



ecovadis

EcoVadis CSR Methodology Overview and Principles

The Need for Reliable, Simple and Global Supplier CSR Ratings

A company's business value is increasingly a reflection of its supply chain. Large corporations are the chief orchestrators of a myriad of competencies disseminated around the planet. Too often, supply chains are only as strong as their weakest critical link. Procurement executives face the daunting task of making sure that their company's supply network is sound, reliable and competitive. **Sustainable procurement** is now a strategic priority for a large majority of procurement directors. In this context, **the need for simple, reliable and global supplier CSR ratings has become a must.**

Benefits

The benefits of implementing sustainable procurement are manifold: **Reduce the risk** of supply chain disruption, **protect brands and company reputation, lower costs** through collaborative actions (e.g. reduction of energy consumption), **facilitate access to capital and increase valuation** (e.g. integration of ESG factors in investment decisions) and provide **market advantage** when consumers require a green and responsible supply chain.

Challenges

But implementing sustainable procurement on a wide scale is also a challenge due to multiple factors:

- Proliferation of CSR standards and labels
- Unavailability of information
- Internal change management
- Supplier engagement
- Lack of resources for remediation
- Complexity of supply chains

EcoVadis Solution

The EcoVadis solution addresses these issues by providing web-based collaboration tools for businesses, which allow procurement executives to get access to **easy-to-use, dynamic scorecards**, and to monitor the **sustainability performance of their trading partners** as well as their continuous improvement actions.

”Companies should make use of databases such as EcoVadis that provide buyers with a one-stop tool for evaluating suppliers against a set of sustainability criteria.”

– *Unchaining Value: Innovative approaches to sustainable supply* by SustainAbility, UNEP, UN Global Compact, 2008



Identifying a Good CSR Management System

The **objective** of the EcoVadis Corporate Social Responsibility (CSR) rating methodology is to **measure the quality of a company's CSR management system** through its policies, actions and results. The EcoVadis CSR rating methodology is based on **seven founding principles**.

EcoVadis 7 Principles

- 1 Evidence Based**

The burden of proof is on the company assessed. CSR management systems leave traces (e.g. policies, certificates, reporting). Supporting documents are a must. Company declarations are credited only if evidence is provided.
- 2 Industry, Location and Size Matter**

The CSR management system is assessed taking into account material industry issues, presence in risk countries and the size and geographical span of the company.
- 3 Diversification of Sources**

The rating is based not only on supporting documents provided by the company but also on standpoints published by NGOs, trade unions, international organizations, local authorities, or other third-party organizations (e.g. auditors, CDP, external compliance database).
- 4 Technology a Must**

A rating system can only become reliable and robust if it is supported by technology. Technology facilitates industrialization, which enables fast learning, growth and scalability.
- 5 Assessment by International CSR Experts**

The supporting documents are analyzed by a team of CSR experts from around the globe who keep track of the latest best practices in CSR.
- 6 Traceability and Transparency**

Every document used in the rating process is stored securely and can be traced back. Companies assessed have access, if needed, to the most detailed results and to each scoring decision.
- 7 Excellence Through Continuous Improvement**

A professional rating methodology is a methodology open to quality controls, continuous improvement, and to stakeholders' feedback. EcoVadis has implemented a company-wide quality management system supported by a client advisory board and a scientific committee.

Identifying a Good CSR management System (Cont'd)

Companies implement voluntary CSR management systems primarily for two reasons:

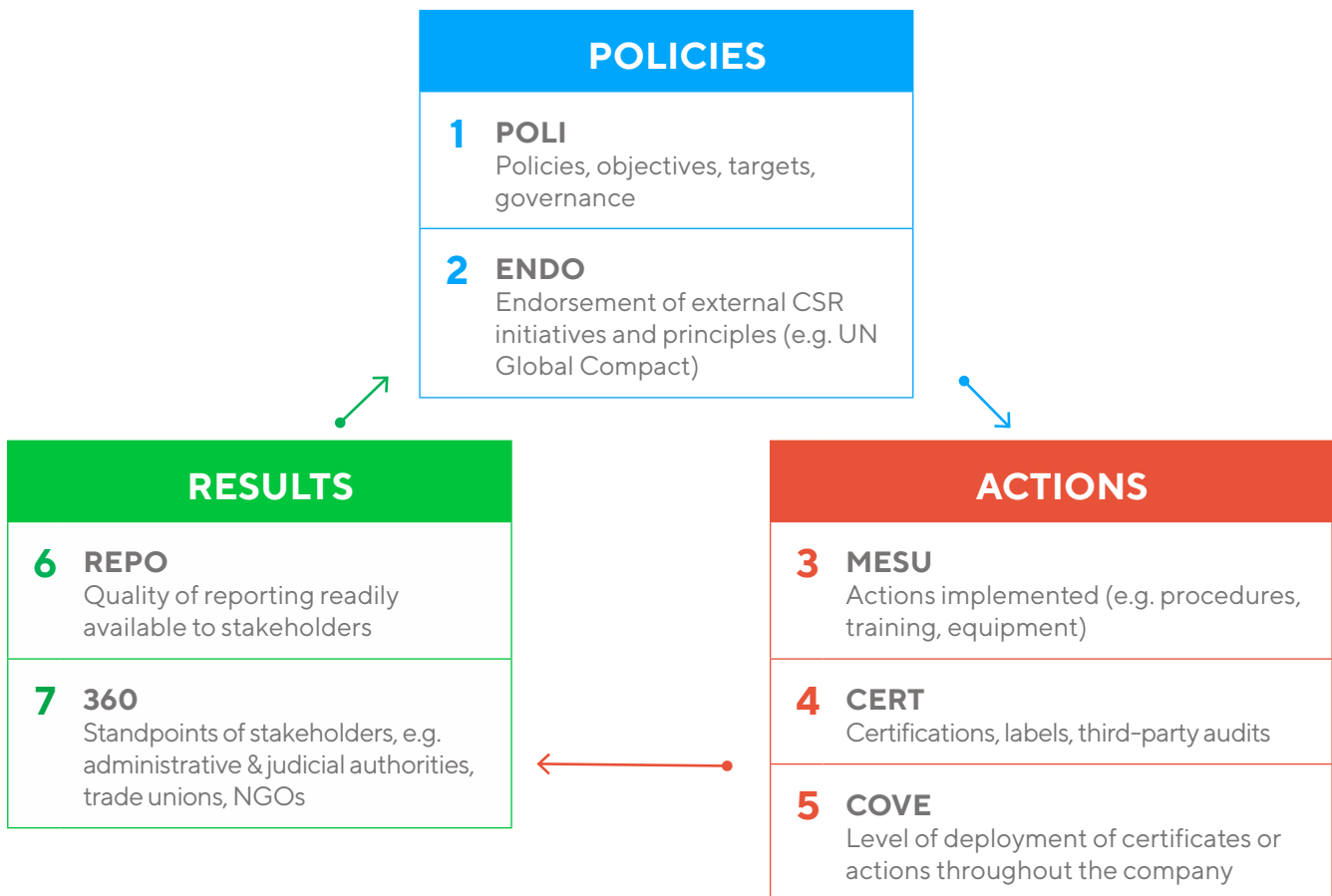
1. To remain compliant with legal requirements and minimize impact on stakeholders. For instance, companies will implement an anti-corruption management system to prevent employees from getting into legal issues.
2. To improve business performance and the bottom line. For instance, companies will set objectives in order to reduce energy consumption and ultimately reduce cost. Another example would be the implementation of training programs to develop human capital, increasing efficiency and productivity.



Identifying a Good CSR management System (Cont'd)

For EcoVadis, an effective CSR Management System is composed of the following elements: **POLICIES**, **ACTIONS** and **REPORTING ON RESULTS**.

These three management layers are separated into seven management indicators: **Policies** (POLI), **Endorsements** (ENDO), **Measures** (MESU), **Certifications** (CERT), **Coverage – Deployment of Actions** (COVE), **Reporting** (REPO) and **360° Watch Findings** (360).



These elements originate from the PDCA Cycle concept which forms the basis for a wide range of management standards around the world.

PDCA CYCLE

PDCA (plan-do-check-act or plan-do-check-adjust) is an iterative four-step management method used in business for the control and continuous improvement of processes. It is also known as the **Deming cycle** or **plan-do-study-act (PDSA)**.

The concept of PDCA is based on the scientific method, as developed from the work of Francis Bacon (Novum Organum, 1620). The scientific method can be written as “hypothesis”-“experiment”-“evaluation” or plan, do and check.

CSR Issues Covered: The Reference Model

When assessing a company's CSR management system, it is important to define what are the CSR issues covered by the management system. The assessment considers a range of CSR issues, which are grouped into four themes. The CSR issues are based on international CSR standards such as the Ten Principles of the UN Global Compact¹, the International Labour Organization (ILO) conventions², the Global Reporting Initiative (GRI)'s³ standards, the ISO 26000 standard⁴, the CERES Roadmap⁵, and the UN Guiding Principles on Business and Human Rights, also known as the Ruggie Framework⁶.

