

# Utilization of CSR for Supplier Evaluation in a Selected Company

Bc. Marek Šoltész

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Master's thesis  
2024

 Tomas Bata University in Zlín  
Faculty of Management and Economics

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Univerzita Tomáše Bati ve Zlíně  
Fakulta managementu a ekonomiky  
Ústav managementu a marketingu

Akademický rok: 2023/2024

# ZADÁNÍ DIPLOMOVÉ PRÁCE

(projektu, uměleckého díla, uměleckého výkonu)

Jméno a příjmení: Bc. Marek Šoltész  
Osobní číslo: M21613  
Studijní program: N0413A050031 Management a marketing  
Specializace: Marketing management  
Forma studia: Prezenční  
Téma práce: Využití CSR při hodnocení dodavatelů ve vybrané společnosti

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### Závěr

Rozsah diplomové práce: **cca 70 stran**  
Forma zpracování diplomové práce: **tištěná/elektronická**  
Jazyk zpracování: **Angličtina**

Seznam doporučené literatury:

BAILY, Peter; FARMER, David; CROCKER, Barry a JESSOP, David. *Procurement Principles and Management in the Digital Age*. 12th ed. Harlow: Pearson Education Limited, 2022. ISBN 978-1-292-39749-8.  
GRANT, David B.; TRAUTRIMS, Alexander a WONG, Chee Yew. *Sustainable logistics and supply chain management: principles and practices for sustainable operations and management*. Third edition. London: Kogan Page, 2023. ISBN 978-1-3986-0443-8.  
HEIZER, Jay H.; RENDER, Barry a MUNSON, Chuck. *Operations management: sustainability and supply chain management*. Thirteenth edition. Harlow, England: Pearson, 2020. ISBN 978-1-292-29503-9.  
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WEIGEL, Ulrich a RUECKER, Marco. *The strategic procurement practice guide: know-how, tools and techniques for global buyers*. Management for Professionals. Cham, Switzerland: Springer, 2017. ISBN 978-3-319-57650-3.

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Datum zadání diplomové práce: **5. února 2024**  
Termín odevzdání diplomové práce: **19. dubna 2024**

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## **ABSTRAKT**

Tato diplomová práce se zaměřuje na společenskou odpovědnost firem (CSR) a její implementaci do nákupních postupů výrobní společnosti. Cílem této práce je analyzovat současné nákupní procesy používané nákupním týmem společnosti a navrhnout úpravy, které by zahrnovaly ohledy na společenskou odpovědnost dodavatelů. K dosažení tohoto cíle byla provedena analýza interních dokumentů a byly provedeny rozhovory s nákupčími, aby bylo možné lépe porozumět procesům a nákupnímu týmu. K získání podrobnějších informací byly provedeny další analýzy, například analýza SWOT nebo analýza 7S McKinsey. Po analýze všech dostupných informací byly předloženy návrhy na úpravu procesů, tak aby zohledňovaly výkonnost dodavatelů v oblasti udržitelnosti a také vytvoření dotazníku udržitelnosti pro ty dodavatele, kteří dosud neobdrželi řádné CSR hodnocení. Tato práce se rovněž zaměřuje na důležitost vzdělávání nákupčích, aby byli plně připraveni na přijetí navrhovaných změn a potenciálních výzev.

Klíčová slova: společenská odpovědnost firem, udržitelnost, oddělení nákupu, strategický nákup, udržitelný nákup, proaktivní nákup, analýza dodavatelů, hodnocení dodavatelů, výběr dodavatelů

## **ABSTRACT**

This thesis focuses on corporate social responsibility (CSR) and its implementation in the procurement practices of a manufacturing company. The aim of this study is to analyze the current procurement processes employed by the company's procurement team and propose modifications to incorporate considerations for suppliers' corporate social responsibility performance. To achieve this goal, internal documents were analysed, and buyers were interviewed to gain a better understanding of the processes and the procurement team. Additional analyses, such as SWOT analysis or McKinsey's 7S framework, were conducted to provide more detailed insights. After analysing all available information, suggestions were made to modify the processes, ensuring the inclusion of sustainability performance considerations for suppliers, as well as creating a sustainability questionnaire for those suppliers who have not yet received a proper corporate social responsibility rating. This thesis also focuses on the importance of educating buyers to fully prepare them to embrace suggested changes and potential challenges.

Keywords: corporate social responsibility, sustainability, procurement, strategic procurement, sustainable procurement, proactive procurement, supplier analysis, supplier evaluation, supplier selection

I would like to express my sincere gratitude to my family, friends, and teachers who have supported and guided me throughout the process of completing this thesis. Additionally, I would like to extend my thanks to the individuals at the company where this thesis was conducted.

To my family, I extend my deepest thanks for their unconditional love, understanding, and encouragement. Their constant support has been a source of strength and motivation.

I am grateful to my friends for their companionship, encouragement, and unwavering support. They made these last few years unforgettable.

I am deeply grateful to my teachers for their dedication, expertise, and guidance, particularly to doc. Ing. Petr Briš, CSc. His invaluable support and mentorship throughout this thesis were essential.

I hereby declare that the print version of my Master's thesis and the electronic version of my thesis deposited in the IS/STAG system are identical.

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## INTRODUCTION

The goal of this thesis is to explore the quickly developing issue of sustainability and how can this topic be approached by the procurement team. Especially manufacturing companies are facing growing pressures from their stakeholders to take this topic seriously and see steps aimed to achieving greater performance in all the pillars of social responsibility. As procurement plays a great role in the company's function, it is necessary to start including sustainability topics also to this part of company management.

The theory part of this thesis will introduce goals of procurement and its connection to the company management. Then the thesis will introduce the terms connected to social responsibility or sustainability, while mentioning the development and current trends such as third-party sustainability assessments.

The second part of this thesis focuses on analysis of the current procurement processes from supplier selection to supplier development. Based on the findings from the analysis adjustments to the processes will be suggested while ensuring smooth implementation by ensuring the preparation of the buyer to understand and be able to communicate this topic to suppliers. A new questionnaire will also be created to help with assessing the supplier's performance as well as help them with adapting to the company's requirements.

Lastly, the focus will shift towards assessing the financial impact and potential risks that might arise by implementing the suggested measures.

## **OBJECTIVES AND METHODS**

The aim of this thesis is to analyse the current procurement processes employed by a manufacturing company's procurement team. Based on the findings, recommendations will be made to modify these processes to incorporate considerations for the sustainability performance of suppliers.

The thesis is intended to be implemented by the company with the aim of supporting its global objective of ensuring that 99% of suppliers, meeting specific criteria, are assessed using a designated sustainability evaluation platform. Additionally, this thesis can serve as inspiration for other manufacturing companies looking to adopt similar processes.

The theoretical part of this thesis focuses on explaining terms such as procurement and corporate social responsibility using primary and secondary data sources. The subsequent section of the thesis involves analysing the procurement team's current processes through semi-structured interviews with buyers and examination of internal documents. The analysis methods used include SWOT analysis and the 7S McKinsey model. Based on these analyses, recommendations for process improvements are suggested, with a focus on ensuring smooth implementation.

## **I. THEORY**

# 1 COMPANY MANAGEMENT

The focus of company management should not be just on survival but on a higher purpose. Companies should have set goals to achieve. Holistic view on management suggests that the management should not only focus on the intended function of business units but also on how the business units actually operate. (Christopher, 2007, p. 3-4)

## 1.1 Management goals

The goal of the companies is to become successful and sustain success, which can be described as achieving vitality. This vitality can be perceived as a pyramid. The base of the pyramid, therefore the base of the businesses is usefulness. Companies should have something to offer. Moving up to the next level, effectiveness ensures that what the company offers is efficient and not overly costly. By mastering these two levels, a company can become successful, but the longevity of the success is covered by the following next to levels of the pyramid. Stability, or the ability to deal with issues or changes, is the penultimate level of the pyramid. The peak of the pyramid is represented by dynamisms, which signifies the ability to lead changes and influence development. (Plamínek, 2018, p. 19)

To achieve these goals, a robust management process must be set up. A successful manager requires knowledge, power, the will to succeed, as well as being sufficient. (Váchal and Vochozka, 2013, p.19)

## 1.2 Development

The development of management systems can be divided into multiple stages.

In the first stage, during the early 20<sup>th</sup> century, the focus was solely on the product resulting in a scientific approach to management. Companies tried to maximise the productivity. However, this focus meant the work of employees being mechanical, monotonous, leading to unhappiness among employees. Companies tried to address this discontent by raising wages. (Váchal and Vochozka, 2013, p. 29)

This rise of funds started the second stage of behavioural approach, where the companies began to consider the influence of social factors on the work results. Alongside the behavioural approach, administrative approach emerged, with Henri Fayol being one of the main representatives. His focus was on management at the lower levels. (Váchal and Vochozka, 2013, p. 29)

As Edwards (2018, p. 42-48) says, it was during this stage when five principles of management were created:

- Planning
- Organizing
- Leading
- Staffing
- Controlling

As well as fourteen management principles:

- Division of work
- Authority
- Discipline
- Unity of command
- Unity of direction
- Collective interest over individual interest
- Remuneration
- Centralization
- Scalar chain
- Order
- Equity
- Stability of tenure of personnel
- Initiative
- Team spirit



A swing away from human resources focus came with Max Weber and his bureaucratic approach to management. Weber emphasized the importance of rules, hierarchy, and a strict distribution of power. (Váchal and Vochozka, 2013, p. 29)

The ideas of Marx, who believed that as business expands, ownership becomes less concentrated compared to capital. Similarly, Adam Smith, argued in 1950s that the idea of capitalist managers could maximize profits by effectively managing other people's money. This can be perceived as one of the seeds for managerial revolution. (Demers and Merskin, 2000, p. 106-109) The revolution combined process approaches, psychological and social approaches, system approaches, as well as quantitative and empirical approaches. These ideas later evolved into what we recognize as management of the end of the 20<sup>th</sup> century, which can be characterized by globalization or reengineering. (Váchal and Vochozka, 2013, p. 29-30)

With current trends in management, especially in manufacturing companies, trends of quality management are becoming increasingly popular. Quality should not be perceived as one aspect that ensures the customer satisfaction. Therefore, quality shall not be prioritized over other dimensions. The company must rather focus on satisfying the needs and expectations of customers. There are three main conceptions of quality management:

- the concept of company or sector standards
- Total Quality Management (TQM)
- ISO standards

These trends in quality management have been further reinforced by the development of integrated management systems. (Petříková, Janků and Hofruckerová, 2020, p. 26-27)

## 2 INTEGRATED MANAGEMENT SYSTEMS

The purpose of information systems is straightforward. They act as a way of accessing information. Nevertheless, the origin of the need for information, for companies, differs to the need for information in our normal day life. Companies need the information most often as an aid with decision making, and during problem solving. (Souza and Oz, 2015, p. 7)

The origins of the integrated management systems can be dated back to the 1960's when North American Aviation, together with IBM, created the Information Control System which was aimed to help with bills of materials management during the space race. (Klein et al., 2012, p. 2)

The system should include three elements, which are data, information, and knowledge. Data can be understood as raw symbols without any meaning. Nevertheless, data must be complete, accurate, consistent, valid and current to allow reliable decision making. The next level, information, can be described as formatted data, this series of characters can already have a certain meaning, for example, a social security number or a name, but there is no relation between these words or numbers. This relation is achieved on the highest level which is knowledge. Knowledge is created by discovering relationships between different information, linking some of them together, thus creating various relationships. In this context, if we have knowledge, we can link a specific social security number to a specific person, or the other way round. By having a name, we can find a specific social security number of that person. (Valacich and Shneider, 2018, p. 46)

As described by Sousa, this information can then be used as a support for decision making or problem solving. (Souza and Oz, 2015, p. 7) The information system is fed data, information, and knowledge by management, organization, or technology. This input is then used for business solutions, for example, coordination, optimization, or increase of efficiency. These solutions can then be used to solve business challenges, which are then reported again to the management, closing this circle of information flow. Based on this flow of information, there are two main types of information systems, closed and opened systems. As the name suggests, closed systems are not connected to other systems, making it isolated, which makes them ideal for security reasons. On the opposite side there are opened systems, which work with other systems, creating open-interfaced-information systems. This technology can be described as multiple modules of a bigger system which ensures a flawless exchange between the modules. (Laudon and Laudon, 2014, p. 34)

The majority of worldwide companies has some kind of an integrated management systems across the fields of healthcare, retailing, banking, finance, communications, manufacturing, aerospace, government, etc. (Klein et al., 2012, p. 3)

There are various types of information systems companies might opt for. Most common ones are transaction processing systems, supply chain management systems, often referred to as enterprise resource planning systems, customer relationship management systems, business intelligence systems or geographic information systems. (Souza and Oz, 2015, p. 16-19)

### **3 PROCUREMENT**

The goal of this chapter is to define the term procurement, as well as explaining the roles and different subcategories.

