EcoVadis CSR Rating Methodology:
Overview & Principles

ecovadis
SUPPLIER SUSTAINABILITY RATINGS

The need for Reliable, Simple and Global Supplier CSR Ratings

The value of corporations is increasingly related to the value of the supply chain network they have created. Large corporations are the chief orchestrators of a myriad of competencies disseminated around the planet. Too often, such 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 becomes a must**.

Benefits

The benefits of implementing sustainable procurement are manifold: **reduce risk** of supply chain disruption, **protect company reputation and brands**, **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

EcoVadis solution addresses these issues by providing web-based collaboration tools for buyers and suppliers, which allows procurement executives to get access to **easy-to-use dynamic scorecards**, and to monitor the **sustainability performance of their suppliers** 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

1 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 upon **seven founding principles**.

EcoVadis 7 Principles

1 **Evidence Based**
The burden of proof is on the company evaluated. 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 Sector, Country and Size Matter**
The CSR management system is evaluated taking into account material sector 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 3rd party organizations (e.g. auditors, CDP, external compliance database).

4 **Technology is 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 & Transparency**
Every document used in the rating process is stored securely and can be traced back. Companies evaluated have access, if needed, to the most detailed results and to each scoring decision.
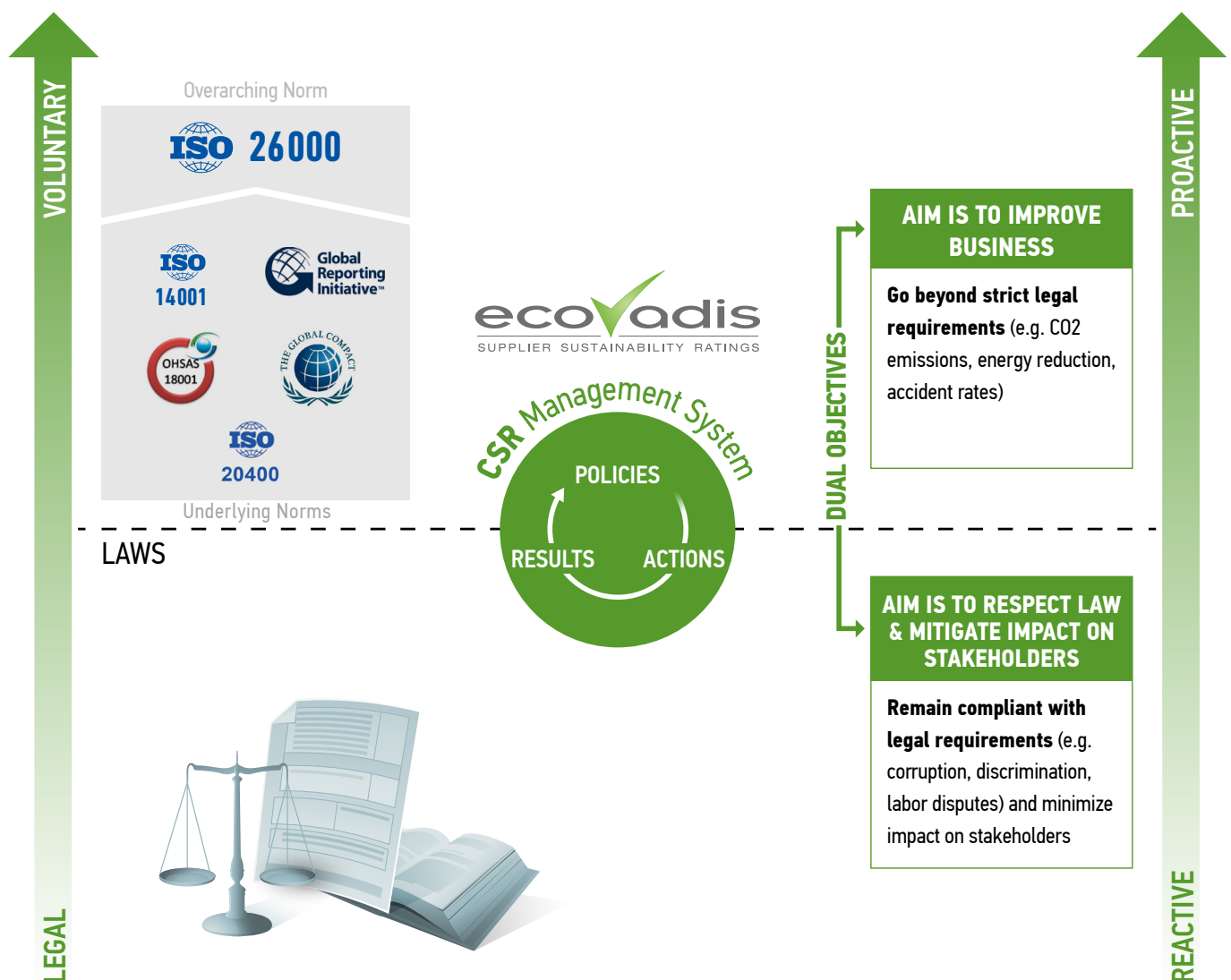
7 **Excellence through Continuous Improvement**
A professional rating methodology is a methodology open to quality controls, continuous improvement, and to stakeholders' feedback. EcoVadis has implemented a company-wide quality management system supported by a client advisory board and a scientific committee.

