Making the Grade in Supplier Sustainability Scorecarding

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Abstract. This *Proceedings* paper discusses the design, implementation and ongoing refinement of a program to scorecard suppliers on environmental sustainability-related attributes. The importance of this topic and the presence of the related workshop session in the Conference reflect the increasing attention being paid to corporate sustainability efforts and the desire of corporate leadership to drive sustainability efforts through the supply chain. Yet, effective scorecarding on sustainability is difficult because: (a) there are not yet best practices in this area; (b) the field of sustainability is changing rapidly; (c) whatever measures are chosen will often be new and unfamiliar to suppliers.

This paper discusses:

- the basics of sustainability as it relates to businesses in the supply chain;
- why it's important to assess suppliers as to sustainability;
- how to design a supplier scorecard to reflect the basics;
- how to implement the scorecarding program; and
- ways to refine the program as corporate objectives become more sophisticated.

The author intends that readers of this paper and participants in the related Conference workshop will come away with the ability to design and implement a basic supplier sustainability scorecarding program.

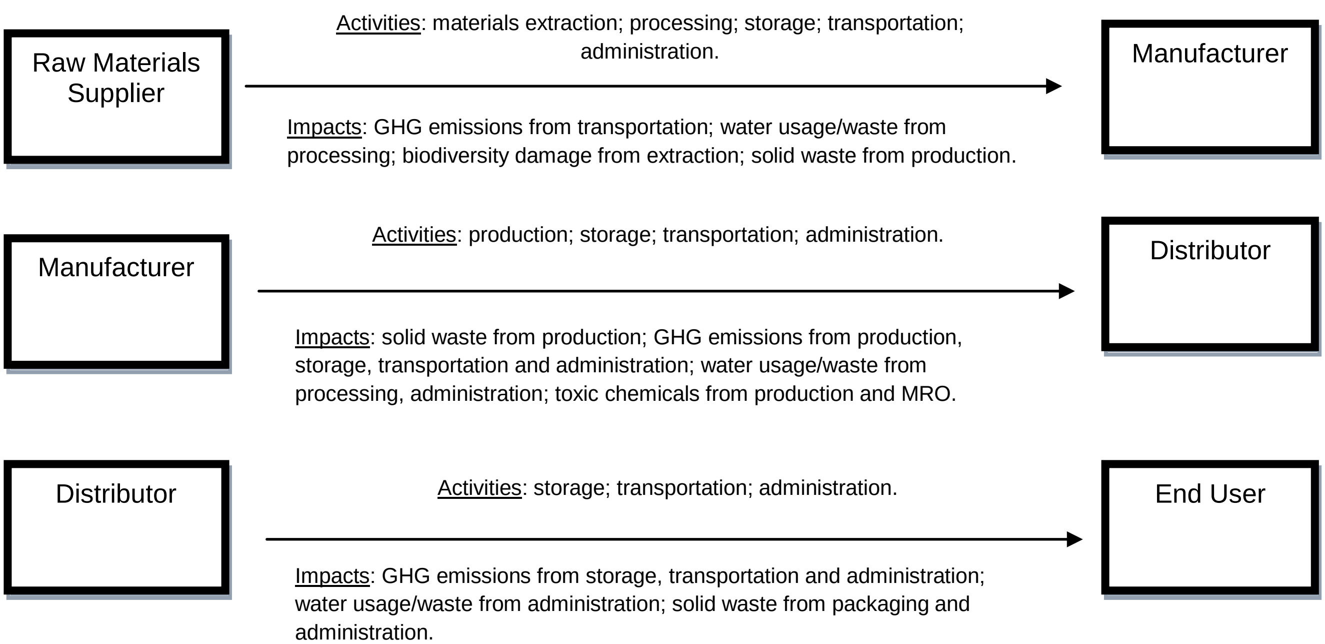
The Basics Of Sustainability In A Business Context. The buzz about sustainability and "green" in today's business circles reflects the fact that there are numerous business activities and products that are today environmentally-unfriendly but that can be made sustainable and green. In order learn more about how to do so, however, one must understand the basics of environmental sustainability in a business context. That is, just what makes a business environmentally-sustainable?

