

White Paper

Five Essential Criteria For Selecting A Supplier Sustainability & Risk Monitoring Solution

Author
Michael G. Lacharoux, PhD

© Sourcing Innovation
Sponsored

White paper 3 of 3 in the
Supplier Risk Monitoring series



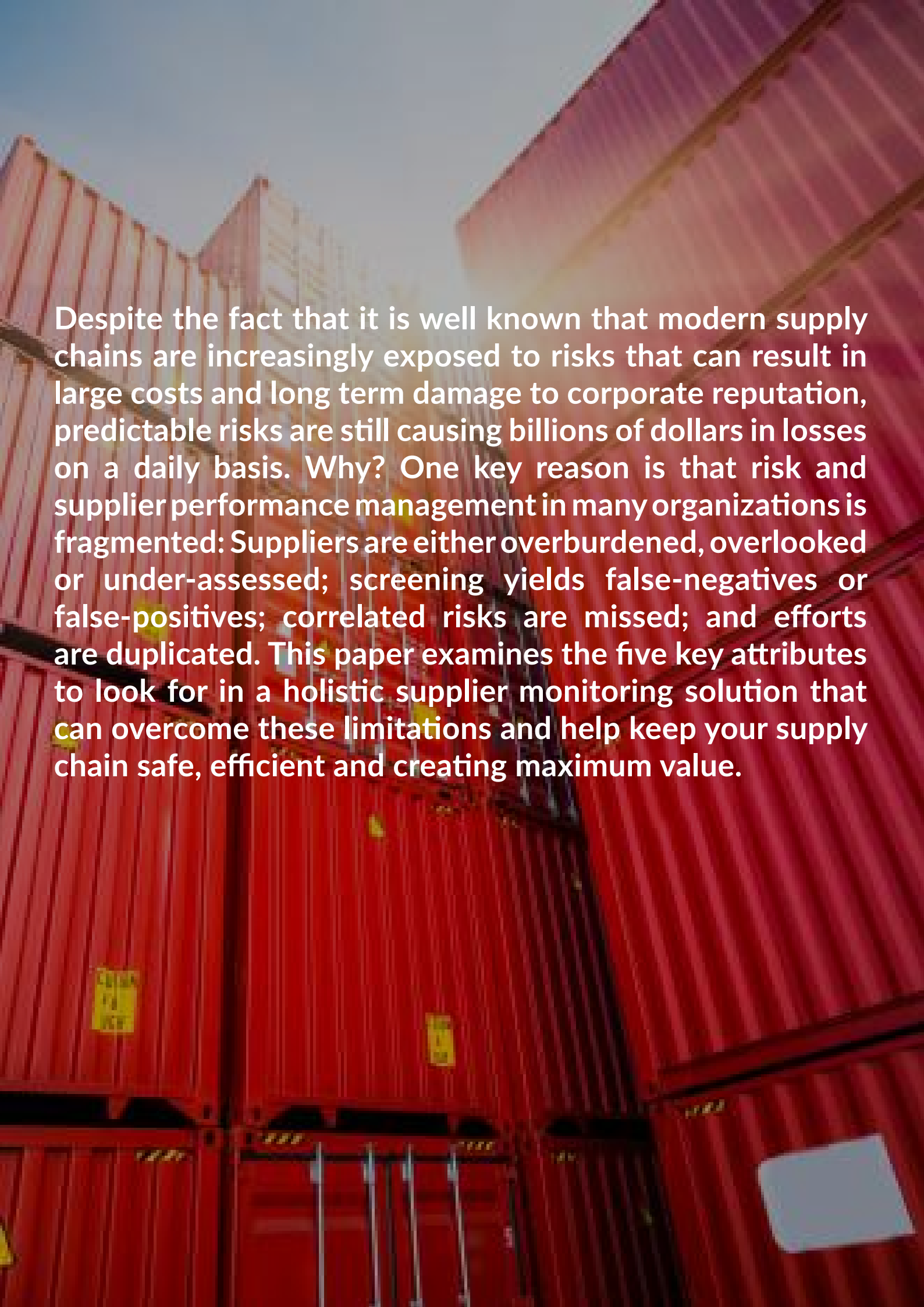
**Sourcing
Innovation**

Next Generation Supply Management Software

Sponsored by

ecoVadis

ENHANCING SUSTAINABILITY RISK



Despite the fact that it is well known that modern supply chains are increasingly exposed to risks that can result in large costs and long term damage to corporate reputation, predictable risks are still causing billions of dollars in losses on a daily basis. Why? One key reason is that risk and supplier performance management in many organizations is fragmented: Suppliers are either overburdened, overlooked or under-assessed; screening yields false-negatives or false-positives; correlated risks are missed; and efforts are duplicated. This paper examines the five key attributes to look for in a holistic supplier monitoring solution that can overcome these limitations and help keep your supply chain safe, efficient and creating maximum value.