#### **3.1 What is Procurement**

Procurement can be defined in many ways, one of the definitions provided by Lysons and Farrington (2016, p. 4) is that procurement is the essential business function responsible for identifying, sourcing, and managing external resources required by an organization to achieve its strategic objectives. Baily goes in his definition even further, by including goals such as cost saving, risk management or corporate strategy alignment. (Baily et al., 2022, p. 3)

Procurement consists of two main pillars, supplier management and purchasing. The supplier management takes into consideration mainly strategic activities such as negotiation, ethical and environmental issues, benchmarking, outsourcing decisions, development of the supplier potential, relationships, etc. On the other hand, purchasing involves transactional and commercial activities, such as maintenance of the inventory, storage of supplies, expedition, or arrangement of payments. (Lysons and Farrington, 2016, p. 8)

#### **3.2 The Role of Procurement**

The procurement function within a company holds numerous responsibilities and roles. Therefore, it is crucial for procurement to be structured effectively to conduct necessary due diligence, manage risks, and foster relationships with suppliers. (Martin-Ortega, 2018, p. 75)

##### **3.2.1 Due Diligence**

Due diligence is one of the most important roles of procurement. Buyers hold great power and leverage that directly impacts the retailers and the supply chain. While Martin-Ortega (2018, p. 75) focuses mainly on human rights, Lysons and Farrington (2016, p. 5) expands the due diligence also to financial robustness, competence, reliance and the extent of sub-contracting, the experience of the supplier, while also checking the history of legal disputes or insurance claims. This evaluation should be done through a Pre-Qualification Questionnaire.

### 3.2.2 Risk Management

Procurement should also assess the risks associated with its activities. Risks can be divided into two categories. Risks related to causes and risks related to effects as these two types of risk complement each other. Generally, it can be said that risk is a decision made with compromised information, leading to a deviation from a plan or failure to achieve set targets. Weigel believes that risk management should not aim to eliminate all risks but focus on evaluating and reducing the risks which might arise. Mitigation of risks can sometimes have a negative effect on company's success. (Weigel and Ruecker, 2017, p. 88)

The aspect of risk management is also addressed by Baily (2022, p. 5) who divides the risk into four categories, operational risk, quality risk, compliance risk and strategic risk.

- The operational risk can be described as a failure of the supplier, that can result in an interruption of the incoming goods or materials.
- Supplier can be exposed to a decrease in quality, for example because of low-cost country sourcing, putting the agreed standards at risk. Such situation is an example of quality risk.
- The difference between the desired standards and reality can be also exposed by the compliance risk. In this risk category the suppliers' sustainability and ethics standards must be assessed.
- The last risk category of strategic risks can be described as the risks arising from commercial exposure that can potentially lead the intellectual property being lost which can threaten the suppliers' position in the market.

A risk register is a method recommended by The World Bank. The register shall help the company in assessing the risks in various areas such as environmental or social. To work properly, the register should be implemented from the start of the project and shall be updated and reviewed during the whole contract process. It can also be used in the future for other projects as a supportive database. (The World Bank, 2018, p. 23)

### 3.2.3 Relationships

Right from the beginning, the procurement team must understand the importance of relationships. The procurement process must not be understood only as a marginal interest, but as something that can bring value by adapting new approaches and activities, that further develop the relationships between buyers and suppliers. (Nenadál, 2006, p. 22)

The relationships can be developed in many ways. Performance reviews, active involvement of personnel, or sharing of business or contract management data is suggested. The relationships can be strengthened by a commitment to long-term goals or a commitment to a continuous improvement. Procurement holds an important role of motivating their suppliers in improving their standards in various areas. The continuous improvement can be implemented contractually or evaluated individually. The continuous improvement cannot be understood as a single way road, as the companies can join their efforts in creating a better product. For example, one company can invest in new technology in exchange for royalty, or the ownership of intellectual property. During the evaluation process the supplier's investments shall also be monitored. Investment in inventory or procurement expertise should be assessed as one of the first and rewarded accordingly. (Lysons and Farrington, 2016, p. 6)

Nenadál (2006, p. 26) argues that the most important things in the search for a new supplier should be quality, time frame, costs, and the knowledge of employees. The lastly mentioned knowledge of employees has a direct impact on the factors mentioned ahead of it. Therefore, companies must invest in their employees' knowledge to improve performance, which in turn enhances the company's ability to supply high-quality goods at reduced costs. This area can be developed through cooperation between companies as part of fostering good relations.

The World Bank mentions eight hallmarks for a successful relationship management which shall be achieved. The list includes commitment to the relationship, honesty, trust, goodwill, effective two-way communications, common understanding, mutual respect, openness, and accountability. (The World Bank, 2018, p. 17)

### **3.3 Sustainable Procurement**

While maintaining the ideas of a typical procurement process, the goal of sustainable procurement is to include sustainability topics. (Meehan and Bryde, 2009, p. 95) Some areas of sustainability can have direct impact on the consumer/customer reaction. The customers are especially sensitive to the issue of social injustice. If a company does not address such issues, for example by cooperating with suppliers in less developed countries where working conditions do not meet acceptable European standards, it can trigger a negative reaction from customers. The reaction can escalate to a situation where the customers start avoiding any products of the company. On the other hand, if the company makes sure that all of their

suppliers, in this case, avoids any potential of social injustice, they can be rewarded, as often we can see on the coffee market. (Grant, Trautrim and Wong, 2023, p. 152)

### 3.4 Strategic Procurement

Focusing on the strategic part of strategic procurement, it is also procurements task to communicate company's vision. Therefore, it is highly advised to include procurement team into the process of formulating the company's vision. (Schuh and Raudabaugh, 2017, p. 231)

The strategy should describe and communicate the ideas of the company founders about the industry, customers, what needs or products will the company offer to satisfy the customer's needs. The strategy should be constructed respecting the SMART approach. The strategy goals must be stimulating, measurable, acceptable, realistic, and timed. (Červený et al., 2013, p. 3-5)

Lukoszová claims that procurement strategy consists of four parts. Material strategy, information systems purchasing strategy, inventory management strategy, supplier-customer relations strategy. The strategy should also have long-term time horizon, and a logical sequence of steps. The strategy must focus on certain selected activities of the enterprise while comparing their cost aspects with resource options. Top management holds the responsibility for its final wording and implementation. (Lukoszová, 2004, p. 17)

The main term connected with strategic procurement is strategic thinking, which Lysons and Farrington (2016, p. 30-31) define as follows:

- Systems perspective, in the context of strategic procurement represents the need to understand the ecosystem, (the connection between different enterprises) in which the organization operates. The perspective on the ecosystem should be both external and internal.
- Intelligent opportunism is a way of exploring new opportunities, which can allow to maximise the alternative strategies. Intent focus makes sure that set goals and strategies are explored and followed to ensure the fulfilment of the goals.
- For a strategic thinking to work properly, thinking in time is a necessity. In procurement there is a gap between the current situation and the future intent. The procurement department should always bridge these two concepts. In situations where there is a shortage of required resources, procurement should aim to optimize the available resources to the best of their ability.

- All of the thinking should always be hypothesis driven. By linking creative and analytical thinking, the procurement should always be prepared on different situations by evaluating relevant data to the hypothetical situation.

### 3.5 Proactive Procurement

With strategic procurement, Baily comes with the term of proactive procurement. This term is explained as focusing on building long term relationships, including supplier development, while areas of sustainability, total cost reduction, etc. are being paid attention to. To support such process techniques of total cost of ownership, benchmarking and cost analysis, while managing risks are necessary. (Baily et al., 2022, p. 23)

Baily et al. (2022, p. 23-24) believes that in comparison to reactive buying, proactive buying has a lot of benefits for the company.

- Firstly, it enhances value addition, as procurement plays a pivotal role in not just acquiring goods and services but also in optimizing their quality and cost-effectiveness. Through proactive engagement, procurement professionals and suppliers collaborate on specifications, ensuring that purchased items meet precise requirements, thus mitigating the risk of receiving defective supplies.
- Procurement is not only a transactional activity but a core management function, pivotal in shaping markets, and fostering shared responsibility for addressing challenges. Emphasizing total cost and value, proactive buying strategies prioritize long-term sustainability and strategic alignment with corporate objectives.
- Using advanced analytics and digital tools, procurement systems are integrated with suppliers' operations, fostering efficient communication, and streamlined processes.
- Negotiations are geared towards achieving win-win outcomes, bolstered by internal and external cross-functional teamwork. Furthermore, proactive buying recognizes that abundance in suppliers and stock does not equate to opportunities but rather risks of waste and inefficiency.