Note that the environmental themes cover impacts on the whole life cycle of products: Impacts from production processes, product use and end-of-life. CSR issues in the supply chain are also integrated into the Reference Model to take into account issues that are not only generated by direct suppliers, but can occur through Tier 2 or Tier 3 suppliers. The issues covered in each assessment are based on the relevance of the 21 CSR issues to the company context, such as industry, size and location.

21 CSR Criteria			
 ENVIRONMENT	 LABOR & HUMAN RIGHTS	 ETHICS	 SUSTAINABLE PROCUREMENT
Operations <ul style="list-style-type: none"> Energy Consumption & GHGs Water Biodiversity Local & Accidental Pollution Materials, Chemicals & Waste Products <ul style="list-style-type: none"> Product Use Product End-of-Life Customer Health & Safety Environmental Services & Advocacy 	Human Resources <ul style="list-style-type: none"> Employee Health & Safety Working Conditions Social Dialogue Career Management & Training Human Rights <ul style="list-style-type: none"> Child Labor, Forced Labor & Human Trafficking Diversity, Discrimination & Harassment External Stakeholder Human Rights 	<ul style="list-style-type: none"> Corruption Anticompetitive Practices Responsible Information Management 	<ul style="list-style-type: none"> Supplier Environmental Practices Supplier Social Practices

1. The UN Global Compact is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to take steps to support UN goals. The UN Global Compact's Ten Principles are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption (source: UN Global Compact website).
2. Since 1919, the International Labour Organization has maintained and developed a system of international labour standards aimed at promoting opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and dignity (source: ILO website).
3. The Global Reporting Initiative (GRI) is a leading organization in the sustainability field. GRI's Standards help businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues (source: GRI website).
4. ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible way. This means acting in an ethical and transparent way that contributes to the health and welfare of society (source: ISO website).
5. The Ceres Roadmap for Sustainability presents 20 expectations in the areas of governance, stakeholder engagement, disclosure, and performance that companies should seek to meet by 2020 in order to transform into truly sustainable enterprises (source: Ceres website).
6. In 2011, the United Nations Human Rights Council unanimously endorsed the UN Guiding Principles on Business and Human Rights, a set of guidelines for States and companies to prevent and address human rights abuses committed in business operations (source: OHCHR website).

Context-Specific Rating

In order to fully understand a company’s real impacts, the assessment framework is customized for each company according to its activity, size and location of its operations. These are defined upfront during company registration on the EcoVadis platform and will shape the questionnaire received. The following table gives an example of how criteria activation can differ based on industry*:

Criteria	Manufacture of Plastics Products	Computer Programming
ENVIRONMENT		
Energy Consumption & GHGs	×	×
Water	×	
Biodiversity		
Local & Accidental Pollution	×	
Materials, Chemicals & Waste	×	×
Product Use		
Product End-Of-Life	×	
Customer Health & Safety	×	
Environmental Services & Advocacy	×	×
LABOR & HUMAN RIGHTS		
Employee Health & Safety	×	×
Working Conditions	×	×
Social Dialogue	×	×
Career Management & Training	×	×
Child Labor, Forced Labor & Human Trafficking	×	
Diversity, Discrimination & Harassment	×	×
External Stakeholder Human Rights	×	×

*Criteria activation is regularly updated, consult online platform for latest activation.

Another way that criteria activation differs is based on the size of the company. This translates into the adaptation of questions that companies receive and the assessment methodology applied. For instance, several criteria and even an entire theme can be deactivated for very small companies (i.e. less than 25 employees) to reflect the context of their CSR management system. The customization is also performed at criteria level. For instance, a consulting company’s management of its exposure to climate change risks cannot be compared to a road freight transport company’s response to reducing CO2 emissions. These differences in the questionnaires stem from EcoVadis research analysts’ fundamental bottom-up analysis of each industry.