Introduction

In our last paper on the limits of a siloed approach to risk management and what lessons can be learned from sustainability leaders, we noted that, despite the fact that it is well known that modern supply chains are increasingly exposed to risks that can result in increased operational costs, large losses, and long term damage to your corporate reputation, predictable risks are still causing significant losses on a daily basis. Many organizations are losing millions, and in some Global 3000 cases, billions of dollars a year due to ineffective supply chain risk management and monitoring.

The biggest reason for this is due to the fact that, in most organizations, risk management is fragmented, especially those risks related to suppliers' performance and practices in Corporate Social Responsibility (CSR) (also referred to as ESG or Environmental and Social Governance). With different departments doing their own risk assessment and mitigation projects that are looking at risk from different perspectives, suppliers are either overburdened, overlooked or under-assessed; screening yields false-negatives or false-positives; correlated risks are missed; and efforts are duplicated. See our previous paper on [Why Sustainable Risk Management Cannot Be Siloed](#) for more details. The net effect is that a fragmented approach wastes a lot of effort while providing only partial assurance of a sustainable, safe, and vibrant supply chain.

But it doesn't have to be this way. As described in our last paper, a holistic approach provides huge advantages. We can find solid case

examples of sustainability and compliance initiatives run through centralized leadership with a comprehensive program that not only proactively assesses all suppliers but includes ongoing monitoring that makes it possible to prevent most non-force majeure risks.

An organization that incorporates supplier CSR assessment screening is able to assess the supplier's business capability and management system (which goes well beyond the assessment of a sample product or a single site audit) and detect weaknesses that could lead to incidents before the incidents occur. This allows the organization to implement improvement plans with the supplier to address identified weaknesses before an incident occurs as a result of an insufficient capability – often before the first order is placed.

In addition, the right monitoring solution will scan data from multiple sources (e.g. local and global news, NGOs, government reports, watch lists, etc.) and will allow you to be as proactive as possible instead of reacting to bad news after it gets to court.

It should be a given at this point that the organization needs a good Corporate Social Responsibility (CSR) monitoring solution at the core of its supplier risk assessment process. What's not a given is what the solution should look like. Here are the five key questions to ask when selecting your solution.

Industrial and Geographic Breadth of Coverage (countries and categories)

1. What is the industrial breadth of coverage of the solution (countries, categories, etc.)?

While you might be a CPG, Pharmaceutical, or High-Tech company, you still use suppliers from dozens and dozens of industries as your business will require supplies in, and support across, dozens or even hundreds of purchasing categories. Furthermore, your organization will know very little about most of these industries. Take a typical CPG company, such as an apparel retailer. It will still use office supplies, require MRO to maintain its buildings and machines, run its software on high-end computers, require temporary services, require marketing and advertising agency support, require legal assistance for many routine contracts, e-Discovery when it becomes the target of a lawsuit, and so on.

As a result, a sustainability monitoring solution needs to support monitoring suppliers across industries as well as geographies. This is no easy feat considering that not only does each industry come with its own associated set of regulations, but they vary by geography. Take the examples of environmental, anti-bribery, and worker's rights legislation (see the paper on [4 Hidden Risks in Your Supply Chain](#) for more details). While there are a lot of similarities between North American and European Union regulations, there are differences as well. There are also similar laws enacted, or in development stages, in South America, Asia, and Australia. There are hundreds of regulations that an average global corporation needs to keep on top of if it wants

Depth of CSR Risk Monitoring Criteria



to ensure its supply chain is compliant. This traditionally requires a significant investment in staff, and build up of internal expertise, and, as discussed in our last paper, this investment is often considerably more than the average organization, with limited time and resources, can tackle on its own. That's why the monitoring solution needs to have a very broad scope in terms of the industries and regulations covered.

In addition to encoding the requirements for, and the issues at the heart of, hundreds and hundreds of regulations, it has to not only monitor thousands of different sources, but dozens of different types of sources. Depending on the industry, country, and/or regulation, the organization may have to monitor news sources, government sources, NGOs, industry association sources, user groups, third party forums, and so on. This will require a solution with the capability and scale to monitor and analyze and index all of these different data sources.