1 Identifying A Good CSR Management System

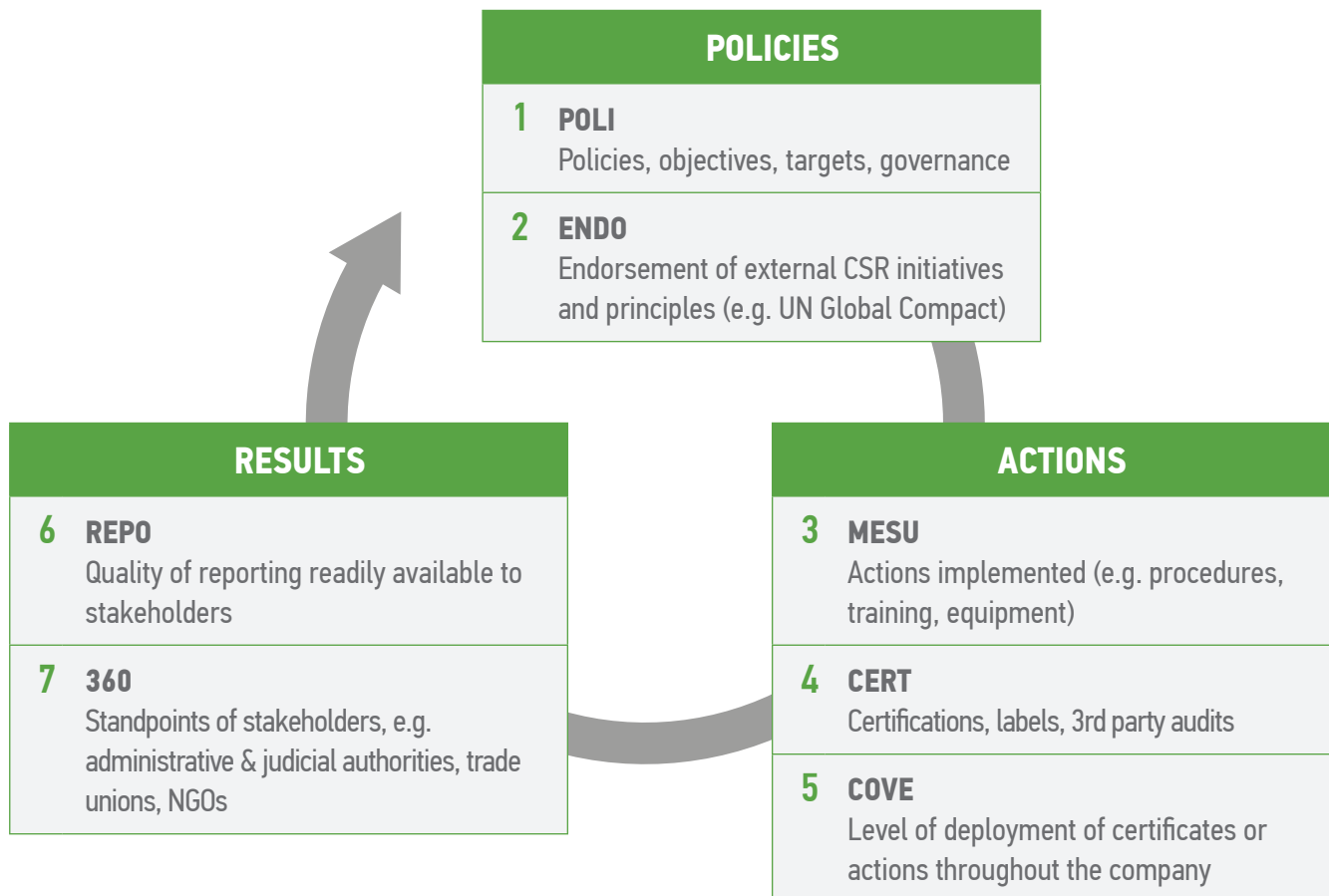Companies implement voluntary CSR management systems primarily for two reasons:

1. To remain compliant with legal requirements and minimize impact on company's 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.

VOLUNTARY — **LEGAL**

PROACTIVE — **REACTIVE**

Overarching Norm

ISO 26000

ISO 14001

Global Reporting Initiative™

OHSAS 18001

THE GLOBAL COMPACT

ISO 20400

Underlying Norms

LAWS

ecovadis SUPPLIER SUSTAINABILITY RATINGS

CSR Management System

POLICIES — ACTIONS — RESULTS

DUAL OBJECTIVES

AIM IS TO IMPROVE BUSINESS

Go beyond strict legal requirements (e.g. CO2 emissions, energy reduction, accident rates)

AIM IS TO RESPECT LAW & MITIGATE IMPACT ON STAKEHOLDERS

Remain compliant with legal requirements (e.g. corruption, discrimination, labor disputes) and minimize impact on stakeholders

1 Identifying A Good CSR Management System

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

These 3 management layers are separated into 7 management indicators: **Policies** (POLI), **Endorsements** (ENDO), **Measures** (MESU), **Certifications** (CERT), **Coverage – Deployment of Actions** (COVE), **Reporting** (REPO) and **360° News Monitoring** (360).

POLICIES

1 POLI
Policies, objectives, targets, governance

2 ENDO
Endorsement of external CSR initiatives and principles (e.g. UN Global Compact)

RESULTS

6 REPO
Quality of reporting readily available to stakeholders

7 360
Standpoints of stakeholders, e.g. administrative & judicial authorities, trade unions, NGOs

ACTIONS

3 MESU
Actions implemented (e.g. procedures, training, equipment)

4 CERT
Certifications, labels, 3rd party audits

5 COVE
Level of deployment of certificates or actions throughout the company

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 4 themes. The CSR issues are based upon international CSR standards such as the Ten Principles of the UN Global Compact[1], the International Labour Organization (ILO) conventions[2], the Global Reporting Initiative (GRI)'s[3] standards, the ISO 26000 standard[4], the CERES Roadmap[5], and the UN Guiding Principles on Business and Human Rights, also known as the Ruggie Framework[6].

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 supplier context, such as industry, size, and geography.

21 CSR Criteria

ENVIRONMENT

Operations
- Energy & GHGs
- Water
- Biodiversity
- Pollution
- Materials & Waste

Products
- Product Use
- Product End of Life
- Customer Safety
- Advocacy

SOCIAL

Human Resources
- Employee Health & Safety
- Working Conditions
- Social Dialogue
- Career Management & Training

Human Rights
- Child & Forced Labor
- Discrimination & Harassment
- External human rights issues

ETHICS

- Corruption & Bribery
- Anti-competitive Practices
- Data Security

SUSTAINABLE PROCUREMENT

- Supplier Environmental Performance
- Supplier Social Performance

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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).

3 Context-Specific Rating

In order to fully understand a company's real impacts, the assessment framework is customized for each supplier according to its activity, size, and geographic location of its operations. These are defined upfront during supplier 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 sector*:

Criteria	Manufacture of plastics products	Computer programming
ENVIRONMENT		
Energy & GHGs	✕	✕
Water	✕	
Biodiversity		
Local & Accidental Pollution	✕	
Materials & Waste	✕	✕
Product Use		
Product End Of Life	✕	
Customer Health & Safety	✕	
Advocacy	✕	✕
LABOR PRACTICES & HUMAN RIGHTS		
Employee Health & Safety	✕	✕
Working Conditions	✕	✕
Social Dialogue	✕	✕
Career Management & Training	✕	✕
Child & Forced Labor	✕	
Discrimination & Harassment	✕	✕
Fundamental 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 CO_2 emissions. These differences in the questionnaires stem from EcoVadis research analysts' fundamental bottom-up analysis of each industry.