Question on Actions Implemented	
TRANSPORT OF ROAD FREIGHT	CONSULTING SERVICES
<p>ENV314: What actions are in place regarding the reduction of fuel consumption and the emissions of GHG?</p> <ul style="list-style-type: none"> Use of IT tools for optimizing route planning Promotion of off-peak distribution to clients Provide live traffic information to drivers Systematic optimization of truck loads Provision of regular Eco-Driving training to employees Provision of tools for clients to optimize demand of transport Provision of "carbon compensation" transport options for clients Provision of "CO2 emissions count" transport options for clients Others (please specify) 	<p>ENV313: What actions are in place regarding the reduction of energy consumption and the emissions of GHG?</p> <ul style="list-style-type: none"> Reduction of energy consumption through employees awareness programs Significant use (>20 % of energy mix) of renewable energies Reduction of energy consumption through innovative technologies (please specify) Monitoring direct CO2 emissions Monitoring indirect CO2 emissions Measures to optimize transport or reduce CO2 emissions from transport Official program of Offsetting of CO2 emissions (e.g. carbon neutral program) Monitoring CO2 emissions per type of service Company sponsoring of research project on climate change (please specify) Measures to reduce CO2 emissions from business travel (e.g. teleconferencing, video-conferencing) Measures for Green IT (e.g. efficiency of data centers or office hardware, virtualization, data life cycle management, etc.) Others (please specify)

Data Collection and Rating Process

The collection of supporting documents is essential.

IMPORTANT

The questionnaire is used as a tool to engage the communication with the company and collect supporting documentation. It is not used to score the company CSR management system.

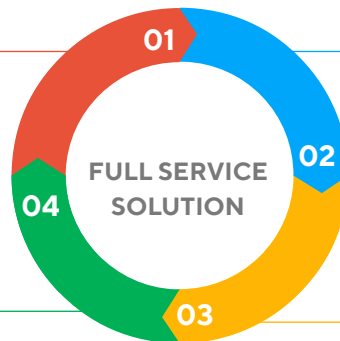
Questionnaire declarations will generate a documentation request for the company. Each document will be carefully analyzed and nothing will be credited on the scorecard unless it is supported by evidence.

ONBOARDING

Online registration and qualification (e.g. industry, size, location) of all companies assessed.

IMPROVEMENTS

Online Corrective Action Plan feature available for continuous improvement.



ASSESSMENT

CSR expert analysis combining multiple data sources (e.g. online questionnaire, supporting documents, 360° Watch Findings).

RESULTS

Easy to use and dynamic scorecard available on online platform. Quantitative & qualitative results published.

A. Supporting documents and data

EcoVadis requires companies to provide formal, recent, and credible documentation that serves as a reliable element of the company's CSR management system, e.g. **CSR reports, policies, procedures, certificates, training materials. Site audits** performed by third party organizations can also be provided. We also partner with specialized data providers such as the CDP for greenhouse gas emissions data and an external compliance database to identify potential regulatory, commercial and reputational risks of companies. The data collected through these partnerships serve as additional input for the analysis of every assessment.

B. Document Analysis

Our CSR experts conduct a comprehensive document analysis, looking for tangible elements of a CSR management system through the seven managerial indicators. Analysts read and extract data from each of the supporting documents provided, and complete a document grid that describes and structures the data in relation to the methodology requirements. Whether the assessment entails 5 or 50 supporting documents, each piece of evidence generates a document input grid.

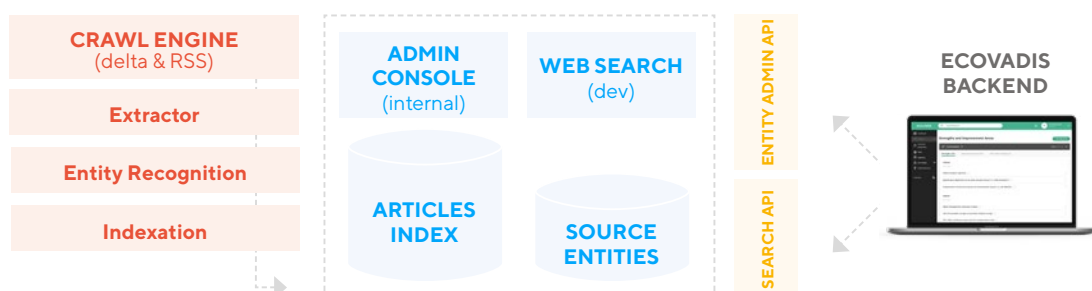
Data Collection and Rating Process (Cont'd)

C. Stakeholder Opinion – 360° Watch Findings

EcoVadis strives to increase the use of external sources (stakeholders) that have a standpoint on the assessed company. The methodology integrates **thousands of external sources** (e.g. NGOs, trade unions, international organizations, local authorities, auditors, and other third-party party organizations) via our online smart-crawler tool (360° Watch Findings). For example, the integration of data from an external compliance database allows us to screen and monitor companies against global sanctions lists and identify companies with close ties to Politically Exposed People (risks of corruption, money laundering, etc.). Below is an extract of some of the sources qualified and which provide information on condemnations, controversies, social conflicts, as well as companies' innovative practices.



