



Sustainable supply chains

Supplier evaluations – 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 account for and assess sustainability in their core business and consequently in their supplier evaluations. This document helps companies review their existing system for supplier evaluations and develop it in a more sustainable way.

Generally speaking, it's important to keep in mind that integrating sustainability criteria into supplier evaluation – like sustainable supply chain management in general – is a long-term process that takes place step by step. The topic of sustainability already has a stronger presence in some industries than in others. In these industries, it can often be easier to find suppliers who can fulfil not only the 'traditional' criteria mentioned above but also sustainability criteria.

These guidelines cover

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

1 Which sustainability criteria should the company apply?

In principle, the issue of sustainability in supplier evaluations can be organised according to three established topics: environmental responsibility, social sustainability and business ethics. Building on this, the company should review which sector-specific thematic areas might be relevant. For example, for companies in metalworking (and other) industries, it could make sense to cover the treatment of conflict minerals separately. Generally speaking, sustainability criteria form part of the Code of Conduct that companies send to their suppliers.

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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 improving energy efficiency
- Protecting **natural ecosystems** and **biodiversity**

1.2. Criteria for social responsibility and human rights

- 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, origin, religion, etc.)
- Establishing **grievance mechanisms and processes** for employees

1.3. Criteria for business ethics

- Fighting **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 for social responsibility can be taken from sources including the conventions of the International Labour Organisation and the Ten Principles of the UN Global Compact. Key requirements in relation to environmental responsibility can be found in the certifiable environmental managements standards EMAS and ISO 14001.

When evaluating suppliers, companies should consequently 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. Companies should take a pragmatic approach to this and should make sure that they do not only accept special environmental and social standards, but also equivalent standards.

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

2 How should companies integrate sustainability criteria into supplier evaluations?

If a company wants to integrate sustainability criteria (more extensively) into supplier evaluations, it can often be 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 assessment processes in which suppliers are typically 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 more detail below.

2.1 Weighting of sustainability criteria

The first option is to expand on existing supplier evaluation systems in such a way that sustainability criteria and 'traditional' assessment 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, meaning 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. If sustainability is an important issue throughout the entire value chain, e.g. because customers exhibit a high level of demand for sustainable products, it is easier for the company to apply this to supplier evaluations. If increased sustainability along 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 these 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 assessment criteria, and sustainability criteria are **given less priority** in the evaluation.

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 prioritisation 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 a supplier from which a certified environmental management system can be required. Generally speaking, 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 evaluation

Companies first need to check their existing capacities for sustainability evaluations (with data collection and analysis) within the company before determining how many suppliers they will ask sustainability information from.

When assessing suppliers, it's important to determine which criteria can be considered to have been fulfilled, whether there are violations, and if so, how grave the violations are. This can be checked through a point-based evaluation system that assigns different values to the different sustainability criteria that are checked by 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 governed by the extent to which the criterion is fulfilled (100 points = entirely fulfilled, 0 points = entirely unfulfilled), whereby all points can be added together at the end, yielding a final evaluation of the supplier on a scale between, for example, 'highly appropriate' and 'inappropriate'.

Table 1: Sample evaluation system

Issue	Criteria	Points given (0-100)	Weighting of criteria
Price	Value for money, fair dealing, etc.	...	25%
Quality	Grievances, fulfilment of quality management requirements, etc.	...	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"> • 10% • 10% • 5%
Organisation	Adherence to delivery dates, flexibility, service, etc.	...	25%

2.3 Differentiating between new and existing supplier relationships

It is fundamentally easier to demand that sustainability criteria be taken into account from the outset or to make them a precondition for working together when establishing new supplier relationships. With existing suppliers, on the other hand, it can be advisable to integrate sustainability into the business relationship together and to increase sustainability-related requirements incrementally over time. This kind of approach can often prove more realistic than demanding that suppliers immediately integrate sustainability aspects, which can place too heavy a strain on both suppliers and the company itself.