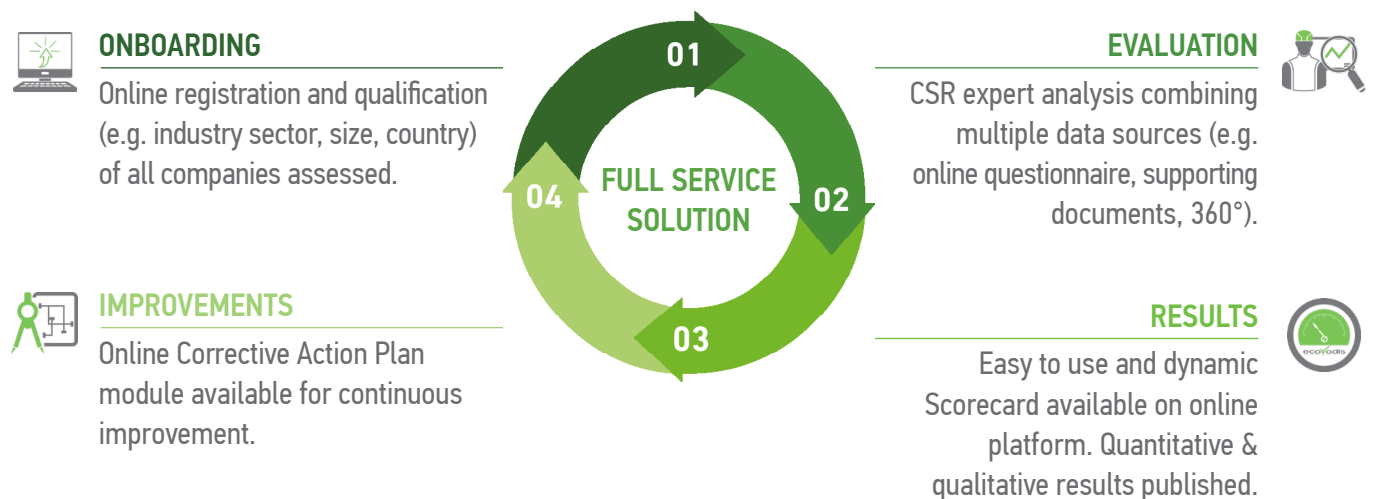| Question on actions implemented	
TRANSPORT OF ROAD FREIGHT	**CONSULTING SERVICES**
ENV314: What actions are in place regarding the reduction of fuel consumption and the emissions of GHG?	**ENV313: What actions are in place regarding the reduction of energy consumption and the emissions of GHG?**
• 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)	• 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)

The collection of supporting documents is essential.

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

The questionnaire declarations will generate a documentation request for the supplier. 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 sector, size, country) of all companies assessed.

IMPROVEMENTS
Online Corrective Action Plan module available for continuous improvement.

FULL SERVICE SOLUTION
01 02 03 04

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

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 suppliers. The data collected through these partnerships serve as additional input for the analysis of every assessment.

B. Document Analysis

The analysis team conducts a comprehensive document analysis, looking for tangible elements of a CSR management system through the 7 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 evaluation entails 5 or 50 supporting documents, each piece of evidence generates a document input grid.
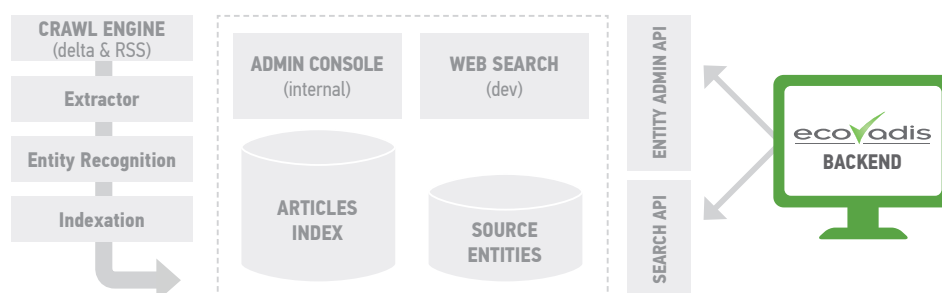
4 The Data Collection And Rating Process