When we talk about environmentally-sustainable businesses, we are referring to businesses that do not:

- cause climate change (from greenhouse gas ("GHG") emissions)
- lessen biodiversity (poorly-managed resource use impacts habitats)
- compromise water quantity and quality (concerns include overuse, as well as pollution)
- use (or misuse) toxic chemicals (going beyond single-incident spills and emissions) or
- produce solid waste from products and processes (waste ends up in landfills).

An environmentally-sustainable business pays attention to all of its activities that can damage the environment and manages those activities in such a way as to minimize its environmental footprint. A company that is trying to become more environmentally sustainable therefore rethinks a very broad scope of its business, from product packaging (less is better) and energy consumed in its facilities (switching overhead lighting to more efficient technologies) to employees' commutes (think carpooling or public transportation vouchers). The breadth of this endeavor is impressive, even in small- and medium-sized enterprises.

Why Assess Suppliers On Sustainability? To be a truly sustainable business, however, requires companies to look outside of their own activities and into their supply chain to assess opportunities for reducing the overall environmental footprint of the entire chain. This further reach is required because much of the environmental impact of business occurs in the activity that goes on between a company and its suppliers, customers and other supply chain partners. For example, the raw materials supplier — manufacturing company link in the supply chain results in the production, transportation and consumption of materials. These activities result in certain environmental impacts. Activities in other links in the supply chain result in both similar and different environmental impacts, as shown here.



To assess suppliers on their sustainability is to recognize the impact that of all of these various supply chain activities have on the environment. It is also an opportunity to increase supplier awareness about sustainability and to create changes in supplier behavior. Just as a company might assess suppliers on their human resources practices in order to understand, for example, what equal opportunity hiring policies companies employ and push suppliers to be more diverse, a company might assess suppliers on sustainability in order to understand, for example, what efforts companies are making to reduce their GHG emissions and push suppliers to emit less. Thus, making this assessment reaffirms a company's commitment to its own vision of sustainability and can drive sustainability through the supply chain.

Designing A Supplier Sustainability Scorecard. It's important to recognize that, at this point in time, it's not feasible to rely solely upon hard metrics in a sustainability assessment program. That is because much of the environmental impact of business activity is not easily quantifiable, especially by those that create that impact. There are some environmental impacts that are measurable, of course, such as metric tons of carbon dioxide emitted (in which case a scorecard can ask a supplier to provide that tonnage) or tons of solid waste sent to landfills (again, a scorecard can ask for tonnage and the program can track that over time). There are an equal number of environmental impacts that are not so easily measured, however, such as the relative toxicity of one chemicals inventory versus another. Therefore, sustainability scorecards will necessarily require narrative responses and, sometimes, also allow respondents to provide relative metrics (i.e., rough percentages) rather than absolute numbers.

When designing a scorecard to measure suppliers on sustainability, supply chain professionals should think of the "four P's" of business:

- places;
- people;
- products; and
- processes.

These are the areas of business to cover in an assessment. Remember, however, that each supplier's business is unique and its activities will involve some of these areas more than others. Therefore, it is often advisable to segment suppliers into categories based upon common lines of business that share similar business activities (e.g., raw materials, services, utilities) and design scorecards appropriate to each category. And remember that suppliers' businesses do change over time; be prepared periodically to re-evaluate the scorecard for each supplier or supplier category.

"Places" refers to the supplier's physical facilities. Therefore, a scorecard should include a series of questions about the environmental sustainability of the company's facilities. Ask questions about energy use for lighting, HVAC and operations (e.g., Do you track the energy use of each of your facilities?), water used in the facility for non-production purposes (e.g., What percent of all toilets in your facilities are "low-flow"?), chemicals management systems (e.g., Do you have a complete inventory of all toxic chemicals stored in your facility for production and MRO purposes? Do you have a plan to substitute toxic chemicals with environmentally-friendly biosubstitutes?) and solid waste (e.g., What percent of your company's weekly non-recyclable solid waste is (a) repurposed for use internally or (b) repurposed by others who purchase, barter for or otherwise receive these materials?).

"People" refers to the activities of the supplier's workforce that impact the environment. A scorecard should ask questions about workers' commutes (e.g., Do you offer carpooling for employees or provide subsidized public transportation options?) and company-related travel (e.g., What steps have you taken to reduce your employee's air travel?). Some people believe that it's appropriate to ask questions about helping employees become more sustainable in their personal lives, but in the author's opinion this is best left out of basic sustainability scorecarding and addressed in more sophisticated initiatives implemented later (see below).