### 3.6 Procurement process

To characterize different situations in procurement certain elements, remain the same. In the procurement process we can always find buyers, demand, supplier, situation on the market, buyer's main goals, current supplier's strategy, potential supplier's strategy, and the number



of steps in the procurement process. Each of the elements exists in three different situations. The element is either repeated, modified, or new. (Gros and Grosová, 2006, p. 24)

The whole procurement process can be understood as a cycle consisting of ten parts. The process starts by defining the need. This definition can be in a form of specification, service level agreement or individual contract terms. Nevertheless, the description must be specific and communicated to the potential suppliers. The right specification does not only define and communicates the requirement, but also provides the basis for quality evaluation, therefore preventing extra costs. The cost saving due to the right specification does not only show through minimising failure costs, it can also enable the right standardisation and optimising design of the desired product or service. The company shall also consider early supplier involvement. This step can be beneficial for both sides of the relationship as involving a supplier with experience can help to shape the requirements. This proactive approach can help with avoiding any potential issues caused by the lack of experience of the procurement department. (Baily et al., 2022, p. 10)

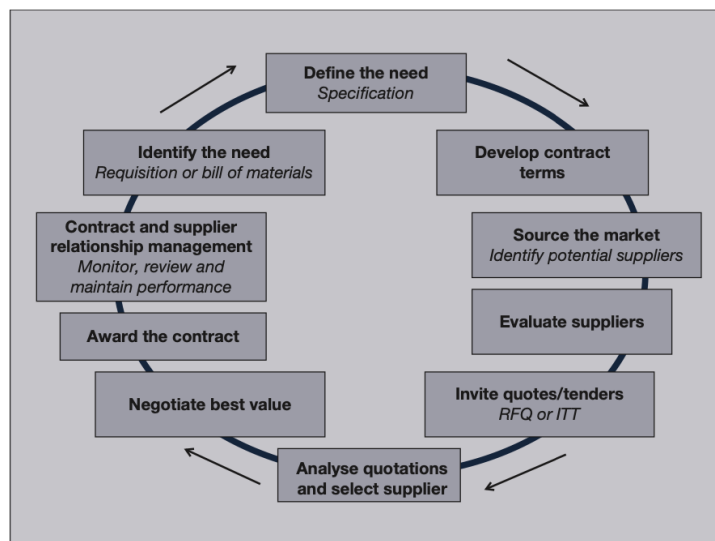


Figure 1 Procurement cycle (Baily et al., 2022, p. 10)

The next step by Baily et al. (2022, p. 10) is to develop contracting terms as he argues, that this step is essential due to the importance of setting out the contract roles, rights, and obligations of all parties. This step is not included in the Gross's process description. (Gros and Grosová, 2006, p. 28)

Once the roles, rights, and obligations are established, the buyer moves on to sourcing the market. In this step we can see the first elements of sustainable procurement. Selecting suppliers is a crucial operational activity in establishing sustainable supply chain

partnerships. To choose a comprehensive and sustainable supplier that can improve supply chain performance, it is essential to take into account environmental, social, and economic factors. (Govindan et. al, 2015, p. 66)

As buyer receives and analyses the quotes, a supplier can be selected. The process then continues but a negotiation of the best value, followed by awarding the contract. Other tasks of the procurement team then come in, such as relationship management. (Baily et al., 2022, p. 10)

### **3.7 Procurement analysis**

Based on the interviews with buyers, analysis methods used during supplier selection and evaluation are described.

#### **3.7.1 Kraljič Portfolio Matrix**

Kraljič's portfolio management is a methodology used by companies to better understand their purchasing strategies. The matrix assigns commodities or suppliers into a two-by-two grid, based on the supply risk and profit impact. Based on those variables the commodities can belong to one of four categories. If the supply risk and profit impact are considered to be low, the commodity belongs to a non-critical category. In the case of profit impact being still low, but the supply risk high, the product belongs to a bottleneck category. The categories considering the commodities with high profit impact are leverage, in the case of low supply risk and strategic, in the case of high supply risk. (Padhi et. al, 2012, p. 2)

The risk can be determined by various factors. Baily suggests seven different factors. (Baily et al., 2022, p. 28)

- If a product is frequently purchased, the associated risk can be considered low. However, caution is advised for first-time purchases, as they can be considered riskier situations.
- The balance between demand and supply is another factor influencing procurement risk. If demand exceeds supply, the situation can be considered much riskier.
- Third factor influencing risk is supply chain complexity. Risk can be minimized in the case of a direct purchase from original equipment manufacturer. The more entities are involved in the process, the riskier the process becomes.

- Mitigation of risk can also be achieved by minimizing the financial risks. By lowering the cost risks can be minimized associated with the purchase.
- Consideration of the design maturity can also lead to the risk minimization. Opting for proven designs is advised.
- While considering the design, the manufacturing complexity shall also be considered. Intricate manufacturing processes can increase the amount of risk connected with the purchase.
- Lastly, the environmental risk and safety shall be paid attention to, if the purchase comes from a highly sensitive area of the environmental aspect, the amount of risk grows.

For the procurement potential, Baily lists five factors. (Baily et al., 2022, p. 28)

- Operating on a market with many competing sources increases the potential of the supplier.
- If there is little automation and similar process is used for all purchases, the potential can be considered higher.
- The potential can also be increased by a high value of spend. Higher the value, higher the potential.
- Demand and supply come into consideration in the potential section as well. If there is spare capacity, the potential can be considered higher.
- The last factor influencing the procurement potential is how developed is the procurement process. If it is led by teams with plenty of experience, the procurement potential should be considered lower.

The tactics for each of the quadrants are quite varied.

- For non-critical quadrant Kraljič himself suggests efficient processing and acquisition, product standardization, consolidation or leverage of volume, and inventory optimization. Other suggestions include rationalization of supply base suggested by other authors, like Hadler and Ecans, Olsen and Ellram or Cavinato. Another suggestion by Nellore and Söderquist is the decentralization of procurement and systems contracting. Haddler and Evans furthermore suggest blanket order agreements. (Hespig and Schiele, 2016, p. 3-4)

- With leverage items the procurement should focus on competitive vendor selection/control, exploiting full purchasing power, spot buying and target pricing. Other authors suggest value added services, short term contracts, system contracting or focusing on establishing good relationships.
- For bottleneck items Kraljič suggests focussing on volume insurance, security of stock and having backup plans. Last Kraljič's suggestion is the control of the vendors. Other suggestions for this quadrant are to widen product specifications, extended sources, and creation of competition, medium to long term contracts, intense partnerships, or product standardization.
- Lastly, the strategic quadrant. The buyers should try achieving long-term privileges through creating and maintain good relationships, resulting in medium to long-term contracts. Joined product development can also bring great advantages. Target costing is advised to be used while detail market research shall not be underestimated.

### 3.7.2 SWOT Analysis

Jakubíková and Janeček (2023, p. 137) perceive SWOT analysis as one of the most well-known and widely used environmental analyses. Its main objective is to identify the extent to which current company strategies are relevant and capable of adapting to changes in its environment.

Halada (2023, p. 94-95) further describes SWOT analysis as a starting point for proposing marketing strategy and developing a marketing plan. This acronym originated from the initial letters of the English words for strengths, weaknesses, opportunities, and threats. The S-W analysis assesses the level and quality of both internal and external environments. The O-T analysis focuses on the marketing macro-environment, helping the company uncover market opportunities and threats. The combination of these analyses results in an overall SWOT analysis.

### 3.7.3 McKinsey 7S Model

The McKinsey 7S model is a tool used to assess a company's organizational structure through an examination of 7 critical internal elements: strategy, structure, systems, shared values, style, staff, and skills. The goal of the model is to determine whether these elements are well-coordinated and support the organization in achieving its objectives. All seven areas

should be interconnected, and an adjustment of single area must require changes in other parts of the model. (Jurevicius, 2023)

Individual parts of the model are characterized by Ravanfar (2015, p. 46-47) in following way.

- Strategy – Strategy refers to the plan devised by an organization to maintain competitiveness within its industry and market. Ideally, this involves crafting a long-term strategy that aligns with other components of the model and clearly articulates the organization's objectives and intentions.
- Shared values – Shared values are broadly accepted standards and norms within the company, often detailed in the organization's policies. In practice, shared values relate to the expected behaviours in the workplace.
- Systems – Company systems encompass the day-to-day procedures, workflows, and decisions that constitute standard operations within the company.
- Structure – Organizational structure comprises the corporate hierarchy, leadership arrangement, and divisional makeup that describe how various activities function and interrelate. Essentially, it outlines the management layout and the responsibilities of employees.
- Skills – Skills encompass the talents and abilities of the organization's workforce and management. There may be occasions when the company assesses its available skills and decides on necessary changes to achieve the objectives outlined in its strategy.
- Style – Leadership style characterizes the example and approach adopted by management in leading the company, influencing performance, productivity, and organizational culture.
- Staff - This segment concerns the company's personnel, including their numbers, motivation, and the level of training and preparation for their assigned tasks.

#### **3.7.4 Qualitative research**

As qualitative research was conducted as a part of the thesis. A brief explanation of the methodology follows. The qualitative research usually offers answers to questions starting with why or how. This type of research can also offer the understanding of emotions and

other non-verbal communication. It can also be said that quantitative research tries to understand the thinking and decision making of the respondent. (Tahal, 2022, p. 43)

## 4 CORPORATE SOCIAL RESPONSIBILITY

The goal of this chapter is to define corporate social responsibility, analyse the benefits of corporate social responsibility and look at its implementation into procurement.

### 4.1 Defining Corporate Social Responsibility

Dahlsrud (2008, p. 6) claims that there are many definitions of corporate social responsibility. Nevertheless, they consistently refer to stakeholder, social, economic, voluntariness and environmental dimensions. By the research conducted by KPMG, 80 % of companies report their sustainability data, making it standard business practise. (Pratoomsuwan and Chiaravutthi, 2022, p. 193)

### 4.2 Pillars of Corporate Social Responsibility

The corporate social responsibility can be divided by the pyramid of CSR. (Grant, Trautrim and Wong, 2023, p. 230)

- The base of the pyramid is represented by the economic responsibility of a company as all the other levels are depended on the profitability of the company.
- The second level of the pyramid is represented by the legal responsibility of a company as it needs to comply with laws and regulations. Therefore, all the products or services of the company must be compliant to relevant requirements.
- Ethical responsibility represents the third level of the pyramid. This responsibility refers to a company following ethical norms and in general being respectful to the society.
- The peak of the pyramid is represented by the philanthropic responsibility, which refers to company's activities which can be considered as voluntary, charitable, or both for the benefit of societies.

This pyramid should lead to the improvement of financial, social and environmental benefits, also referred to as the triple bottom line. (Henriques and Richardson, 2004, p. 24)

To help and monitor such complex issue, multiple standards have been created to cover the topic. The Global Reporting Initiative and, International Integrated Reporting Council as primary examples. The next example are the GRI standards. (Farooq, Zaman and Nadeem, 2021, p. 1108-1111)

The GRI standards have been rigorously developed for the past twenty years by an independent international organization. (Perera-Aldama, 2022, p. 885) All of these standards are used to help the companies report their performance in the sustainability department, whereas the International Integrated Reporting Council promotes integrated reporting, which can be understood as reporting of governance, strategy, and performance. The prospects should be mentioned as well as lead to a creation of value in different time frames. Account Ability's Accountability Principles standard, Stakeholder Engagement standard and Assurance standard can be used for this topic. (Farooq, Zaman and Nadeem, 2020, p. 1109)

### **4.3 Benefits of Corporate Social Responsibility**

By implementing CSR practices into the structure of a company can have many benefits. Kašparová and Kunz (2013, p. 17) believe, that the biggest advantages are the following. By implementing CSR methods, the company can become a sought-after supplier, increase opportunities for investors and access to additional capital. The company image can improve in the eyes of public, the relationships between the current partners can also improve, while the company can become more attractive for other potential investors. Loyalty and sales with existing customers can increase, while improving the efficiency, and decreasing operating cost.