C. Stakeholder Opinion – 360°

EcoVadis strives to increase the use of external sources (stakeholders) that have a standpoint on the evaluated company. The methodology integrates **thousands of external sources** (e.g. NGOs, trade unions, international organizations, local authorities, auditors, and other 3rd party organizations) via our online smart-crawler tool (360° Watch). For example, the integration of data from an external compliance database allows us to screen and monitor suppliers against global sanctions lists and identify suppliers 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.

ADMINISTRATION
- European Economic and Social Committee (Europe)
- European Environment Agency (Europe)
- Conseil de la Concurrence (France)
- Competition Commission (UK)
- Environmental Protection Agency (USA)
- Food and Drug Administration (USA)

CSR NETWORK
- AccountAbility (International)
- Instituto Ethos de Empresas e Responsabilidade Social (Brazil)
- Business for Social Responsability (International)
- CSR Europe (International)
- World Business Council for Sustainable Development (International)
- Business Social Compliance Initiative (International)
- Business In The Community (UK)

INTERNATIONAL ORGANIZATION
- European Court of Human Rights
- Eco-Label Européen
- Global Compact
- International Labor Organization
- United Nations Environment Program
- World Bank
- Extractive Industries Transparency Initiative...

NGOs
- China Labor Watch (China)
- Human Rights In China (China)
- Greenpeace (International)
- WWF (International)
- Movimento Difesa del Cittadino (Italy)
- Friends of the Earth Middle East (Middle East)
- Milieudefensie (Netherlands)
- Silicon Valley Toxics Coalition (USA)

TRADE UNIONS
Major Trade Unions in: Algeria America Latina Argentina Australia Belgium Canada Ecuador Europe France Germany India Ireland Italy Japan Mexico North America Peru Portugal Scotland Spain Switzerland United Kingdom USA.

SPECIALIZED PRESS
- China CSR Map (China)
- Novethic (France)
- Corpwatch (International)
- OneWorld network (International)
- Illegal Logging (UK)
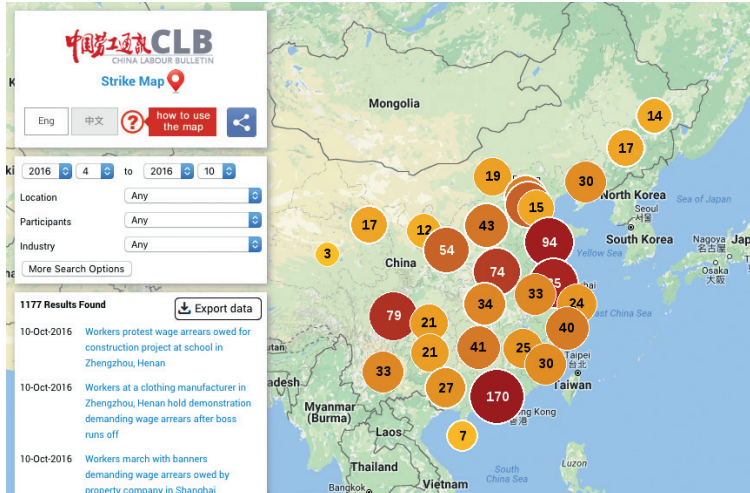- Lawyers & Settlements (USA)

360°

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

CRAWL ENGINE (delta & RSS)
Extractor
Entity Recognition
Indexation

ADMIN CONSOLE (internal)
WEB SEARCH (dev)
ARTICLES INDEX
SOURCE ENTITIES

ENTITY ADMIN API
SEARCH API

ecovadis BACKEND

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 <u>document input grid information</u> 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.

The scoring of the 7 management indicators is based upon strict scoring 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.

0 NONE	25 BASIC	50 STANDARD	75 COMPREHENSIVE	100 EXCEPTIONAL
No tangible elements identified.	Not all main criteria activated covered or not sufficiently addressed.	Main activated criteria covered with acceptable practices.	Particularly advanced practices on all activated criteria.	Comprehensive and innovative practices. External recognition.