"Products" refers to the environmental attributes of the products a supplier sells to its customers. A scorecard should ask what steps a supplier has taken or intends to take to reduce the environmental impact of its products (e.g., Do you have a program to reduce the amount of packaging you use for your products? Do any of your products contain volatile organic compounds (VOCs)?). Yet, it's important to realize that many companies have not gotten as far in this area as in other areas because product re-engineering can be very complex and costly. Be sensitive to this fact and realize that the scorecarding program is trying first to build awareness before beginning to penalize suppliers for noncompliance.

“Processes” refers to the production, warehousing/storage, transportation and administrative processes that a supplier uses. This is a very broad area and will probably account for the majority of a scorecard. The assessment should ask questions about the sustainability of production processes (e.g., Have you taken steps to reduce the energy consumed by machinery in your production processes?), inventory management (e.g., Do you use non-fossil fueled lift trucks in your warehousing operations?), transportation (e.g., What percent of your outbound truck freight is shipped using U.S. EPA “SmartWay” certified trucking companies?) and administrative processes (e.g., What steps have you taken to reduce the amount of paper consumed in your customer service-related processes?).

Implementing A Sustainability Scorecarding Program. As with any initiative that supply management professionals undertake, it’s important to design the implementation phase correctly so as to avoid pitfalls part way through. In this case, one must be sensitive to the newness of this field and the wide range of familiarity suppliers will have with it. When beginning such a program, be careful not to create overly negative consequences for suppliers who don’t “make the grade.” Give suppliers a reasonable amount of time to establish procedures to collect the requested data, get used to the reporting process and consider ways to improve their “scores.” Serious consequences for lack of effort and/or lack of results should come in the program refinement phase (see below).

The best way to prepare for implementation is to assemble a team comprised of internal and external members that is tasked with:

- reviewing the final design of the scorecard;
- understanding the logistics of program rollout; and
- collecting early feedback about the program.

External members of this team might include members of an existing Suppliers’ Council or an ad hoc collection of key supplier representatives. Representatives of environmental nonprofits or consulting firms with expertise in this area might also be considered to serve as *ex officio* members of this team. Note that while it’s important to have representatives of external constituencies on the team, the scorecard belongs to the company and only company representatives with requisite authority should have final decision-making power.

Implementation of a stand-alone sustainability scorecarding program should consist of three phases:

- an announcement of the program that provides details about timing, logistics and contact information for the person(s) responsible for the program;
- distribution of scorecard materials; and
- acknowledgement by recipients that they have received the materials and understand what is requested of them.

If sustainability criteria are being added to an existing supplier scorecarding program, then follow whatever protocol that program provides for adding criteria to the scorecard. It is essential to provide recipients with contact information for one person (and an alternate) who can answer questions about the program. Do not allow suppliers to contact different supply management professionals and end up getting different answers about the program (nevertheless, it's helpful to have prepared and distributed ahead of time a program "FAQs" piece for internal use).

Refining And Improving The Scorecard. Getting a basic sustainability supplier scorecarding program off the ground will be a lot of work. It's important to give the program some time to run before making material changes in the scope of the scorecard, the suppliers to whom it's sent and what consequences are intended for suppliers who do not make the grade. Yet, the time will soon come that the program needs to:

- reflect new sustainability-related realities (e.g., if a tax on carbon emissions is implemented, the scorecard will want to reflect this fact in questions related to GHG emissions);
- dig deeper into suppliers' sustainability-related activities (e.g., asking what a supplier is doing to help employees live more environmentally-sustainable personal lives); and
- act as a supplier qualification and behavior modification tool (i.e., have real consequences for suppliers who don't make the grade).

At such a point, persons responsible for the program should repeat the process outlined above for the initial implementation. The aim is to have a repeatable protocol for continually refining the scorecarding program to reflect a greater level of sophistication.

Conclusion. It is time that companies begin to evaluate their suppliers on sustainability-related criteria. A well-designed and well-implemented scorecarding program that reflects a company's vision of sustainability will help a company assess whether its suppliers' intentions and actions are in alignment with corporate policies and will, over time, influence supplier behavior. In this way, an environmentally-sustainable business can drive the issue of sustainability through its supply chain and build momentum toward a truly sustainable supply chain.