The collection of data has been designed to enable a permanent flow of information from the web to EcoVadis and from EcoVadis to customers and companies assessed. With such an architecture (see diagram below) assessed companies are able to receive a daily stream of stakeholders' opinions, and in turn are able to react more rapidly to stakeholders' concerns.

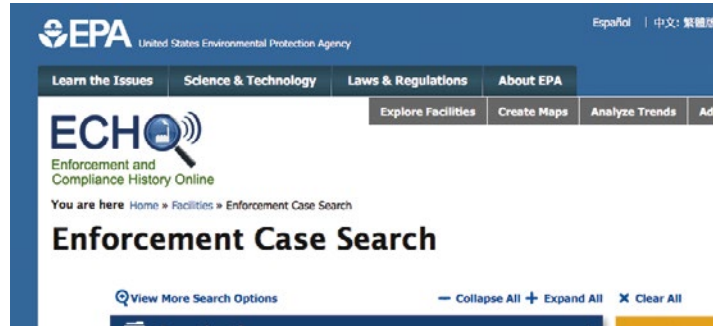


Data Collection and Rating Process (Cont'd)

Increasingly EcoVadis uses crowdsourced information from NGOs, as well as compliance data sourced from regulatory bodies. Below are examples of sources used for labor conflict in China and environmental compliance data in the United States.



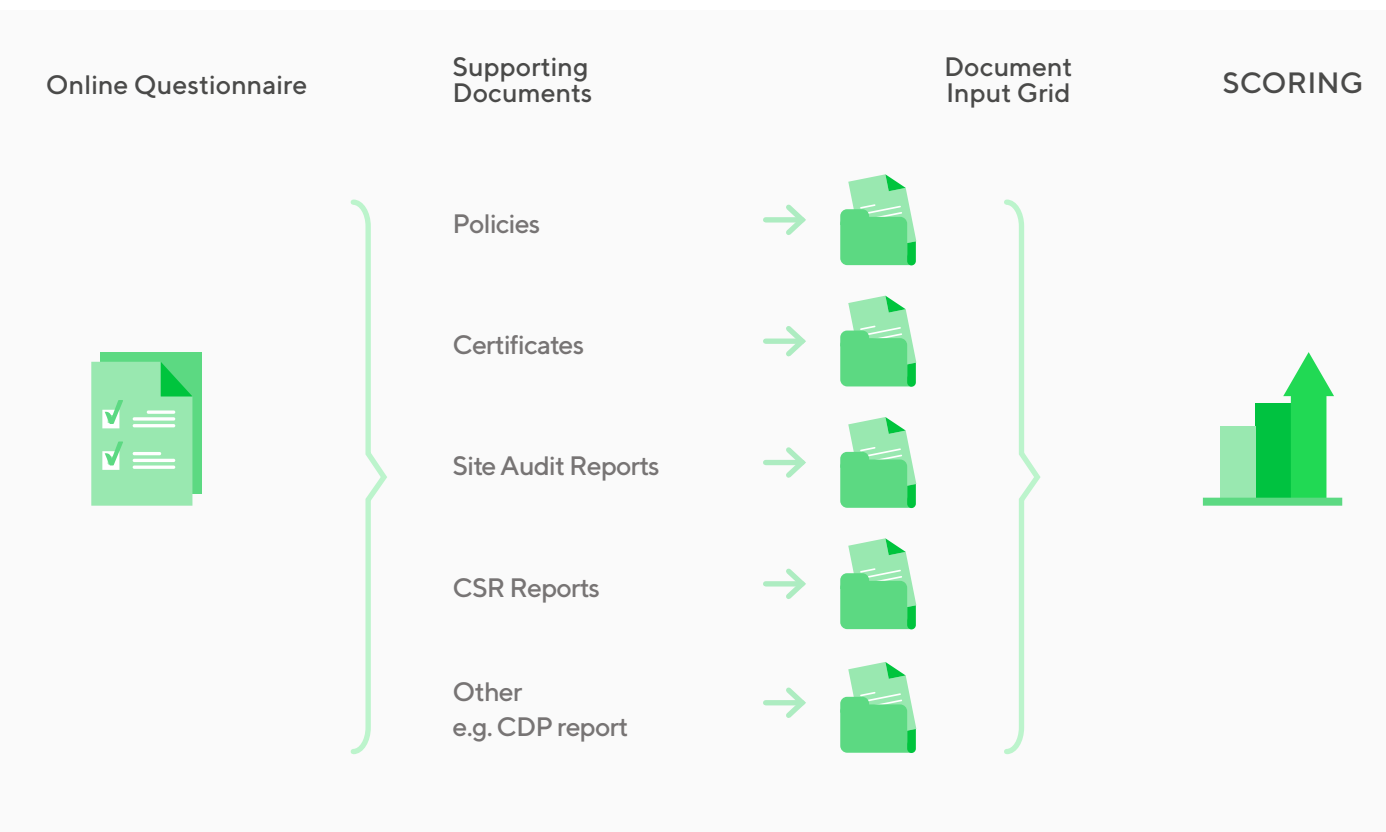
Source: <http://maps.clb.org.hk/strikes/en>