The 7 management indicator scores will then generate a score for each theme based upon the weight allocated to each management indicator. The 3 management layers, Policies, Actions and Results are given the following respective weights: 25%, 40% and 35% (see diagram below).

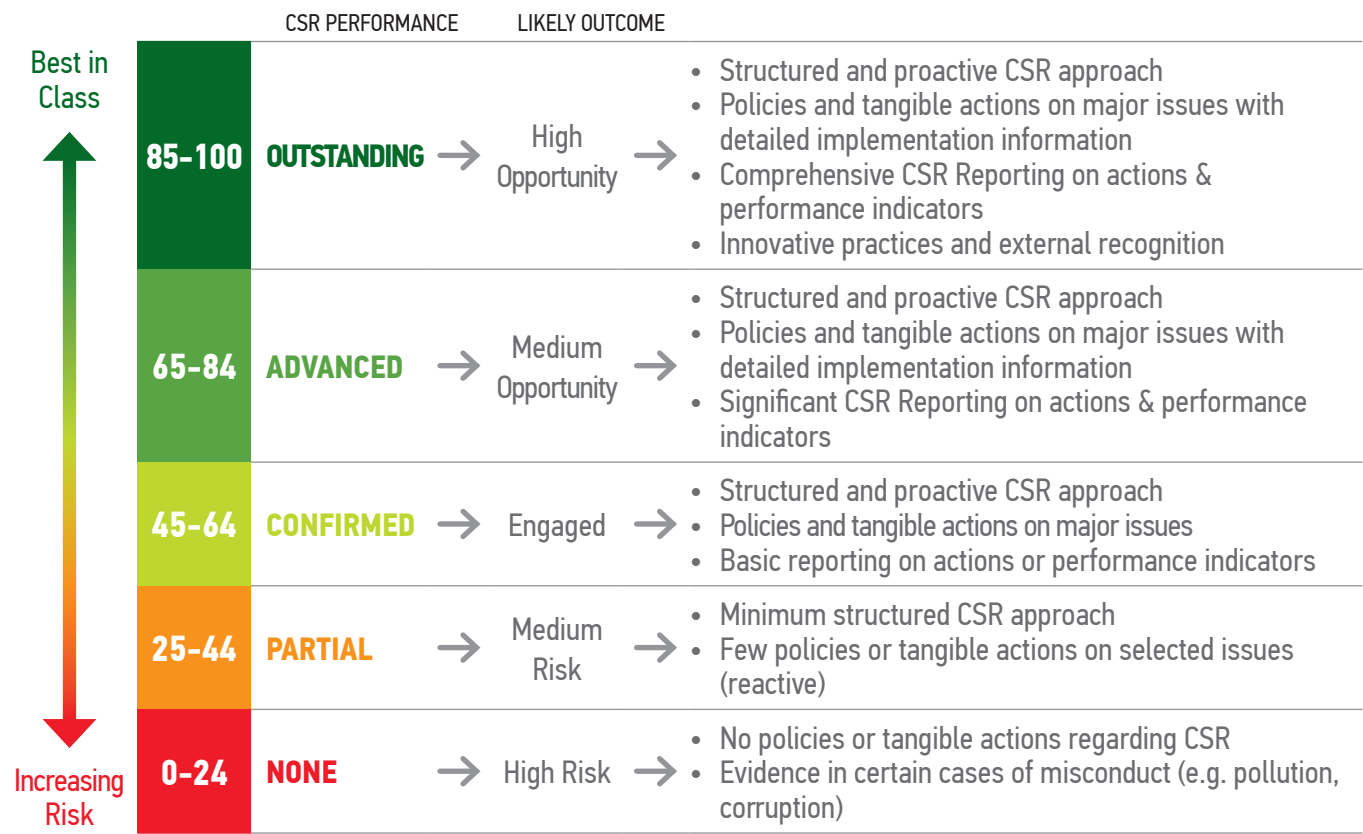|	ENVIRONMENT	SOCIAL	ETHICS	SUPPLY CHAIN	WEIGHT Same Weight + adjustments to Size/Country	
Policies	50	50	50	25	25%	Policies
Endorsement CSR Initiatives	0	0	0	0		
Measures/Actions	50	75	25	25	40%	Actions
Certifications/Labels/Audits	100	50	50	50		
Implementation Coverage	50	25	50	25		
Reporting/KPIs	50	25	0	25	35%	Results
360: Controversies/Awards	75	75	75	75		
WEIGHT Depends on company activity and size	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 supplier industry sector, size, and its geographic location. This allows taking into account the characteristics of a supplier, 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 PRACTICES & HUMAN RIGHTS	33%	34%
FAIR BUSINESS PRACTICES	17%	22%
SUSTAINABLE PROCUREMENT	17%	22%

