

Sustainable supply chain

Supplier evaluation – recommended guidelines

While traditional supplier evaluations primarily focus on attributes such as product quality, cost and delivery ratio, sustainable supply chain management requires companies to take into account and assess “sustainability” in their core business and thus also in their supplier evaluation. The present document supports companies in reviewing their existing system of supplier evaluation and developing it in a more sustainable way.

Generally, one should consider that the integration of sustainability criteria into supplier evaluation – like sustainable supply chain management in general – is a longer-term process that proceeds step by step. The theme of sustainability already has a stronger presence in some industries than in others. In these industries, it is easier to find suppliers who can fulfil not only the “traditional” criteria mentioned above but also sustainability criteria.

The present guidelines address:

1. The **selection of sustainability criteria**, which are presented and explained.
2. The **integration of sustainability criteria** into the existing supplier evaluation system.
3. The **incorporation of the process of supplier evaluation** into sustainable supply chain management.

1. What sustainability criteria should the company use?

The issue of sustainability in supplier evaluation can essentially be organized according to three established thematic areas: environmental responsibility, social sustainability and business ethics. Building on this, the company should review what industry-specific thematic areas might be relevant. For example, for companies in metalworking (and other) industries, it could make sense to cover the treatment of the minerals that are known as “conflict minerals” separately. In general, sustainability criteria are a part of the Code of Conduct that companies send to their suppliers.

1.1. Criteria for environmental responsibility

- Reducing **emissions** (greenhouse gases, airborne pollutants, noise)
- Improving **waste management** (avoiding, utilising and properly disposing of waste)
- Treating and discharging **wastewater** in an environmentally friendly way
- Reducing **resource consumption** (including **energy** and **water**) and bolstering energy efficiency
- Protecting **natural ecosystems** and **biodiversity**

1.2. Criteria for social responsibility

- Rejecting **forced labour** and exploitative **child labour**
- Complying with legal provisions regarding **wages** and **working hours**
- Implementing **workplace safety** and **health measures**
- Complying with the general principle of **non-discrimination** (gender, race, religion, etc.)
- Establishing **complaint mechanisms** for employees

1.3. Criteria for business ethics

- Counteracting **corruption**
- Recognising companies' **ownership rights**
- Shaping **political participation** in a responsible way
- Promoting **fair competition**
- Upholding **integrity**

1.4. Dealing with conflict minerals (if relevant)

Avoiding the use of **minerals** (especially tin, tantalum, tungsten and gold) from conflict zones

- Verifying the origin of minerals
- Fulfilling documentation requirements (such as those in the Dodd-Frank Act, for example)
- Relying on initiatives and standards for sourcing conflict-free minerals (e.g. EICC Conflict-Free Sourcing Initiative; OECD Due Diligence Guidelines)

1.5. Using established standards

The sustainability criteria listed above can largely be found in established standards and conventions, as well as similar documents. Criteria on social responsibility can be taken from sources including the conventions of the International Labour Organization and the ten principles of the United Nations Global Compact. In the area of environmental responsibility, key requirements can be found in the environmental management norms EMAS and ISO 14001, which can be certified. When evaluating suppliers, the company should thus take into consideration whether they are certified according to certain standards. This makes it easier to evaluate suppliers, as sustainability criteria can be pooled through standards. The company should take a pragmatic approach to this, and should make sure that it does not only accept special environmental and social standards, but also accepts equivalent standards.

Aspects of sustainability can thus often be evaluated by measuring the degree of compliance with a Code of Conduct or, if the Code of Conduct does not refer to such criteria, by measuring the degree of compliance with different standards or certifications concerning environmental and social responsibility.

2. How does the company integrate sustainability criteria into supplier evaluation?

If the company is integrating sustainability criteria (more extensively) into supplier evaluation, it is helpful to explain to suppliers why the company wants to integrate these sustainability criteria (more extensively) into its relationship with suppliers from now on. In consideration of existing evaluation processes in which suppliers are normally evaluated according to product quality, delivery times and value for money (along with other criteria), there are two model solutions for (better) integrating sustainability criteria. These two options are discussed in greater detail below.

2.1. Weighting of sustainability criteria

The first option is to add to existing supplier evaluation systems in such a way that sustainability criteria and “traditional” evaluation criteria are treated as **equally important**. This places environmental and social criteria on an equal footing with economic criteria such as product quality, delivery times and value for money, such that (non-) fulfilment of sustainability criteria can affect the supplier’s positive or negative evaluation to the same extent as the (non-) fulfilment of price or quality criteria.