Source: <https://echo.epa.gov/facilities/enforcement-case-search>

D. Scoring Process

All document input grid information is combined in order to provide the analysts a summary view (see diagram below) of all the CSR management system elements identified in document analysis stage. This summary will facilitate the scoring of the management indicators. A score from 0 to 100 is allocated to each management indicator in each theme.



Data Collection and Rating Process (Cont'd)

The scoring of the seven management indicators is based upon strict scoring add a comma after guidelines which are applied by all analysts. Regular training and internal quality controls are performed to ensure the coherence of scoring among analysts. Each scoring level is associated to a detailed definition and a database of sample documents. These guidelines are customized for each of the themes under review.



The seven management indicator scores will then generate a score for each theme based upon the weight allocated to each management indicator. The three management layers, policies, actions and results are given the following respective weights: 25%, 40% and 35% (see diagram below).

	ENVIRONMENT	LABOR & HUMAN RIGHTS	ETHICS	SUSTAINABLE PROCUREMENT	WEIGHT <small>Same Weight + adjustments to Size/Country</small>	
Policies	50	50	50	25	25%	Policies
Endorsement CSR Initiatives	0	0	0	0		
Measures/Actions	50	75	25	25	40%	Actions
Certifications/Labels/Audits	100	50	50	50		
Implementation Coverage	50	25	50	25		
Reporting/KPIs	50	25	0	25	35%	Results
360: Controversies/Awards	75	75	75	75		
WEIGHT <small>Depends on industry and size</small>	28%	36%	18%	18%		
	60/100	50/100	40/100	40/100	49/100	

The overall score is a weighted average of the theme scores. The activation and weight of each theme depends on the company industry, size, and its location. This allows taking into account the characteristics of a company, each theme being more or less critical depending on their activities. Here are some examples of how theme weights differ across industries:

	Road Freight	IT Services
ENVIRONMENT	33%	22%
LABOR & HUMAN RIGHTS	33%	34%
ETHICS	17%	22%
SUSTAINABLE PROCUREMENT	17%	22%

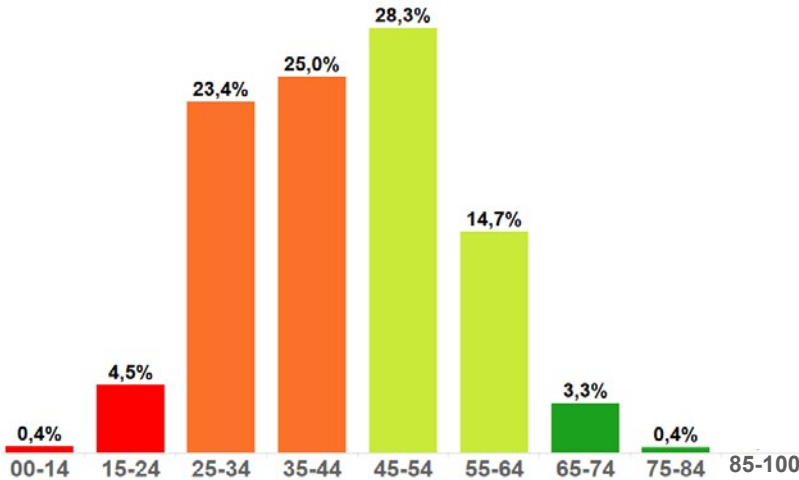
Data Collection and Rating Process (Cont'd)

E. Scoring Scale

The score allows companies to benchmark against their industry peer, but it also helps situate the company's overall CSR performance in absolute terms. This scale is applicable for each theme and for the overall score. It has been intentionally designed in order to leave room for improvement.