E. Scoring Scale

The score allows companies to benchmark against their sector 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 evaluations)

| 00-14	15-24	25-34	35-44	45-54	55-64	65-74	75-84	85-100
0,4%	4,5%	23,4%	25,0%	28,3%	14,7%	3,3%	0,4%	
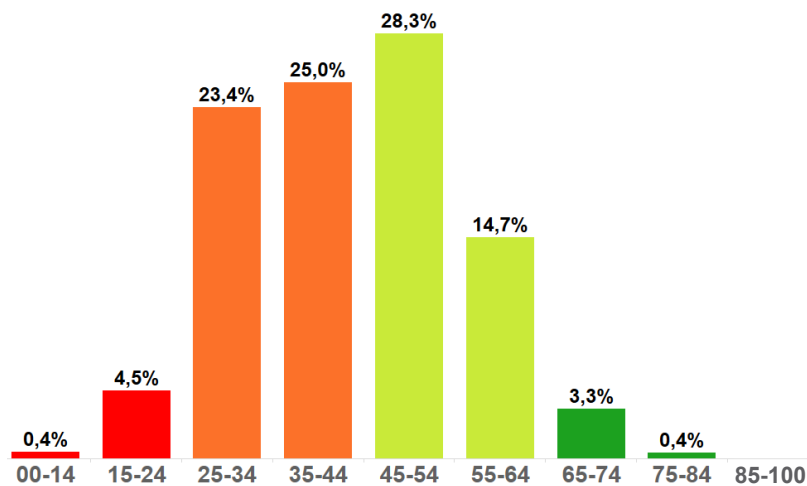
F. Strengths and Improvement Areas

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 3 management layers: Policies, Actions, and Results. Strengths reflect some of the company's valuable CSR practices, 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 evaluation-specific information in order to customize the strength or the improvement area activated.

ROOM FOR IMPROVEMENT		VALUABLE PRACTICES		
0 **NONE**	**25** **BASIC**	**50** **STANDARD**	**75** **COMPREHENSIVE**	**100** **EXCEPTIONAL**
IMPROVEMENT AREAS		STRENGTHS		
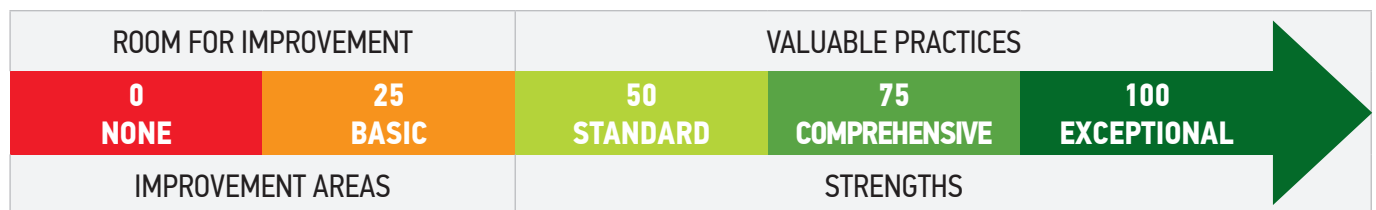
G. Validation and Publication

