operations, and it also impacts communities and drives economic growth. It is usually accepted that diversity influences organizational agility, innovation, and adaptability, and now there is also growing realization that supplier diversity programs in the supply chain can also address things such as social injustice and can lead to the inclusion of people, such as those with disabilities.

Supply Chains That Make Socioeconomic Contributions

In *Why You Need a Supplier-Diversity Program*, authors Alexis Bateman, Ashley Barrington, and Katie Date discuss the socioeconomic advantages of a well-run supplier diversity advantage. One is that a diverse business association with a major brand can increase the smaller business’s customer base, because of the customer’s positive perceptions of the major brand. This in turn helps communities. The authors hold up two companies as models for leveraging supplier diversity as a strategy for socioeconomic contributions – UPS and Coca-Cola.

UPS is a leader in supplier diversity, recognizing its importance to long-term organizational success with the initiation of a program in 1992. The authors spoke with Kris Oswald, Vice President of Global Supplier Diversity at UPS. The company started the program in the belief that inclusiveness was the right thing to do and not because of compliance issues. It now spends \$2.6 billion each year with small and diverse suppliers. The program has evolved over time, and one way it has progressed is by developing multiple partnerships with diversity councils and third parties to support their efforts to help diverse suppliers succeed. Examples include the Women’s Business Enterprise National Council, the U.S. Hispanic Chamber of Commerce, and Disability:IN. Inclusive procurement brings broad societal benefits, generating hundreds of billions in economic output, creating millions of jobs, and producing tens of billions in taxes.

Coca-Cola has committed to spending \$1 billion with diverse suppliers. The company established a robust supplier development program that works with diverse suppliers to create an Individual Development Plan (IDP). The IDP includes business development, executive education and training, operational efficiency, and mentoring. The Supplier Training & Empowerment Program (STEP) is another program that helps women overcome barriers to starting, sustaining, and growing their businesses. It includes four modules also: supply chain management, customer relationships, strategy and funding, and advocacy and resources.



Including People with Disabilities in the Supply Chain

One of the most intractable problems has been the continued exclusion of people with disabilities from full participation in the global economies. The Disability:IN organization has a disability-owned business enterprise (DOBE) certification program that is recognized by The Billion Dollar Roundtable. By including a DOBE in the supply chain, an organization is increasing the employment of people with disabilities. DOBEs, says Disability:IN, employs people with disabilities at 6-7 times the rate of their non-DOBE peers. Businesses connecting with DOBEs increase supply chain diversification, make a social and economic impact, and lead by example as community and industry leaders.

According to McKinsey, two-thirds of a company's ESG footprint is in the supply chain. The supply chain strategy for vendor selection can make an enormous difference in each category of ESG, including Social. The key is developing a holistic strategy and aligning it with the supply chain network. This will also take innovative approaches that specifically address some of the issues holding back the disabled.

Allyable is a company launched specifically to create a platform for companies that makes content and digital assets accessible for people with disabilities. It was started by a man with hearing loss. Approximately 15% of the global population is disabled due to cognitive, mobility, auditory, visual, speech, age, or motor issues. Many disabled people around the world have minimal or no digital or web accessibility. A number of governments around the world have passed anti-discrimination legislation for digital accessibility which is based on international standards called the Web Content Accessibility Guidelines (WCAG). Those countries include the U.S., U.K., Canada, Australia, Israel, the European Union, and countries in South America and Asia.

The Social element of ESG encompasses the DEI of suppliers, as well as employees, customers, community relations, technology, and much more. Recognizing both digital accessibility and disability inclusion in ESG criteria and scoring helps the business prioritize disability-owned vendors in the supply chain, along with diversity talent practices.

Making Significant Contributions to Sustainability

Embedding ESG principles in supply chains is no longer an option, because investors, consumers and other stakeholders want companies to exercise Corporate Social Responsibility. The supply chain is an important area where real change can occur, both for the benefit of people and the environment. For example, global climate change can be partially addressed through abatement of Scope 3 emissions, which are indirect emissions occurring in the value chain. For many companies, the Scope 3 emissions account for as much as 80% of greenhouse emissions. Business leaders are engaging suppliers in various ways. The global firm Zalando committed to having 90% of its key suppliers determine their own decarbonization targets. Sustainability assessments are mandatory for partner brands and private labels sold on its platform. Rubin Ritter, Zalando's CEO, anticipates that one day brands could be removed from its platform based on sustainability performance.

Members of supply chains can expose companies to negative risks or become invaluable partners in corporate efforts to be good global citizens. Building a diverse supply chain that includes disabled entrepreneurs and suppliers who hire the disabled is just one strategy for creating socioeconomic



benefits. Building sustainability principles into the supply chain and developing a diverse workforce are two more, and success requires good governance. Unfortunately, it is often the disabled that are excluded from opportunities, and that can (and must) change.