3 How are supplier evaluations incorporated into sustainable supply chain management?

Supplier evaluations are an important part of the sustainable supply chain management process. Knowledge on how to incorporate this process is crucial, as the company needs to check what information is required to evaluate suppliers from a sustainability perspective and what consequences evaluating suppliers from a sustainability perspective has for further dealings with the supplier (see diagram on next page). The first step involves analysing and assessing key sustainability issues, which are often interlinked to answering the question of which suppliers sustainable supply chain management should focus on. Building on this, a company can then decide on measures to make sustainable supply chain management binding, generally by means of a Code of Conduct, which 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 require them to fulfil these requirements.

This is followed by a review of the requirements of the Code of Conduct and of the requirements for suppliers. Supplier self-assessments 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 to initially 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. Then a final evaluation is made to determine whether the supplier relationship should be continued or terminated. Terminating the business relationship should always be the last resort – 'cut and run' applies.

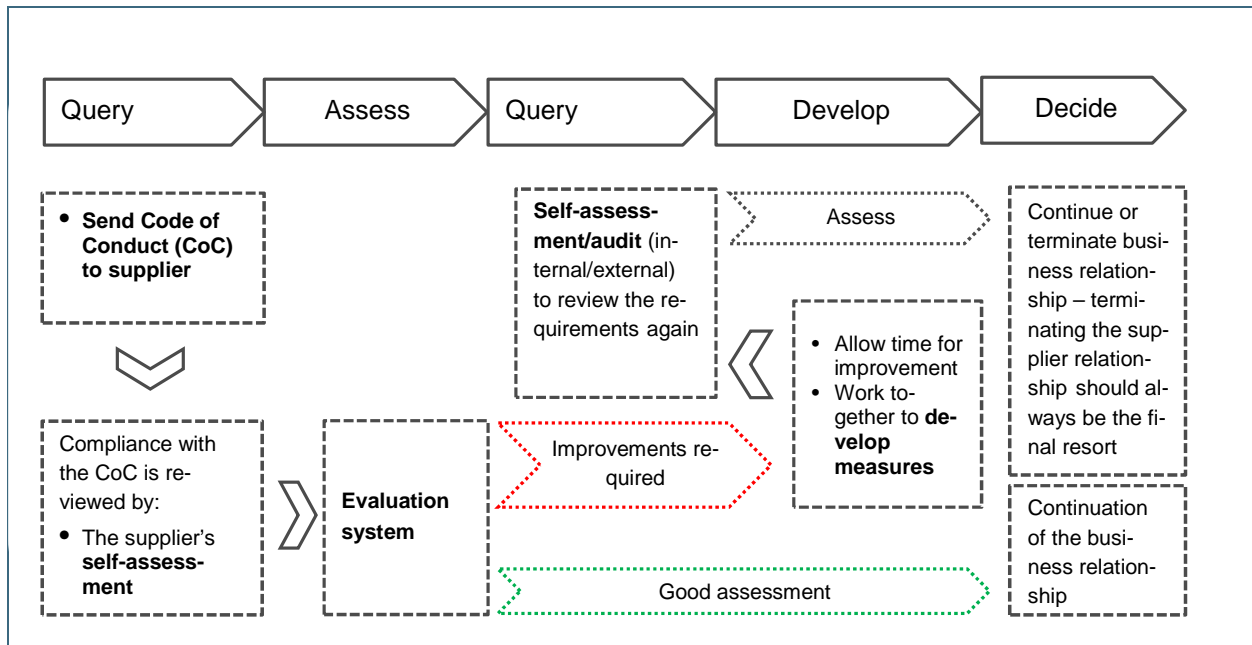


Fig. 1: Sample process to evaluate existing supplier



Industrie- und Handelskammern
in Bayern

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Bavarian Environment Agency (LfU)
Bürgermeister-Ulrich-Straße 160
86179 Augsburg
Phone: 0821 9071-0
Email: poststelle@lfu.bayern.de
Website: www.lfu.bayern.de

Revised by:

adelphi consult GmbH
Alt-Moabit 91
10559 Berlin

sustainable AG
Corneliusstraße 10
80469 Munich

Editorial team:

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