	CSR PERFORMANCE	LIKELY OUTCOME
Best in Class	85-100 OUTSTANDING	High Opportunity → Structured and proactive CSR approach → Policies and tangible actions on major issues with detailed implementation information → Comprehensive CSR Reporting on actions & performance indicators → Innovative practices and external recognition
	65-84 ADVANCED	Medium Opportunity → Structured and proactive CSR approach → Policies and tangible actions on major issues with detailed implementation information → Significant CSR Reporting on actions & performance indicators
	45-64 CONFIRMED	Engaged → Structured and proactive CSR approach → Policies and tangible actions on major issues → Basic reporting on actions or performance indicators
	25-44 PARTIAL	Medium Risk → Minimum structured CSR approach → Few policies or tangible actions on selected issues (reactive)
Increasing Risk	0-24 NONE	High Risk → No policies or tangible actions regarding CSR → Evidence in certain cases of misconduct (e.g. pollution, corruption)

Distribution of overall score to January 2017
(statistics based on a sample of 26,000 assessments)

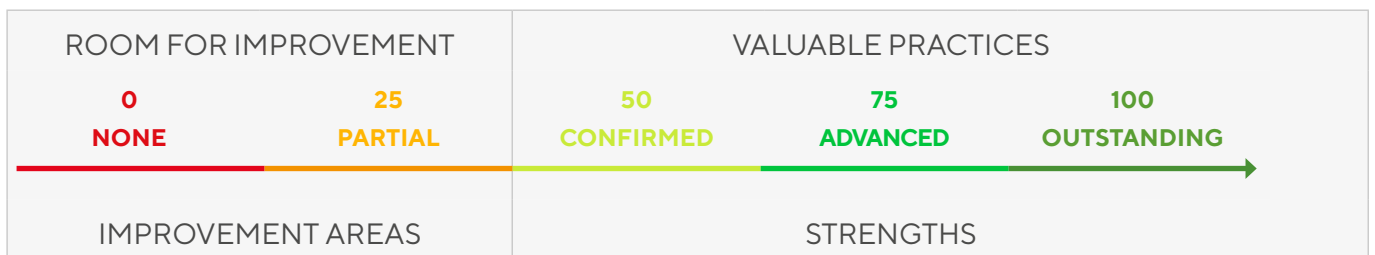


Data Collection and Rating Process (Cont'd)

F. Strengths and Improvement Areas

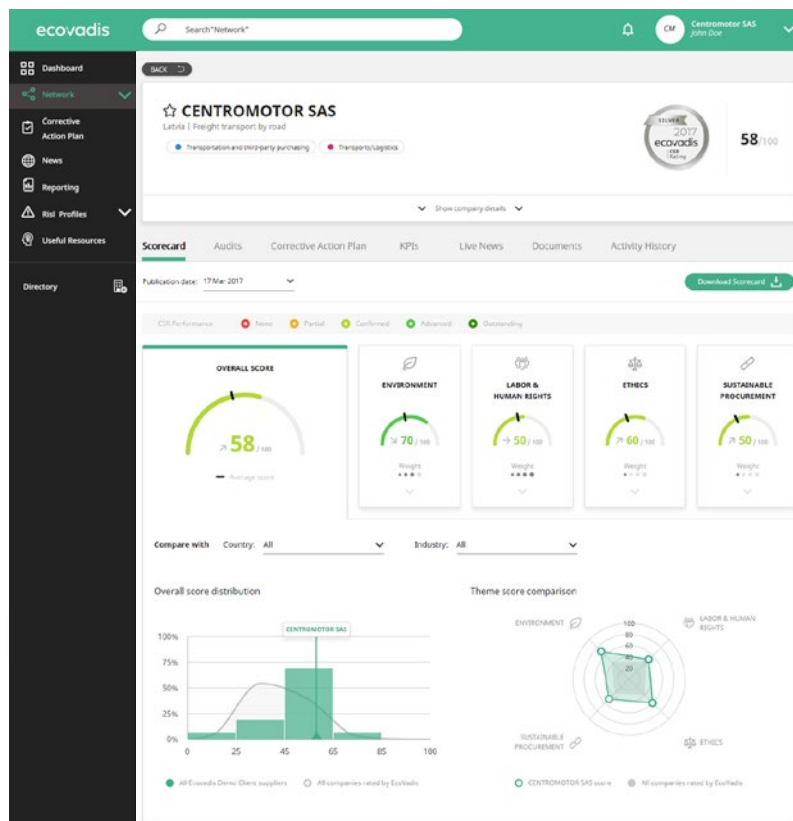
In addition to scoring, a set of strengths and improvement areas are highlighted for each theme on the EcoVadis Scorecard. These are presented in the scorecard according to the three management layers: policies, actions and results. Strengths reflect valuable CSR practices demonstrated by assessed companies, while improvement areas indicate areas for corrective action implementation. Each improvement area has a suggested priority level for potential corrective action plan.