In the research "Investing in the future: City attitudes to environmental and social issues", more than 50 % of the analysts, and more about 66 % investors believe, that a company taking the sustainability seriously, appears more attractive for cooperation. (Hancock, 2005, p. 7) Furthermore, CSR implementation can lead to a better risk management while decreasing the current risk management costs. CSR can help with better understanding of the shareholder needs, which can lead to a better cooperation among the involved parties. Last but not least, a long-term sustainability and the overall operations of the company can be refined. Most of the listed benefits are non-financial but should not be overlooked as the impact can be seen mostly in long term effects. (Kašparová and Kunz, 2013, p. 17)

### **4.4 Evolution of Corporate Social Responsibility**

The origins of CSR can be traced to the times of industrial revolution in Britain. This ideology later spread to the United States and Japan. The idea of CSR later developed especially in the United States of America with the likes of John D. Rockefeller in the early 1900's. The CSR ideas started to become clearer in the 1970's until 2000's when



sustainability and strategic aspects of CSR started to be mentioned. (Mishra, 2019, p. 1331-1344) These days it can be said that there is a really close link between the terms CSR and sustainability, as some claim that CSR is just a phase with the goal of achieving improved sustainability. (Sánchez-Teba et al., 2021, p. 17)

#### **4.5 Implementation of Corporate Social Responsibility**

Companies can approach the sustainability by two different paths. Either they approach the sustainability inside out, or top down. The top-down approach can be described by focusing on management while paying close attention to control and measurement. While this approach offers detailed analysis of the impact, Henriques and Richardson argue that it might not be enough as the created structures might be too limiting. The other, inside-out approach focuses on innovation and change. Contrary to the top-down approach predicting the results might become trickier, but this approach can lead to radical changes, leading to the desired sustainability improvement. (Henriques and Richardson, 2004, p. 1)

Implementation of the CSR is described by Kašparová and Kunz (2013, p. 22) in the following steps. The first stage can be described as the planning stage. A CSR assessment shall be performed while establishing a CSR team and creating a CSR work-definition. Current documentation and legislation shall be checked. It is advised to involve stakeholders as early as this stage to ensure the right CSR set-up. The CSR strategy should be communicated with the company management and stakeholders including employees. During the planning stage, the CSR philosophy, approach, and boundaries should be created leading to first CSR actions. Once all of these steps are finished, the company can move on to the second stage of realization. Individual CSR commitments shall be determined and the action of fulfilling those must follow. The success rate of fulfilling those commitments must be monitored and a reporting structure established. The success rate of fulfilling the results should be marked together with the stakeholders creating a pathway of improving the processes or creating new CSR targets the company might want to follow.

#### **4.6 Impact of CSR implementation**

While looking at the changes in company performance by implementing CSR can vary. In a study by Chen, Kuo and Chen (2022, p. 7-10), the average return on investment was 5.54 % with 41.97 % return being the highest, and a loss of 39.79 % being the lowest. The factors such as ownership structures did not play a big role in the performance, unlike extensive

investment in environmental performance often had a negative effect on the financial performance. Therefore, careful consideration and risk assessment is required to avoid this extensive investment. Especially manufacturing companies should pay attention to the sustainability performance indicators, which should help with the planning. This theory is supported by the research of Paolo Candio (2024, p. 4) claiming that financial benefits of implementing CSR are not conclusive nevertheless examining these factors in Chinese and American companies showed an overall positive effect of the implementation. Candio claims that the social pillar has no effect on the financial performance of the company.

The implementation of CSR can lead to a moral elevation of the employees as they generally appreciate moral activities of the company. The employee's appreciation can ease the process of implementation as they can feel that they are doing a good thing and their participation in the implementation should be welcomed. The participation and appreciation by the employees can also lead to a greater appreciation of the company by the general public as the employees spread their emotions about their company's interest in the topic. (Hericher, Bridoux and Raineri, 2023, p. 2-4)

#### **4.7 Corporate Social Responsibility in Procurement**

EcoVadis, a company focusing on CSR reporting created a checklist, describing the proper implementation of sustainability data into a procurement process. In formulating a comprehensive sustainability strategy for procurement, several key steps must be taken. Firstly, it is essential to clearly define the overarching approach to sustainability within procurement processes. This involves setting explicit goals and targets not only for the company itself but also for its trading partners, thereby establishing a shared commitment to sustainability throughout the supply chain. A pivotal aspect of this strategy is the development of a robust supplier code of conduct that articulates the organization's ethical standards and values, providing a framework for responsible business practices. To ensure accountability and progress, an effective measuring and reporting mechanism should be implemented to track adherence to the code of conduct and the attainment of established goals. Furthermore, conducting sustainability assessments for all prospective trading partners prior to engagement is imperative, with a minimum acceptable threshold established to ensure alignment with sustainability objectives. This requirement should be communicated transparently to trading partners, along with clear expectations for performance improvement, facilitated by the development of an improvement scale.

Additionally, the weighting of sustainability assessments in procurement decisions should be defined, ensuring that sustainability considerations are integrated into all aspects of supplier selection and contract awarding. Finally, regular sustainability performance reviews with active trading partners should be conducted to monitor progress, identify areas for improvement, and foster ongoing collaboration towards shared sustainability objectives. By systematically implementing these measures, organizations can embed sustainability principles into their procurement practices, contributing to positive social, environmental, and economic outcomes. (EcoVadis Academy, 2023)

## **4.8 Policies and Standards**

In the seek of environmental improvement not only governments but also organizations set up standards to help the companies adopt a sustainable policy. United Nations Convention for climate change or International Organization for Standardization can act as great examples of such institutions. Based on the current supplier evaluation, the following standards are explained. (Heizer, Render and Munson, 2020, p. 235)

### **4.8.1 ISO 9001**

The ISO 9001:2015 aims to set up a quality management system, which should help meeting customer expectations and requirements as well as regulatory requirements. It is believed that this standard improves processes in the company, leading again to the satisfaction of various requirements. This standard can be applied to a wide range of companies, regardless of the type of products or services, company type, customers type or the size of company. (Abuhav, 2017, p. 2)

### **4.8.2 ISO 14001 and 5001**

The aim of ISO 14001 is to help the company better understand correlations between the identification of company's environmental aspects. Those aspects should be ranked in order of importance and the extent of environmental impact. The company should then focus on minimizing such effects. (Whitelaw, 2004, p. 3) Optionally alongside ISO 14001 companies can adopt ISO 50001 focusing on the use of energy. (Heizer, Render and Munson, 2020, p. 236)

### 4.8.3 Global Reporting Initiative

The Global Reporting Initiative, also known as GRI, focus on helping organizations reporting their sustainability policy which helps their transparency and improvement by understanding the organizations impacts. Out of 250 worlds largest companies, 75 % use GRI reporting standards to communicate their sustainability data. (The GRI Standards Enabling transparency on organizational impacts, 2020)

### 4.8.4 Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a set of 17 global objectives established by the United Nations to address pressing social, economic, and environmental challenges facing the world. These goals, adopted in 2015 as part of the 2030 Agenda for Sustainable Development, aim to mobilize efforts across nations to eradicate poverty (SDG 1), end hunger (SDG 2), ensure good health and well-being (SDG 3), promote quality education (SDG 4), achieve gender equality (SDG 5), ensure clean water and sanitation (SDG 6), ensure affordable and clean energy (SDG 7), promote decent work and economic growth (SDG 8), innovate industry and infrastructure (SDG 9), reduce inequalities (SDG 10), make sustainable cities and communities (SDG 11), ensure responsible consumption and production (SDG 12), take climate action (SDG 13), conserve life below water (SDG 14), protect life on land (SDG 15), promote peace, justice, and strong institutions (SDG 16), and strengthen global partnerships for the goals (SDG 17). The SDGs provide a framework for collective action, emphasizing the interconnectedness of various developmental facets and the importance of collaboration between governments, businesses, civil society, and individuals to achieve sustainable development. (Sustainable Development Goals, 2024)

## 5 CSR OR ESG

Concepts concerning corporate citizenship are closely connected, therefore it is important to differentiate between different concepts to ease the understanding of the topic. The centre of attention of corporate social responsibility are externalities and their management. Those responsibilities are usually defined in a qualitative way. The quantification of social initiatives is addressed by ESG, therefore ESG can be used as a help with implementation of the sustainable practises. (Park, 2023, p. 1-3) The ESG reporting, short for environmental, social governance has become mandatory, and the EU member states must implement the CSRD guidelines until 6.7. 2024. This will be mandatory for companies with at least 500 employees on average during the financial year. (Komora auditorů České republiky, 2024)

## **6 THIRD PARTY CSR ASSESSMENTS**

Based on the interviews with the buyers the two most common third-party assessments are by companies EcoVadis and Sedex. This chapter aims to offer brief explanation of the two companies.

### **6.1 EcoVadis**

Founded in 2007, EcoVadis, these days with over seventeen hundred employees, is world's largest provider of business sustainability ratings. The mission of the company is to provide sustainability ratings, and help companies to minimise risks, help improvement, and accelerate the positive impact on the planet and society. The ratings are provided by professionals, taking in consideration the various factors effecting the rated company such as size, country or sector. Traceability and transparency of documentation is another driving factor behind the rating while all of the information assessed by EcoVadis is evidence based. Rated company is then reviewed in four themes of environment, labor and human rights, ethics, and sustainable procurement. (About EcoVadis, 2024).

### **6.2 Sedex**

Another company offering sustainability ratings is Sedex. With over 20 years of expertise and 75,000 members, Sedex is one of the closest competitors to EcoVadis. Based on the information available EcoVadis focuses more on the overall aspects of CSR, whereas Sedex focuses mainly on the application of the factors in the supply chains of the assessed companies. (About Sedex, 2024)

### **6.3 Expectations of Corporate Social Responsibility in Procurement**

The research is comparing information collected in 2019 and 2021 and in the two a shift can be seen in procurement priorities. The priority of reducing cost has dropped from 56 % in 2019 to 36 % in 2021, the opposite change can be seen in the goal of delivering on corporate sustainability goals moving from 25 % in 2019 to 63 % in 2021. The other goals of reducing risks and compliance with existing regulation remained more or less the same, in the region of 62-68 %. 63 % of companies marked risk mitigation as one of the areas mostly benefited from adopting a sustainable procurement program. Other major benefits were 45 % increase in resilience, 39 % in saving costs, and 37 % in new, innovative, sustainable products and services that enable access to new categories, price premiums from differentiation etc. 36 %

increase in sales and revenue due to improved reputation and/or customer requirements. 81 % of the companies believe that the commitment to sustainability of their company has increased in the past 3 years. (EcoVadis Academy, 2024)

## **II. ANALYSIS**



## **7 INTRODUCTION OF THE COMPANY**

The goal of this chapter is to introduce the company where this thesis was conducted and define its organizational structure. All of the information is taken from internal documents.

### **7.1 Brief Introduction**

The company where this thesis was conducted is a part of much larger operation with bases in 33 countries and about 11 000 employees in total. The whole holding is divided into multiple divisions with different focuses. The division of focus in this thesis specializes in plastics and in this very case packaging. The very plant in the Zlín region has about 500 employees and has been functioning for over 30 years.

The activities of the company include production of plastic packaging, manufacturing of lifting and handling equipment, wholesale of waste and scrap, manufacturing of other special purpose machinery, manufacture of tools and implements, treatment of waste for further use, except dismantling of wrecks, machinery and equipment, manufacturing of general purpose machinery and equipment, other accommodation, accounting and auditing activities, tax consultancy.

The company has also multiple certifications such as BRC Packing, a standard relevant for companies providing food contact products, followed by ISO 9001:2015 focusing on quality management, 140001:2015 focusing on environment management, ISO 5001 focusing on energy management or ISO 2800 focusing on security management system in the supply chain.

### **7.2 Organizational Structure**

The current structure of the company was recently reworked into a pyramid-like structure. Managing director represents the peak of the pyramid followed by leaders of individual division and their teams.