In practice, the question of whether to treat sustainability criteria equally with traditional criteria when evaluating suppliers is closely intertwined with the level of sustainability within an industry. Is sustainability an important issue throughout the entire value chain, for example because customers have a high level of demand for sustainable products, it is easier for the company to apply this to supplier evaluation. If greater sustainability in the supply chain reduces risks for the company (e.g. through better handling of conflict minerals or more control over suppliers in regions with low environmental and social standards), this can also lead companies to establish an evaluation system that treats sustainability criteria equally with other criteria.

In some industries, sustainability is not yet firmly established at every step of the value chain. There are a variety of reasons for this: for example, the absence of direct consumer relations that drive sustainability or the presence of value chains with powerful suppliers, which do not allow for the company (as a

customer) to exercise much or any influence in the direction of sustainability. In such cases, sustainability criteria often cannot be duly taken into account and companies cannot switch to more sustainable suppliers.

This is then reflected in the weighting of evaluation criteria, and sustainability criteria are **weighted less** in evaluations.

The question of what approach is sensible and possible for the company should always be approached in a way that takes the company's specific context into account. Along with the influencing factors mentioned above, companies can also make the weighting of sustainability criteria dependent on the particular supplier's procurement volume or its share of the total procurement volume, the supplied product's significance to the company, and the question of whether alternative suppliers or alternative products are available. The size of the company should also play a role in the question of what level of sustainability, and in what form, can be expected. One thing that should be checked, for example, is the minimum size of supplier for which a certified environmental management system can be demanded.

Generally, the long-term goal should always be to integrate sustainability into business processes together with the suppliers and in conjunction with other companies in the industry, and to raise the industry's overall level of sustainability.

2.2. Conducting sustainability evaluations

The company should check what capacities for sustainability evaluation (with data collection and analysis) already exist within the company before determining how many suppliers it will gather sustainability information from.

What is important in evaluating suppliers is what criteria can be considered to have been fulfilled, whether there are violations, and if so, how grave the violations are. This can be queried through a point-based evaluation system that assigns different values to the different sustainability criteria that are checked through the supplier's self-assessment or as part of an audit. An example of such a point-based evaluation system can be found in the table below, in which sustainability criteria and "traditional" procurement criteria are evaluated on an equal footing. Here the number of points awarded per criterion is oriented to the extent to which the criterion is fulfilled (100 points = entirely fulfilled, 0 points = entirely unfulfilled), such that all the points can be added together at the end, yielding a final evaluation of the supplier on a scale between, for example, "very appropriate" and "inappropriate".

Table 1: Sample evaluation system

Area	Criteria	Points given (0-100)	Weighting of criteria
Price	<ul style="list-style-type: none"> Value for money, fair dealing, etc. 	<ul style="list-style-type: none"> ... 	<ul style="list-style-type: none"> 25%
Quality	<ul style="list-style-type: none"> Customer complaints, fulfilment of quality management requirements, etc. 	<ul style="list-style-type: none"> ... 	<ul style="list-style-type: none"> 25%
Sustainability	<ul style="list-style-type: none"> Compliance with the Code of Conduct and with certifications based on environmental and social standards Environmental protection activities Sustainability/environmental manager 	<ul style="list-style-type: none"> ... 	<ul style="list-style-type: none"> 10 % 10 % 5 %
Organisation	<ul style="list-style-type: none"> Adherence to delivery dates, flexibility, service etc. 	<ul style="list-style-type: none"> ... 	<ul style="list-style-type: none"> 25%

2.3. Differentiating between new and existing supplier relationships

It is fundamentally easier with new supplier relationships to demand that sustainability criteria be taken into account from the outset or to make them a precondition for working together. With existing suppliers, on the other hand, it can be advisable to integrate sustainability into the business relationship together and to raise sustainability-related requirements incrementally over time. Such an approach is more realistic than demanding that suppliers immediately integrate aspects of sustainability, which can place too heavy a strain on both suppliers and one's own company.

3. How is supplier evaluation incorporated into sustainable supply chain management?

Supplier evaluation is an important part of the process of sustainable supply chain management. Knowledge of how to incorporate it is important because the company has to check what information is necessary for supplier evaluation from a sustainability perspective and what consequences evaluation from a sustainability perspective has for further dealings with the supplier (see figure on next page).