2. What is the depth of risk criteria covered?

Every supplier your organization is using, whether a hundred million dollar strategic supplier of your high-end electronics or a low-end million dollar supplier providing a few specialized MRO components and services - needs a complete and holistic assessment. For every supplier, this assessment must address CSR holistically and address sustainability, environmental responsibility, ethics, social responsibility and worker's rights, and provide enough of an assessment to make a decision of compliance against every piece of legislation the organization may be subject to.

From an environmental perspective, the assessment must cover both the supplier's operations and the products the supplier produces. From an operational perspective, it's important to assess the supplier's energy and



How actionable are the data and insights?

water efficiency, waste and pollution control, and biodiversity. From a product perspective, it's important to assess if the supplier is compliant with laws on material composition and quality control.

From a social responsibility perspective, the assessment must cover health and safety, working conditions, non-discrimination, and fundamental human rights (and ensure there is no slave or child labour in the supply chain).

From an ethical perspective, it's important to assess the supplier with respect to bribery and corruption, responsible marketing and advertising, and anti-competitive practices. Any of these ethical failures could cause the supplier, and by relation, your organization, a major media black eye.

Finally, from a sustainable procurement perspective, one needs to know what initiatives the supplier has underway to monitor similar risks in their own supply chain.

In order to achieve this depth of coverage, the solution must monitor a diverse range of sources and be aligned with international standards.

3. How actionable are the data and insights? Are there benchmarks?

It's not enough to have an assessment, the assessment has to be digestible and actionable by the average Procurement resource. An in-depth report on a supplier from a third-party isn't always enough to determine the sustainability of a supplier. Just because the supplier hasn't violated any regulations, it doesn't mean they are sustainable. Are they making any efforts



to improve their sustainability? How do they compare to their peers? What is the norm for the industry or geography they are in?

The solution needs a rating system that assesses each supplier against a common standard that allows an organization to quickly determine how the supplier stacks up against its peers and overall. A 4.5 out of 10 might be a bad rating overall, but if most suppliers within the same industry and region score 3 or below, the supplier shows promise and is a candidate for sustainability improvement.

The rating should be on a standardized point scale (out of 10 or 100) and be a calculation over a set of ratings on each relevant dimension that allows a user to drill in and see where that supplier who scored 8/10 does well (such as environmental efforts) and does not do well (such as ensuring it is always avoiding forced or child labour in its own supply chain).

This system should also allow a buying organization to quickly filter out suppliers who don't meet organizational thresholds, which could be defined against overall ratings or specific sub-ratings of particular importance to the organization with respect to the goods and services the supplier would be expected to provide. Rating systems allow buyers to set targets so they can define follow-up improvement plans for suppliers that don't meet thresholds and reward suppliers that meet or exceed their targets.

Plus, a system that regularly pulls in and updates intelligence from a global network of data sources allows for continuous validation of the

sustainability ranking, which is already better than any internal rating as it is not relying only on supplier or industry association data, which provides only part of the picture.

This depth not only allows you to build a detailed supplier assessment that gives you confidence that your holistic supplier risk assessment is complete and accurate, but also gives you the ability to create great benchmarks, risk maps, incentive programs and sustainable development action plans based on the normalized sustainability ratings and data maps.

Plus, as we hinted above, if the supplier can be plotted on a risk map showing average risk likelihood for the region and nearby suppliers in the region, as well as nearby regions, you can see how well that supplier is effectively doing in terms of sustainability, responsibility, and compliance. While a risk rating of 5 may seem high when the organization is shooting for an average risk rating of 3, if most suppliers in the region rate 7, then the supplier in question is one that is actively working to increase its sustainability and responsibility profile and reduce its own risk and its customers' risk.

Of course, this is only feasible if the solution also defines a meaningful standard benchmark based upon guidance from the best industry associations and NGOs and measures all suppliers and ratings against that common standard.



How Easy is the Solution to Integrate?

4. How Easy is the Solution to Integrate?

Ethics, corporate social responsibility, and sustainability information is vital information that can and should be used in many different supply management platforms such as e-Sourcing, e-Procurement, CLM, SRM and other platforms that support a wide variety of processes and workflows. As such, this integration is a must-have for major platforms. Moreover, in some organizations, this information also needs to be available to other departments that, and no surprise here, are reliant on different platforms and responsible for smaller or indirect spends not (fully) under the control of Procurement.