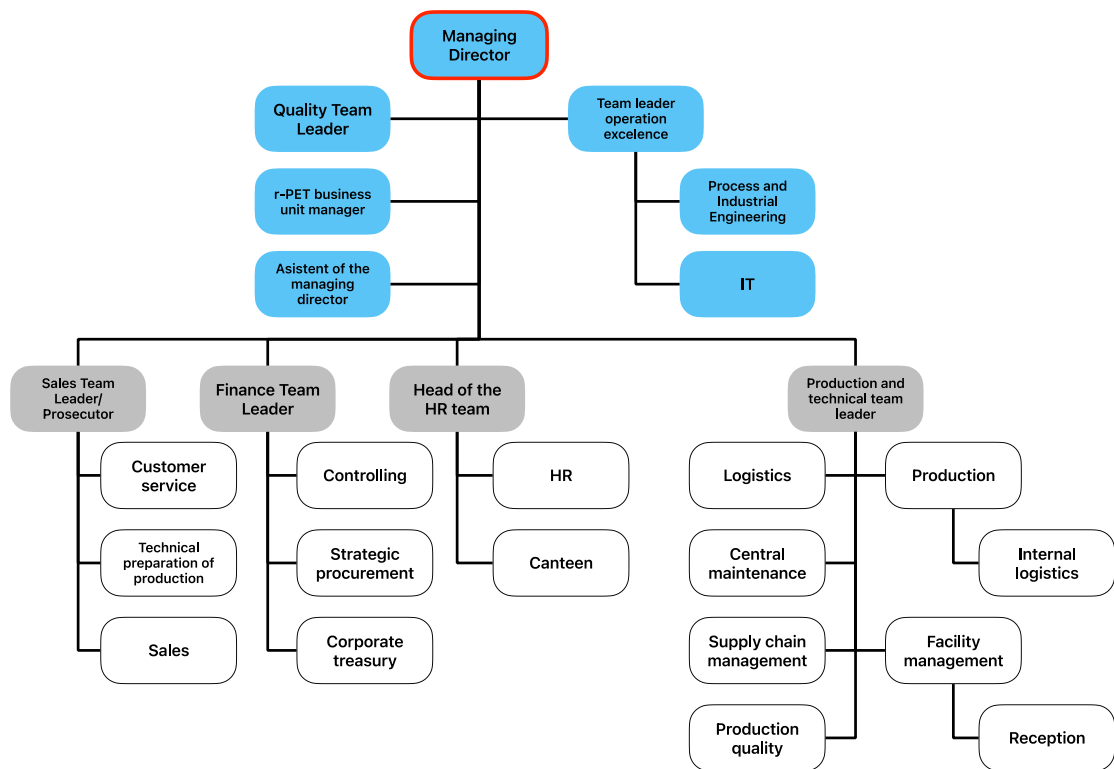


Figure 2 Company Structure (Own creation)

### 7.3 Procurement team

The procurement team consists of three strategic buyers and a procurement team leader. Each buyer is responsible for designated categories and reports directly to the procurement leader, who represents strategic procurement within the company's organizational structure.

### 7.4 Vision of the Procurement team

Negotiation is in our blood. Together, we're fulfilling our challenging tasks and goals. We know how to navigate priorities.

We always negotiate openly, fairly, with a healthy respect and with the goal of long-term cooperation. We are the first to obtain key information and know-how from our partners. We develop our own expertise and that of our partners, our colleagues. We support strategic initiatives of our colleagues in the global GPI team.

I make time for myself every day. This gives me enough energy to do everything I enjoy!

## **7.5 The Mission of the Procurement Team**

We provide expert information and set the conditions for reliable delivery of strategic materials and services to our key internal customers from sales, maintenance teams, operational Excellence, quality and production. This ensures efficient and stable production, machine operation and sustainable profitability. By developing an optimal supplier portfolio, innovative purchasing processes and efficient inventory management we contribute to meeting working capital targets, and operating profit.

## **7.6 SWOT analysis of the Procurement Team**

Based on the interviews with the company's buyers the following SWOT analysis of the procurement team was created.

### **7.6.1 Strengths**

All the buyers highlighted the strong team spirit within the procurement team, emphasizing its adaptability and effective communication. The team is considered diverse by the buyers, and they value the language competency among team members. Fluency in English, and for some members, even German, is seen as crucial for seamless communication and relationship-building. Additionally, one buyer views the current collaboration with a global category manager as a strength of the team.

### **7.6.2 Weaknesses**

In terms of weaknesses, team members mentioned a lack of knowledge about new materials and production processes, difficulties in prioritizing tasks, and challenges when a member of the procurement team needs to be substituted. One member also noted that the team struggles with delegating tasks to other teams.

### **7.6.3 Opportunities**

The procurement team identifies significant opportunities in the development of management systems that facilitate easier access and analysis of procurement KPIs. Additionally, they recognize potential in embracing global management goals to advance the concept of a circular economy.

#### **7.6.4 Threats**

All the buyers mentioned more demanding legislative or internal requirements as potential threats that could make sourcing more challenging. Additionally, two buyers expressed concern about the potential reduction of competencies for local procurement teams.

### **7.7 7S McKinsey Model**

To better understand the procurement team and in some cases the company, if it effects the procurement team. will be analysed using the 7S McKinsey model.

#### **7.7.1 Strategy**

The company's strategy is built on three pillars: globalization, diversification, and market consolidation. Globalization involves stronger growth outside of Europe and increasing the share of non-European plants. Diversification focuses on penetrating new markets. While the company has made significant acquisitions, there has not been significant consolidation, which global management aims to change.

The strategy of the procurement team is slightly different. It emphasizes employee growth, internal process improvement, and then market expansion. The procurement team's strategy is structured into seven elements of a strategic plan, including mission and vision statements, core values, SWOT analysis, long-term goals, yearly objectives, and action plans.

#### **7.7.2 Shared Values**

The procurement team upholds three core values that are communicated to its members: Trust, Continuity, and Sustainability. Trust is fundamental at all levels within the team—among buyers, between buyers and managers, and between the procurement team and other teams such as supply chain. Continuity emphasizes the importance of continuous improvement, ongoing education, and fostering strong relationships with suppliers. Sustainability is a newly added value and serves as a catalyst for this thesis. The team recognizes the importance of sustainability, acknowledges existing shortcomings, and actively works to integrate sustainability into the daily operations of the procurement team

#### **7.7.3 Systems**

The procurement team relies heavily on technology. Buyers communicate with suppliers on daily basis, primarily using Microsoft Outlook for email communication and phone calls.

Internal communication also occurs mainly through email, with additional use of Microsoft Teams. This platform is frequently utilized for employee education purposes as well.

SharePoint and SAP are the primary platforms used for internal document and information sharing. In recent years, significant efforts have been made to optimize the SharePoint platform by implementing Power BI tools. The company already uses EcoVadis, a platform utilized later in the thesis.

#### **7.7.4 Structure**

As mentioned in [reference], there is a clear organizational structure within the procurement team. Each buyer specializes in a designated area of expertise. The buyers report to the leader of the procurement team, who in turn reports to higher-level managers in the hierarchy.

#### **7.7.5 Skills**

There is a significant demand for highly skilled employees within the procurement team, particularly in the areas of communication, negotiation, and planning. All members of the procurement team are encouraged to enhance their language skills through English and German language courses offered in cooperation with external companies, tailored to their proficiency levels.

Buyers actively share their knowledge with the team, and major decisions are always discussed collectively to ensure the involvement of all affected buyers in the decision-making process

#### **7.7.6 Style**

The managerial style within the procurement team is team-oriented. Although buyers focus on specific areas, procurement is viewed holistically by management. Shared values, particularly trust, are evident within the team. Team members trust one another, openly sharing ideas, successes, and failures. This collaborative approach fosters continuous learning and development within the team

#### **7.7.7 Staff**

The team consists of three buyers, each responsible for a specific area of procurement. The team is led by the leader of the procurement team, who reports to higher management within the company. Additionally, there are two accountants and two students involved in supporting the team's operations.

## **8 THE CURRENT CSR SITUATION IN THE COMPANY**

Sustainability is taken really seriously in the company at the moment. The social pillar is covered by a code of conduct and DEI working group. The environmental pillar is covered by the Paris agreement and is using science-based targets. The governance is covered by a sustainability plan, CSRD, CSDD and GRI standards. The sustainability plan is focusing on being carbon neutral by 2030 and by then the company also wants to achieve a fully circular economy. The sustainability plan also mentions the importance of communicating these issues to the employees. To achieve these targets a sum of 172 million euro was loaned. In terms of SDGs, the company works most at the moment on SDG 8 – Decent work and economic growth, SDG 12 – Responsible consumption and production, SDG 13 – Climate action and SDG 14 – Life below water.

Focusing more precisely on the circular economy, this term includes not only the water use, but also production quality and health and safety. Moreover, in terms of climate protection the company focuses on the issues of climate change and greenhouse gas emissions. With the topic of employees, terms of attraction and retention of talent, occupational health and safety, training and further education, diversity, equal opportunity, no-discrimination, local community are often mentioned.

The company can present many ISO certificates. ISO certifications 1400, 9001 and 50001 focusing on ecology and health and safety topics are covered by achieved ISO certifications 45001 and also 9001 which covers these issues.

When asked about the sustainability efforts within the company, all the buyers emphasized that sustainability is taken very seriously, particularly in recent years. They also believe that the company's sustainability performance is above average compared to others in the same industry.

### **8.1 Sustainable Procurement Targets**

The procurement has set sustainable targets. 80 % of suppliers must have signed the company's code of conduct or have a comparable code of conduct. Other target aims to increase the proportion of secondary materials and by 2025 fully reusable or recyclable packaging should be used only. 10 % of all plastic is to be sustainable plastic and secondary and tertiary packaging should be exclusively FSC certified (certification by Forest

Stewardship Council). The procurement team should aim to increase the proportion of local purchasing volume.

## 8.2 Social Pillar

The company demonstrates a strong commitment to the social pillar of corporate social responsibility through various initiatives:

- Setting a target for 80 % of employees to receive annual performance reviews.
- Adhering to anchored principles and guidelines, including the UN Guiding Principles on Business and Human Rights and core labor standards established by the International Labor Organization and local laws.
- Ensuring fair pay based on a grading structure and supporting freedom of assembly and expression.
- Following the OECD Due Diligence Guidance for Responsible Business Conduct.
- Having over 50 % of employees covered by collective bargaining agreements.
- Tracking key metrics such as the pay gap, employee turnover, and hiring rate by gender, as well as the proportion of women in leadership positions and work areas outside production.
- Upholding UN Women's Empowerment Principles.
- Establishing an Equality and Inclusion working group in 2022.
- Implementing a whistleblowing site promoted across all sites.

By 2025, the company aims to:

- Increase average training hours per employee to 16 hours per year.
- Offer opportunities for enrolment in academies or apprenticeship programs.
- The company also places a strong emphasis on health and safety by aiming to reduce occupational accidents by 50 % compared to 2018. All sites have developed and implemented at least three health-related actions, and health and safety representatives are present at all sites."

### 8.3 Environmental Pillar

The company has established multiple environmental targets to enhance sustainability, including:

- Increasing the share of renewable electricity to 80 % by 2025 and 100 % by 2030.
- Increasing the share of renewable electricity generated in total energy consumption to 1.5 % by 2025 and 2.5 % by 2030.
- Improving energy efficiency within the company by 10 % by 2025 and 20 % by 2030.
- Reducing specific emissions (Scope 1 and 2) by 38 % by 2025 and 53 % by 2030.