The first step is to analyse and assess essential sustainability issues, which are often connected with answering the question of which suppliers sustainable supply chain management should focus on. Building on this, the company decides on measures to make sustainable supply chain management binding, generally by means of a Code of Conduct. This is sent to both new and existing suppliers in order to inform them of the necessary requirements in the different thematic areas and at the same time to call upon them to fulfil these requirements.

Connected to this is a review of the requirements of the Code of Conduct and of the requirements for suppliers. Supplier self-assessment and/or audits, on the basis of which the sustainability performance of suppliers can be assessed according to an evaluation system as described in the Code of Conduct, lend themselves to this purpose. If the supplier's performance is rated unsatisfactory, it makes sense initially to decide on improvement measures together with existing suppliers and to give them time to improve their sustainability performance. Only afterwards should the requirements be reviewed again by means of a self-assessment or an audit, before a final evaluation is made which determines whether the supplier relationship will be continued or terminated.

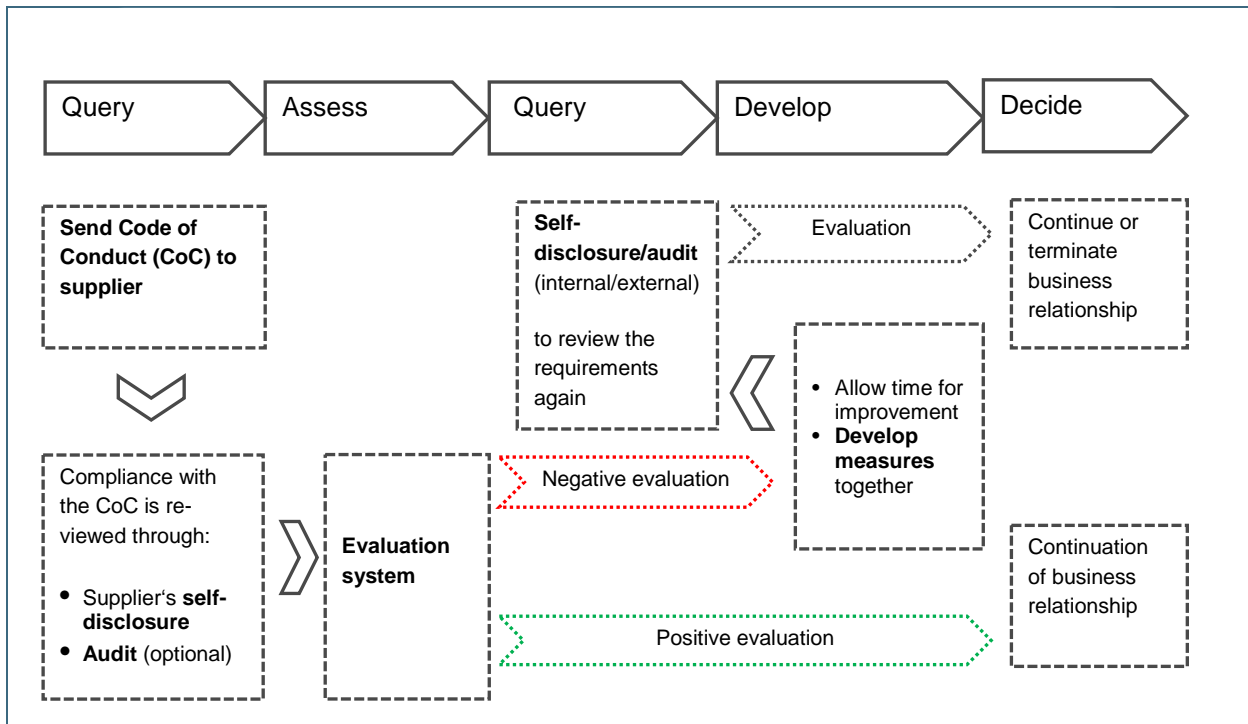


Fig. 1: Example of process of evaluating existing supplier



Industrie- und Handelskammern
in Bayern

This document is part of the “Sustainable Supply Chain” component of the “Online Sustainability Management Tool for SMEs”. These working materials were created in cooperation with the Association of Bavarian Chambers of Commerce and Industry (BIHK) as part of the Bavarian Environmental Pact.

Publication details:

Publisher:

Bavarian Environment Agency (LfU)
Bürgermeister-Ulrich-Straße 160
86179 Augsburg

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Editorial office:

LfU/ Ref. 11, Infozentrum UmweltWirtschaft
Website: www.izu.bayern.de

Image credits

LfU

Last updated:

November 2018

Postal address:

Bavarian Environment Agency
86177 Augsburg

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