It's important that the solution come with an API that can be used to integrate the platform and the data feeds it produces into the various applications used by the organization so that each department

can reliably and properly assess its suppliers and potential suppliers on an ongoing basis. When the full team has access to current and complete sustainability data, everyone knows:

- *whether a supplier has been assessed and, if so, its associated risk rating and whether or not the supplier should even be under consideration*
- *whether a supplier has an associated risk indicator or warning and what investigation needs to take place to judge the risk*
- *the % of spend with suppliers that have a desired sustainability rating and how spend with a given supplier would affect that rating*

The API should also support the integration of 3rd party data into the platform, especially if the



This is a change management initiative as much as it is a solution selection and implementation initiative. Does the solution provider offer auxiliary services, such as data to help you map risks against your spend to convince your team and prioritize efforts?

organization has access to proprietary data feeds that can give it more insight into its supply base. For example, many suppliers are often related. In North America, we often see the situation where many companies are owned by the same holding company. In Asia, we often see the situation where an entity owns considerable stock in a number of related entities that are key suppliers. Risk in any one of these companies could be an indicator of risk in a related or parent company.

In addition, it helps if the platform comes integrated out-of-the-box with major ERPs and applications traditionally used for risk management to save the organization work.

5. What level of change management support is bundled with the solution to enable you to scale quickly?

Just plugging in an assessment and monitoring platform is not sufficient to transform the organization from average to world class. The organization

must evolve its fragmented and piecemeal risk management approach to an integrated risk management practice that scales, and with a holistic view into supplier assessment, selection, monitoring, and, when necessary, development or termination. The organization has to undergo a major change both in its procurement and risk management processes and mindset. Only then will it be a global leader with a low risk supply chain.

Not only does a new process have to be implemented that replaces the silo piecemeal efforts, and not only does a platform have to be selected that supports this, but the key players in each team or function have to buy in, use the standard CSR ratings/indicators and scorecards, and adopt the new, common view of supplier risk management and monitoring.

This is a change management initiative as much as it is a solution selection and implementation initiative. Does the solution provider offer data to help you



map risks against your spend to convince your team and prioritize efforts? Do they provide resources to help you review and refine your processes with the new data and integrate to your systems? Do they offer training for buyers/purchasing managers on the solution and guide them in embracing the change? You need a solution provider with the support team, process, and change management guidance that will help you get it right the first time and scale up quickly.

Conclusion

A silo approach to sustainability and risk management doesn't work. When different departments do their own risk assessment and mitigation projects that are looking at risk from different perspectives, suppliers are either overburdened, overlooked or under-assessed; screening yields false-negatives or false-positives; correlated risks are missed; and efforts are duplicated. See our [previous paper](#) for more details.

The only approach that truly works is a holistic approach to sustainability and risk management. With a proper sustainability and compliance initiative through centralized Corporate Social Responsibility (CSR) leadership that implements a comprehensive program that not only proactively assesses all suppliers but includes an ongoing monitoring initiative, an organization not only prevents most non-force majeure risks but has a good handle on on the full sustainability of its supply chain.

But monitoring needs to be continuous, and when you consider the very large number of global regulations the organization (and its products) is subject to, and the (sometimes tens of) thousands of suppliers that have to be monitored on a regular basis, this is only possible with the right platform.

However, selecting the right platform is not easy. The right platform simultaneously requires breadth of industry coverage, depth of criteria, useable insights and indicators with actionable feedback, and a great API that will allow an organization to integrate it all into the applications your purchasing team is using daily, ultimately helping your organization achieve a safe and sustainable supply chain.

EcoVadis has sponsored this paper from Sourcing Innovation, as part of a series. This is Paper 3 of a 3-part series from Sourcing Innovation. Get the other two papers here:

Paper 1:

"Playing With Fire: The 4 Hidden: Risks Lurking In Your Supply Chain"

[Request a copy...](#)

Paper 2:

"Why Sustainable Risk Management Cannot Be Siloed: Lessons from Leaders who beat the Odds"

[Request a copy...](#)



Author:

Michael G Lamoureux, PhD.
(c) Sourcing Innovation



White paper sponsor:

EcoVadis

www.ecovadis.com

EcoVadis is the first collaborative platform providing sustainability ratings and performance improvement tools for global supply chains. EcoVadis' easy-to-use CSR scorecards help companies to monitor environmental, ethical, and social practices in their value chain across 150 purchasing categories and 110 countries.

Over 130 industry leaders such as Verizon, Merck, Coca Cola Enterprises, Heineken, Johnson & Johnson, Renault-Nissan, ING Bank, and Nokia use EcoVadis to reduce risk, drive innovation and foster transparency and trust among over 25,000 trading partners.