Specific actions to achieve these targets include:

- Renovating and optimizing buildings to enhance thermal insulation, such as refurbishing roofs, changing windows, and sealing exterior gaps.
- Optimizing heat supply systems by replacing outdated systems, installing free-cooling systems, and transitioning to free heating production.
- Optimizing and replacing lighting systems, including installation of photovoltaic equipment.
- Reducing compressed air consumption by optimizing the compressed-air network and compressors.
- Lowering pre-heating temperatures and overall room temperatures.
- Upgrading production processes by replacing outdated production machines, implementing automated shut-down processes, introducing energy consumption monitoring systems, optimizing the use of waste heat from production machines, reducing machinery baseloads, and improving leak management.



## 9 CURRENT PROCUREMENT PROCESS

The goal of this chapter is to go through the whole procurement process. Starting with supplier search, supplier selection, supplier rating and resulting audits.

### 9.1 Search for Suppliers

The process starts with identifying the need for something. In the procurement manual those are specified as:

- A new project or product
- The need of lowering the entry costs
- Risk diversification, for example in the case of single sourcing
- Non-compliant conditions of a current supplier (quality, delivery times, capacity, or certifications)
- Tender process and activity of a new supplier

After the specification of the request the purchaser decides to address a suitable supplier according to the following procedure. First and the primary option should be to use an existing supplier from a database dedicated to the plant in SAP. If such supplier cannot be found there, the purchaser continues by searching it in the existing supplier database of the whole corporation, which can be accessed by the buyer on SharePoint or SAP. If a suitable supplier cannot be found even there, the purchaser seeks a suitable supplier on the free market. The procurement manual suggests websites such as [cz.kompass.com](http://cz.kompass.com), [Bisnode](http://Bisnode) or [poptavky.cz](http://poptavky.cz). During the search the purchaser must consider the following criteria:

- Assortment demanded
- The distance of the supplier
- Financial capacity (for example indebtedness, turnover, etc.)
- References
- Management systems

The process must be in cooperation with a purchasing team and the communication must be in writing, most commonly, by email.

## 9.2 Documentation

After the purchaser decides on the preferred supplier based on the criteria listed above, a series of documents must be exchanged to ensure the suitability of the potential supplier. Once all necessary documentation is exchanged, a business partnership can be established between the companies.

### 9.2.1 Code of Conduct

The first document that must be signed by the supplier is the Code of Conduct for Suppliers and Business partners. The code of conduct is considered to be an important component of social corporate responsibility by the company. The goal is to ensure integrated approach, sustainability criteria such as environmental protection, occupational safety, and respect for human rights across the supply chain. The main components of the supply chain in the case of this company are procurement of materials, products, and services. The current code of conduct was created around three pillars. The first of the three is social policies and principles covers the aspects of human rights, equal opportunities and non-discrimination, freedom of association, health and safety in the workplace, minimum wage and working hours. Environmental policies and principles are the second pillar of the code of conduct. In this section the document ensures the environmental protection, energy resource efficiency, waste and recycling, conflict materials, chemicals, and product safety. The last pillar are ethical policies and principles focusing on the legal requirements, corruption, bribery, money laundering, import and export controls, competition, conflict of interest, data, commercial secrets, and company assets.

In the case of violating the code of conduct the supplier or business partner is obliged to report these offenses to the company giving the company a chance to terminate the relationship with the supplier or business partner for exceptional reasons.

### 9.2.2 Self-Assessment Questionnaire

When the purchaser establishes communication with a supplier, a Supplier Evaluation Questionnaire (SAQ form) is sent and filled out by the potential supplier if their product might come into contact with food or if their turnover is expected to exceed 500,000 euros.

The SAQ form requests basic information about the company, such as the number of employees, turnover, insurance, certificates, standardizations, and food safety practices. Additionally, there is a section on sustainability where the supplier can indicate if they are

affiliated with EcoVadis or other third-party sustainability assessment companies. However, this sustainability information is not formally assessed during the evaluation process.

The evaluation of the SAQ form relies solely on the personal opinion of responsible employees and does not have a specific threshold for results.

### **9.2.3 Further Documentation**

Another document that is needed during the communication with potential suppliers is the Non-Disclosure Agreement (NDA). The NDA is a legally binding document set to establish confidentiality between the parties during the negotiations. Therefore, preventing any private information from escaping the company. The supplier manual lists the following areas as confidential information: production and infrastructure technologies, product recipes and technological processes, customer related documentation and information, information related to employees, company's strategy and results, technical solutions, complaints and testing of materials, semi-finished products, finished products.

The procurement manual also lists categories of suppliers with access to sensitive information: repairs and maintenance, film, decoration (adhesives), printing inks and accessories, hydraulics and pneumatics, water installations and heating, metal production, connecting material/movable components, electric material, detergents and cleaning agents, PPE hardware, software, construction works, rental (for storage), machines and peripherals, subscriptions, memberships and marketing (only marketing requires NDA from this category), service (laboratories, testing and certification institutes, lease services), consultant, translation agency, granulates, masterbatches, purchased parts (components outside of ownership group), purchased parts internally (within the ownership group), cooperation/hired labour, packaging material, moulds/preparations, spare parts, transportation, metrology, staffing agencies, services.

## **9.3 Opinion of the Buyers**

The buyers were asked to describe the selection process and all of them said they follow these guidelines or described a process similar to the guidelines. Two buyers mentioned that they look at the supplier's sustainability indicators and only one of the two often looks up the supplier's performance in sustainability rating platform. They all agreed that the supplier's sustainability performance is currently not major factor in the decision making.

## 9.4 Supplier Development

The supplier evaluation takes place once a year in January and ranks the suppliers based on their performance during the last 12 months. The goal of the evaluation is to provide feedback to the supplier, informing them about the satisfaction with the cooperation and giving them information about their own capability from the company's point of view.

The suppliers that undergo the evaluation are picked on set criteria:

- Suppliers that are specified in the BRC GS Packaging standard
- Suppliers, where additional cost related to claims were invoiced
- Suppliers with annual turnover over 5 million CZK
- New supplier whose PCO was higher than 1 million CZK in the evaluated period
- Those suppliers that do not meet the quality requirements during the evaluated period. This can be characterized by repeated complaints, customer complaints caused by the supplier, and if the costs related to complaints exceeds 10,000 CZK
- The suppliers struggling to meet the required timeliness of deliveries. The target is set to 95 % of deliveries to be delivered in the confirmed timeline.
- The suppliers who do not meet the requirements of pricing policy, which can be understood as unjustified price increases, frequent price changes, or missing process of continuous process improvement or cost reduction.

The criteria applied in the context of the evaluation process are:

- Quality Management Certificate, EMS, possibly other standards
- Cost of Complaints
- Delivery Deadlines
- Incoterms
- Individual Evaluation of the Purchaser
- Price Stability
- Terms of Payment
- The Level of demonstrable Traceability

- Response time to our requests or new projects
- Documentation updating

The suppliers are divided into four different categories:

- Indirect food
- Indirect non-food
- Direct
- Services

Based on to which category is the supplier considered, the rating criteria are adjusted.

Table 1 Current supplier evaluation (Internal materials)

	Indirect food	Indirect non food	Direct	Services
Certificates	10 %	5 %	3 %	3 %
Complaints	5 %	5 %	15 %	0 %
On time delivery	5 %	5 %	10 %	10 %
Lead time	10 %	10 %	7 %	10 %
Incoterms	5 %	5 %	3 %	0 %
Individual evaluation	20 %	25 %	10 %	30 %
Price stability	15 %	15 %	12 %	15 %
Terms of payment	5 %	5 %	10 %	10 %
Level of demonstrable traceability	5 %	0 %	10 %	0 %
Reaction time	10 %	10 %	10 %	15 %

Response to new projects	5 %	5 %	5 %	0 %
Documentation updating	5 %	10 %	5 %	7 %

The range is the same for all of the categories.

In the certificates part, the supplier actually receives a point even though they have no valid certificate, two points are rewarded if the company uses ISO 9001 standards, for three points the company must have ISO 9001, ISO 4001 and ISO 5001. To achieve the maximum number of points the company must have certificates of ISO 9001, ISO 14001, ISO 45001, BRC and HACCP.

The category of complaints is quantified by complaints per million. Company achieves maximum for points if the PPM is below 300, if the PPM is up to 2500 the company achieves three points, two points are rewarded if the PPM is up to 4500. If the PPM exceeds 4500 the supplier receives no points in this category.

On time delivery is ranked on the following scale. If all of the orders were delivered on time, the supplier receives 4 points, if 95-99 % were delivered on time, the supplier receives three points, 40-94 % deliveries on time are rewarded by two points. If less than 40 % of deliveries were not timely, the supplier receives no points.

To achieve maximum 4 points in the lead time category, the lead time must be within 2 days, if the lead time is two to sixteen days, the supplier receives three points. Two points are awarded if the lead time is sixteen days to a month and a single point is rewarded if the lead time exceeds a month.

The scale for individual evaluation is following. To achieve the maximum for points the supplier must fit a description of top supplier cooperation, requirements fulfilled very well. A supplier fitting a description of supplier is co-operative in case of issues receives three points. Two points are rewarded to a supplier fitting description of there are recurrent issues present and ineffective corrective actions. If a supplier fits a description of supplier is not supportive and do not respond to our initiatives, supplier receives no points.

To rank suppliers based on price stability the following scale is used. Yearly discounts or price decrease are rewarded by four points, fixed prices three points, prices according to a

moving index two points and if the supplier increases the price without reasoning, the supplier receives no points in this category.

Payment terms category are ranked on the following scale. 90+ days are rewarded by 4 days, 89-60 days are rewarded by three points, 59-30 days are rewarded by two points. Payment terms in 0-30 days are rewarded by one point.

If the reaction time of the supplier is within 24hours the supplier receives maximum of four points in the category of reaction time. If it takes one to three days to the supplier to react, the supplier receives three points. Reaction time if four days to a week is rewarded by two points. One point is awarded to the supplier if the reaction time exceeds a week.

The penultimate category of response to our request or new projects, is rewarded the following way. If the supplier is innovative and proposes new solutions, the supplier receives four points. If the supplier is actively involved in new projects if asked receives three points. A supplier that is not very flexible and co-operative in terms of new projects receives two points. If a supplier is not able to respond accordingly to new requirements, the supplier receives no points.

To achieve maximum of four points in the last category of documentation updating, the supplier must automatically update the documentation in case of a change in material formula or legislation. If the supplier updates the documentation automatically once a year, the supplier receives two points. If the supplier updates the documentation once a year on request, the supplier is rewarded by 2 points. A supplier receives no points if he hardly cooperates and is not able to provide the required documentation.

Based on the listed criteria the supplier is assigned to one of three categories.

If the supplier achieves 3-4 points, after considering the weights of individual categories, it is classified as A - Approved supplier. This rating signals complete satisfaction with the supplier. The company does not require any corrective measures. The rated company receives its assessment, and the cooperation continues as before, without any changes.