When scoring and activation of strengths and improvement areas are completed, the evaluation is then passed onto a validation stage. The validation stage consists in verifying whether methodology rules have been followed. As a result of the validation stage, a scorecard is published online for both the buying organization and the evaluated supplier.
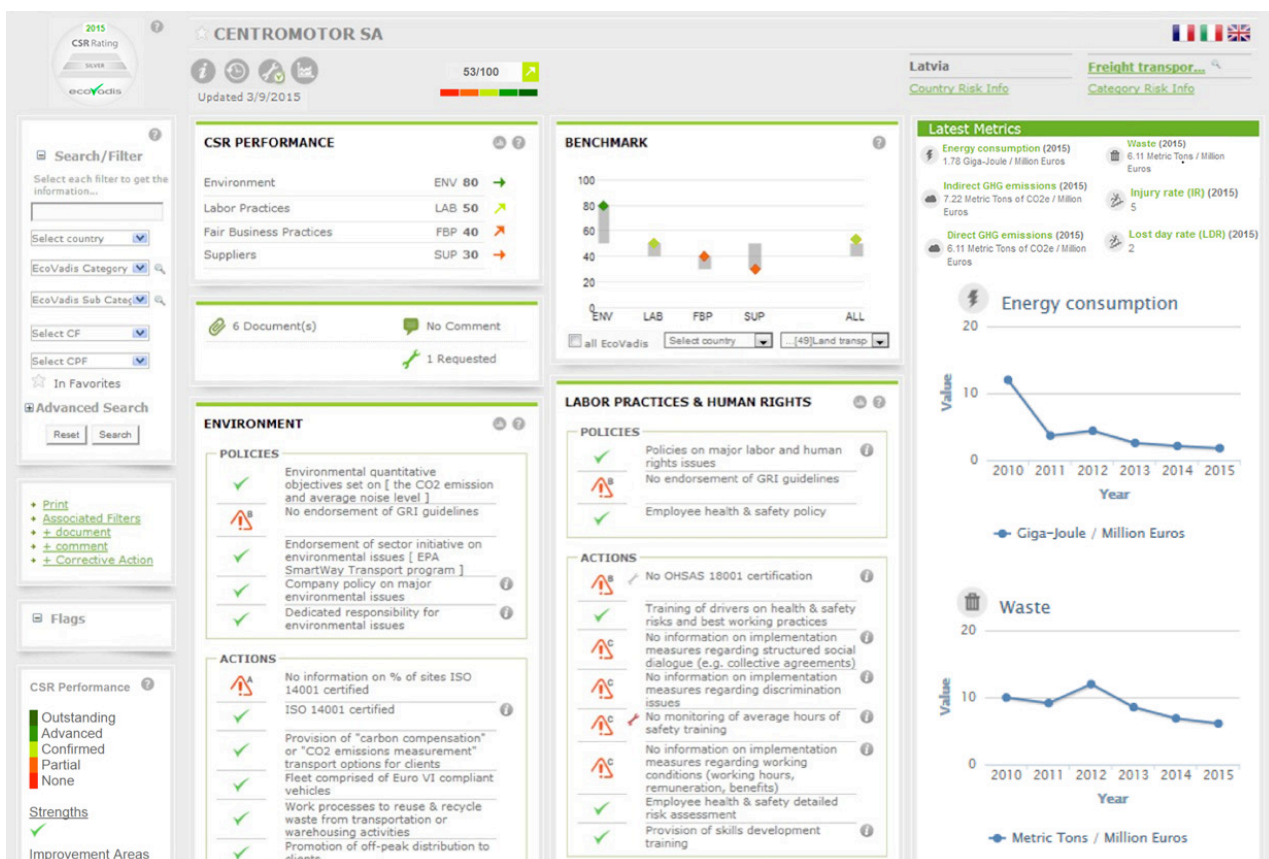
5 Quality Management

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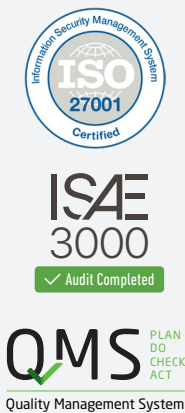
EcoVadis Quality Management System is made up of the following elements:

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 evaluation 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 supplier inquiry process enabling rated companies to submit inquiries about their scorecards. All inquiries are responded in writing by the analyst team. If a supplier 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.

More and more procurement executives are going to integrate sustainability issues in the selection and management of their suppliers. It 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 evaluations, 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 first collaborative platform providing sustainability ratings and performance improvement tools for global supply chains. EcoVadis' easy-to-use CSR scorecards help companies to monitor suppliers' environmental, ethical, and social practices across 150 purchasing categories and 110 countries. Over 150 industry leaders use EcoVadis to reduce risk, drive innovation and foster transparency and trust among over 30,000 trading partners. To learn more about EcoVadis, visit www.ecovadis.com.

Help Center
support.ecovadis.com