Analysts have access to a database of more than 2,000 strengths and improvement areas, and are able to add assessment-specific information in order to customize the strength or the improvement area activated.



G. Validation and Publication

When scoring and activation of strengths and improvement areas are completed, the assessment enters a validation stage. The validation stage consists in verifying whether methodology rules have been followed. Following the validation stage, a scorecard is published online for both the buying organization and the assessed supplier.



Quality Management

To maintain high quality of assessment, EcoVadis has implemented a robust quality management system that includes a Quality Policy and a Quality Manual. Recently, EcoVadis has completed an ISAE 3000 audit engagement with PwC AG. This audit provided third-party validation and testing of the design and operating effectiveness of the company's processes, quality procedures, and security practices. In 2016, EcoVadis has achieved ISO/IEC 27001:2013 (ISO 27001) certification for information security management systems (ISMS). This certification helps organizations manage the security of information assets, including financial and third-party information, and helps ensure that risk, governance, and compliance practices meet the most robust standards.

For more information, visit: www.ecovadis.com/trust-center/



EcoVadis Quality Management System is made up of the following elements:

PROCESS APPROACH	Formalization and maintenance of organizational processes, procedures, work instructions and methods is crucial for supporting the Quality Policy, collecting feedback and monitoring the overall Quality Assurance.
QUALITY CHECK FORMS	Quality Check Forms are issued at each stage of the assessment process, and are used to identify quality issues, define training and decide on internal corrective actions.
CONTINUOUS IMPROVEMENT PROCESS	The Methodology Committee meets on a quarterly basis in order to regularly review and update the assessment methodology to reflect best practices and the latest CSR standards.
TRAINING CURRICULUM	Training is an essential part of our Quality Management policy. A formal training curriculum has been developed for new analysts. In addition continuous training is provided to analysts to ensure they remain up-to-date on methodology requirements and evolving CSR standards.
COMPLAINT PROCESS	EcoVadis has a formal company inquiry process enabling assessed companies to submit inquiries about their scorecards. All inquiries are responded in writing by the analyst team. If a company is not satisfied with the answer provided, the inquiry is escalated to the Validation Team.
SCIENTIFIC COMMITTEE	The assessment process and scoring methodology is regularly reviewed and checked by an external committee including international CSR and sustainable procurement experts. The members of the scientific committee are publicly disclosed on our website.
TRACEABILITY & CONFIDENTIALITY	The IT system implemented not only allows rigorous traceability of the process but it also keeps all the answers and documents provided by the supplier strictly confidential. No information is shared without a previous agreement from the supplier.

Moving Forward

More and more procurement executives are going to integrate sustainability issues in the selection and management of their trading partners. This practice will be reinforced by the introduction of European and North American regulations aimed at verifying whether large buying organizations have robust due diligence in place to tackle sustainability issues throughout their supply chains.

The need for a simple, reliable and global CSR rating service is becoming critical. EcoVadis' ambition is to become the market standard in CSR supplier rating. We hope that by providing reliable and quantified CSR assessments, we will facilitate the emergence of a planet-wide continuous improvement cycle on sustainability issues.

EcoVadis 7 Principles
Evidence Based
Industry Sector, Country and Size Matter
Diversification of Sources
Technology Is a Must
Assessment by International CSR Experts
Traceability & Transparency
Excellence through Continuous Improvement

About EcoVadis



EcoVadis is the world's most trusted provider of business sustainability ratings, intelligence and collaborative performance improvement tools for global supply chains. Backed by a powerful technology platform and a global team of domain experts, EcoVadis' easy-to-use and actionable sustainability scorecards provide detailed insight into environmental, social and ethical risks across 190 purchasing categories and 150 countries.

Help Center support.ecovadis.com

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