The second category is marked as B - Supplier conditionally approved for suppliers achieving 2,1 – 3 points, after considering the weights of individual categories. This rating signals some dissonance in the relationship which requires corrective measures. The supplier is informed about the results of the assessments and often an audit is planned, together with a list of actions that are required to be changed. The suppliers have the opportunity to address the issues on its own. The progress is monitored during the next supplier evaluation.

The worst possible result of the assessment is if the supplier is ranked as C – supplier development required. This rating is assigned to suppliers achieving 2,1 points or less. The C ranking is reserved for the suppliers not meeting the company's expectations and further cooperation in the current state would be impossible, therefore immediate action is required. The first step is informing the supplier about the result of assessment together with required corrective measures. The second step is to perform an audit as soon as possible. Based on the audit results a decision is made. If the supplier is willing to work on fixing the issues, the further development of the supplier is assessed. If the likelihood of the issues being fixed is low, the situation can result in the termination of the cooperation.

In addition, the purchaser evaluates the performance of the supplier on an ongoing basis, especially in terms of quality and timeliness of deliveries. If the buyer evaluates the supplier as a risk supplier and there is no alternative supplier in the database, he starts the process of an extraordinary supplier audit and the supplier search process. Where possible and appropriate, an alternative supplier must always be provided to ensure the supplies.

Outside of this yearly rating the supplier can be marked as a risk supplier by the purchaser every four months during a quarterly assessment by the buyer. During the assessment, the buyer shall consider if any of the following indicators are valid for the assessed supplier, while also assessing the quality and timeliness of deliveries. The indicators are:

- Supplier with repeated complaints
- Supplier who causes a complaint at the customer
- Supplier whose reliability of deliveries drops below 80 %
- Supplier where the costs of poor quality exceeds 1 % of PVO
- The Supplier is classified in category C in the supplier evaluation.
- If the supplier is marked as risk supplier, the purchaser must start the extraordinary supplier process.

## **9.5 Audits on Suppliers Premises**

The company processes an audit plan once a year for the next period. If decided by the purchaser, an extraordinary audit can be carried out at the supplier. In certain situations (the auditor's capacity, the approval of the supplier in an accelerated procedure), a technical visit to the supplier may take place without a certified auditor. An audit at the supplier may also



be carried out without the reasons stated previously. The supplier audit may also be carried out by a third party.

The audit plan shall be drawn up on the basis of the information obtained:

- It is a new supplier of material entering the product with direct contact with the food or packaging of the product without valid GFSI certification
- It is a new PvM supplier without valid GFSI certification
- It is a re-audit of the supplier of the material entering the product with direct contact with the food or packaging of this product
- The supplier does not fulfil the general requirements for suppliers
- During the evaluation, the supplier is classified in category C – a supplier requiring the necessary development
- The supplier has been selected for audit by representatives of other departments
- The customer requires an audit of the supplier

Based on the audit findings, the supplier is obligated to prepare a corrective measure plan and, at the same time, to continuously inform the lead auditor about the implementation of these measures. It is also the responsibility of the supplier to check the effectiveness of corrective measures on an ongoing basis.

If the audit result confirms the high-risk rate of the supplier and the supplier did not submit a proposal for effective corrective measures, the lead auditor and the team may decide on further measures.

As mentioned before, based on the quarterly evaluation by the purchaser, an extraordinary audit on supplier's premises can be conducted if the purchaser identifies the supplier as risk supplier. Nevertheless, there are few more situations that can result in such audit. The purchaser decides to perform the audit at a new supplier, if the SAQ form suggests any discrepancies. The supplier could have been chosen for the audit by the representatives of other departments or by the customer. The last situation that can result in the extraordinary audit is if the supplier was marked in the C category during the annual supplier evaluation.

## 9.6 Company Goals and Plans

The headquarters have set out targets conserving the cooperation of other companies with EcoVadis. By 2030 the target is having 99 % of the suppliers, that meet criteria of having a turnover exceeding 500,000 euros to be part of EcoVadis and have a rating higher than 50.

At the moment, 39 % of the suppliers globally are meeting the criteria and are already part of EcoVadis. At the plant where this thesis is conducted out of 82 suppliers meeting the criteria 22 are part of EcoVadis, or 26.83 %. As already mentioned, the company is part of a larger group of companies carrying the same name. In 2022 the headquarters set out a target regarding the sustainability ratings of suppliers. The target is to have 99 % of suppliers evaluated in EcoVadis meeting the criteria of turnover exceeding 500,000 euros in the previous year with a rating higher than 50. To achieve said goals the company created early targets in hopes to achieve the target in the desired deadline. The first target was in 2022 to have 5 % of suppliers rated in EcoVadis, 10 % in 2023, 18 % in 2024, 38 % in 2025, 64 % in 2026, 82 % in 2027, 90 % in 2029 and 99 % in 2030. As mentioned before, the plant where this thesis is applied, met the target for 2024, nevertheless another 12 % of suppliers must adopt EcoVadis to meet the 2025 target.

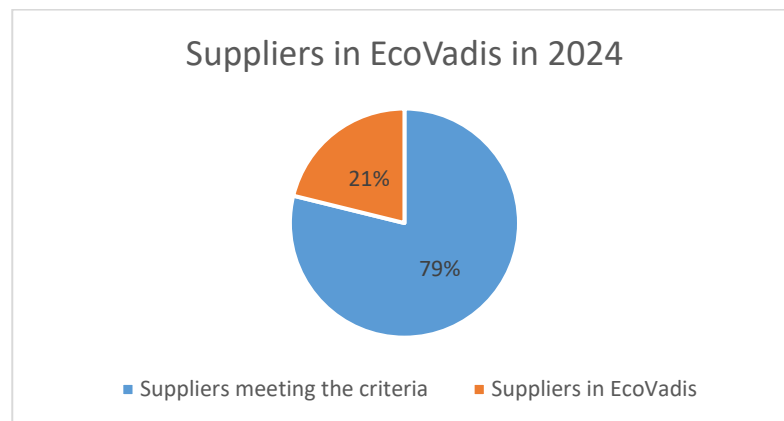


Figure 3 Suppliers in EcoVadis (Own creation)

## 9.7 Thoughts on the Current Process

The process is well set up with emphasis company's due diligence, nevertheless the focus is mainly on quality and financial side. The CSR aspects in the current process plays little to no role in the decision making, supplier development or supplier rating. Therefore, CSR aspects must be much more emphasized and play a bigger role. To ensure that, changes to the SAQ, supplier rating and development, and to the audits must be made. There is also no mechanism to help with achieving the set targets.

## 10 SUPPLIER ANALYSIS

During an interview, the buyers were asked which methods do they use as a support for supplier evaluation. The most common answers were the ABC analysis, Kraljič matrix and SWOT analysis. As the ABC uses mainly revenue, CSR factors are not applicable for this analysis. These factors can play bigger role while being applied to the other two methods.

### 10.1 CSR in Kraljič Matrix

A strange phenomenon emerges when integrating CSR metrics into the Kraljič matrix. This integration impacts how certain suppliers are perceived within the decision-making process. The Kraljič matrix serves as a tool to visualize shifts in supplier perception. To illustrate these changes, suppliers in the category of segments were assessed, totalling 10 suppliers in this grouping. Prior to incorporating CSR elements, one supplier was labelled as leverage, three as strategic, three as non-critical, and three as bottleneck.

Upon integrating CSR considerations, suppliers with CSR ratings, particularly those with high ratings, may be perceived as less risky, thus shifting them to the left of the risk axis. However, while lowering their position on the risk scale may seem advantageous, it can have adverse effects, such as transitioning from the strategic quadrant to leverage, potentially impacting company relationships.

Out of the 10 suppliers, six are evaluated by EcoVadis. Ratings range from 51 to 73, indicating varying levels of sustainability performance. Following the application of the CSR matrix, significant changes are observed. Supplier A experiences a slight risk reduction, albeit with room for improvement given its EcoVadis rating of 51. Conversely, suppliers B and D, with ratings of 73 and 72 respectively, are considered less risky. Supplier B transitions from strategic to leverage, while supplier D moves from bottleneck to non-critical. Conversely, supplier G, lacking a rating, is perceived as riskier, shifting from leverage to the strategic quadrant.

The rating of suppliers:

A – 51

B – 73

C – 57

D – 72

E – 65

F – 67

G – not rated

H – not rated

I – not rated

J – not rated

This example underscores the notion that CSR metrics should not be hastily integrated into the Kraljič matrix, as their application may yield counterproductive outcomes. Therefore, the current approach toward these suppliers should remain unchanged. If CSR is to be applied, it should occur only after all suppliers have sustainability ratings, and even then, its impact should be cautiously considered, likely resulting in minor adjustments within the previously designated quadrants. Long term relationships and partnerships should be encouraged and implementing CSR factors as risk reducing factors in the Kraljič matrix may result in the opposite.

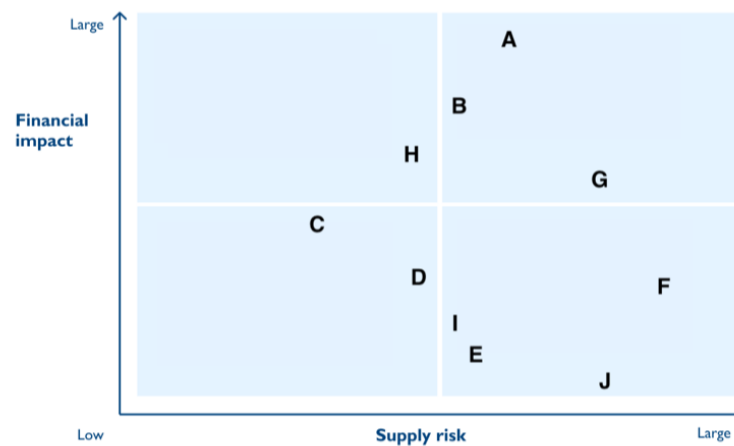


Figure 4 Kraljič's matrix before considering CSR aspects (Internal materials)

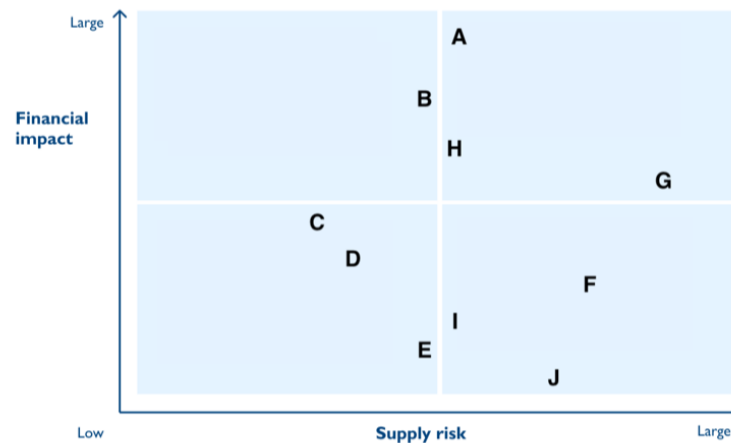


Figure 5 Kraljič's matrix after applying CSR factors (Own creation)

## 10.2 CSR in SWOT analysis

Another commonly used practise to evaluate suppliers is SWOT analysis.

Unlike the Kraljič matrix, CSR and sustainability should definitely be mentioned in the SWOT analysis.

### 10.2.1 CSR as a Strength and a Weakness

Corporate social responsibility can indeed serve as a significant strength for companies, particularly when they actively pursue and attain a high CSR rating. A strong CSR rating not only enhances the company's reputation but also fosters trust among stakeholders. On the other hand, a lack of CSR assessment or a low CSR rating, such as one below 30 on platforms like EcoVadis, could be perceived as a weakness in today's business landscape. Companies failing to prioritize CSR risk falling behind competitors and facing reputational damage in an era where societal expectations for ethical and sustainable business practices are escalating.

### 10.2.2 CSR as an Opportunity

Furthermore, CSR presents compelling opportunities for companies willing to embrace it. The shifting preferences of consumers towards sustainable products and ethical brands create a growing market waiting to be explored. By aligning their offerings with these evolving

consumer demands, companies can not only bolster their market share but also contribute positively to societal and environmental well-being.

Collaboration with other companies renowned for their exemplary CSR practices represents another avenue for leveraging CSR as an opportunity. Through strategic partnerships, companies can share best practices, exchange knowledge, and collectively elevate their CSR ratings. Such collaborations not only enhance individual companies' reputations but also foster a culture of continuous improvement within the industry as a whole.

### **10.2.3 CSR as a Threat**

Nevertheless, it is essential to acknowledge that sustainability efforts can occasionally present threats to companies. For instance, working with suppliers with poor sustainability performance may elicit backlash from stakeholders and jeopardize the company's reputation. Furthermore, partnering with such suppliers could result in a competitive disadvantage, as an increasing number of companies are investing heavily in sustainability initiatives. Engaging with suppliers boasting commendable sustainability ratings may also pose challenges. The investments required to align with these suppliers' standards may lead to increased costs, potentially impacting the company's pricing strategies. This can happen especially with the companies in the early stages of shifting their focus towards CSR. Moreover, the company's involvement in certain CSR-related campaigns, while well-intentioned, may inadvertently generate controversy and public scrutiny. For instance, support for polarizing campaigns like the "Just Stop Oil" protests could strain relationships with stakeholders and the broader public, underscoring the importance of careful consideration and alignment with stakeholders' values in CSR initiatives.

In conclusion, while CSR primarily represents a strength and an opportunity for companies, it is essential to navigate potential threats with caution. By proactively addressing CSR challenges and seizing opportunities, companies can not only enhance their competitive advantage but also contribute positively to society and the environment.

## 11 ECOVADIS

As the platform EcoVadis was selected by the global platform as the sustainability rating platform of choice, the goal of this chapter is to explain how EcoVadis creates the scores for individual companies across different fields and sizes.

### 11.1 How Does EcoVadis Ranking Work

The scale of the ratings provided is on a scale of zero to hundred. The ranking of 0 is understood as insufficient. Up to 25 points the rank is described as partial. Scores from 50 to 75 are considered to be advanced and any rating above 75 is considered to be outstanding.

EcoVadis ranks companies in four categories, environment, labor and human rights, ethics and sustainable procurement. The rating is based on many factors which can be simplified to three main categories of policies, actions and results. The weights of individual elements is influenced by the size of the company as for example, effective sustainability management system tends to play a bigger role for bigger companies in comparison to smaller family run business. Overall, it can be said that this rating is more strict and demanding of bigger companies thanks to a higher number of employees, higher number of suppliers and in some cases operations in multiple countries, therefore the bigger companies must be set up much more diligently to mitigate any potential risks as their potential negative impacts are much bigger. The platform also takes into consideration country risk factor. The country risk is based on four areas of human rights, health and social, governance and also, environment. If the country is considered as low risk, it means that the country has no to low risk in all four areas mentioned. Medium risk countries can have at least one risk area out of the four. What also plays the role while assessing the country risk is where the company's headquarters is based. If the company operates in high or medium risk countries, but it has its headquarters in a medium or low risk country, the overall company country risk can drop from high to medium or from medium to low. Any company that has its headquarters in a high risk country is considered as high risk.

### 11.2 The Assessment of Policies

While ranking a company policy the platform focuses on objectives specifications, addressment of relevant sustainability issues, factors increasing the robustness of policies such as how responsibilities and governance are defined, and the scope of the policy. All of

the policies should be supported by evidence of working on mentioned policies while communication the company's qualitative objectives and quantitative targets.

As mentioned before the ranking consist of ranking the policies, actions, and results. Those categories can be divided into smaller parts. The policies divide into policies, governance, and endorsements, for example UN Global Compact. The actions consist of measures, meaning ways of supporting the set targets or objectives, certifications such as ISO certifications and others, audits or labels, and coverage, focusing on how effectively the certificates are applied. Lastly, the results divide into reporting, taking into consideration available stakeholder reporting and watch findings which takes into account the standpoints of stakeholders, trade unions, etc.

### 11.3 Sustainability Criteria

Sustainability criteria for environment focus on operations and products:

For operations:

- Energy consumption
- Water
- Biodiversity
- Air pollution
- Materials, chemicals and waste

For products they are:

- Product use
- Product end of life
- Customer health and safety
- Environmental services and advocacy

Sustainability criteria focus on human resources and human rights

For human resources the criteria are:

- employee health and safety
- working conditions



- social dialogue
- career management and training
- child labor
- forced labor
- human trafficking
- diversity, equality and inclusion

Criteria for ethics are:

- corruption
- anticompetitive practises
- responsible information management

Criteria for sustainable procurement

- supplier environmental practises
- supplier social practice

## 11.4 Policies Ratings

Rating of sustainable procurement, labor and human rights and environment.

To achieve maximum rating in this category, the company must fulfil these requirements. The company must set qualitative objectives for all of the key sustainability issues and quantitative targets for at least 50 % of the key sustainability issues. The company also has to comply with at least two of the following statements. The company has governance and allocation of responsibilities, the company has a review mechanism in place and the company has a set specific scope.

To achieve the maximum score for the ethics part of the evaluation, the company must cover all of key sustainability issues while having set qualitative objectives. The company also has to set policies for at least 3 of the following: bribery, conflict of interest, money laundering, fraud. Lastly, the evaluated company must comply with at least 6 of the following statements:

- Detailed ethical guidelines with examples

- Formal review mechanism
- Governance and allocation of responsibilities
- Scope of policy is specified
- Quantitative targets for key sustainability issues
- Ethics policy acknowledgement is signed by all employees
- Disciplinary measures for policy violations

For endorsements some of the standards evaluated are the United Nations Global Compact, International Council on Mining and Metals, Responsible Care Global Charter, UN Principles for Responsible Investment, Charte de la Diversité or Sustainable Apparel Coalition Brands and Retailers Member.

## 11.5 The Actions

The actions are assessed by following matrixes.

For environment, labor and human rights the metric is the percentage of key sustainability issues addressed.

Table 2 Evaluation of Actions - Environment, Labor, Human Rights (Own creation)

	<33 %	33-65 %	>66 %
No measures	0	0	0
1 measure	25	25	50
2-3 measures	25	50	75
4 and more measures	50	75	100

Table 3 Evaluation of Actions – Ethics (Own creation)

	Information security	Corruption prevention	All relevant issues
No measures	0	0	0
1 measure	25	25	50
2-3 measures	25	50	75
4 and more measures	50	75	100

While assessing the sustainable procurement team there are 10 measures considered:

- Suppliers have committed to a Sustainability Code of Conduct.
- Supplier contracts include clauses addressing environmental, labor, and human rights concerns.
- Prior to evaluation or auditing, a thorough sustainability risk assessment is undertaken for suppliers.
- Suppliers undergo evaluation on their environmental and social practices through a structured questionnaire.
- Training sessions on sustainability issues within the supply chain have been provided to employees within the procurement department.
- On-site audits are conducted to assess supplier sustainability practices.
- Capacity building initiatives for sustainability, including corrective actions and training, are undertaken with suppliers.
- Exceptional suppliers are eligible for unique incentives such as supplier awards, participation in preferred supplier programs, or consideration in Requests for Proposals.
- Performance reviews for employees in the procurement department include assessments of their contribution to sustainability objectives.

- Innovative practices such as second-tier audits and surveys to capture worker feedback are implemented to drive tangible improvements.

Based on these measures the company receives the following score:

- No measures – 0
- 1 measure – 25
- 2-3 measures – 50
- 4-5 measures – 75
- and more measures – 100

These claims must be confirmed by various certifications for example ISO 14001, 45001 or 27001. Other standards are also applicable such as Social Accountability 800 or RC14001 and many more.

## 11.6 The Results

Last category where companies are being assessed are the results. The results are based on up-to-date quantitative KPIs of how well the sustainability practises are implemented. All the claims must be again supported by relevant evidence.

To achieve the maximum score in the environment, labor and human rights themes, The company must comply with following:

- The company must have conducted materiality analysis
- Reporting must cover at least 3 consecutive, while the last period of reporting must be 2 years old at maximum
- 85 % of key sustainability issues must be covered
- All the reports must be publicly available
- The reports must comply with reporting standards
- An accredited auditor must verify the reports

For maximum score in ethics, the company must:

- The company must have conducted materiality analysis

- Reporting must cover at least 3 consecutive, while the last period of reporting must be 2 years old at maximum
- 3 KPIs for ethics must be reported on
- All the reports must be publicly available
- The reports must comply with reporting standards
- An accredited auditor must verify the reports

For maximum score in ethics:

- The company must have conducted materiality analysis
- The company must have conducted materiality analysis
- Reporting must cover at least 3 consecutive, while the last period of reporting must be 2 years old at maximum
- 3 KPIs for procurement must be reported on
- All the reports must be publicly available
- The reports must comply with reporting standards
- An accredited auditor must verify the report

### **11.7 Watch Findings**

The company analyses external information which are reviewed, and the potential effect of these data is assessed. The impact can vary from very negative, such as repeated major pollution fines to very positive such as top rankings in platforms such as EcoVadis. The scale is again from 0 to 100 with 0 being the very negative impact and 100 very positive impact. If the company is not involved in any major controversies or incidents, while not having any extremely positive cases, the company is awarded the score of 75.

### **11.8 Pricing**

The pricing depends on multiple factors such as the country where the company is based, the number of employees and the selected plan. There are three main categories of assessment.

The basic assessment offers a questionnaire fitted for the specific industry country and size which will result in a scorecard and EcoVadis report. This report also offers calculation for scope 3 emission. This is enough for the company where this thesis is conducted to accept the company as fully rated in EcoVadis.

The premium membership includes some benefits such as benchmarking, making the promotion of the company easier also outside of the EcoVadis network or having the opportunity to enrol in e-learning courses.

The highest membership is called select. This membership includes priority assessments, pre-filled questionnaires, sessions with analysts or dedicated support teams.

The pricing for companies in Czech Republic is explained in the following table. The first price is for a 1 year membership, the second is for a three year plan.

Table 4 Pricing of EcoVadis (Business Sustainability Ratings Plans and Pricing, 2024)

Number of employees	Basic membership	Premium membership	Select membership
0 - 25	409€ / 969€	809€ / 1020€	2289€ / 5509€
26 – 99	689€ / 1659€	1009€ / 2619€	2759€ / 6599€
100 – 999	1049€ / 2529€	1749€ / 4199€	4669€ / 10759€
1000 +	1749€ / 4199€	2569€ / 6159€	7579€ / 18189€

## 12 EDUCATION

As part of the interview, most of the buyers said, that even though they have some knowledge of sustainability in general, corporate social responsibility, or EcoVadis, they lack the needed expertise to fully understand the topic and be able to flawlessly communicate this topic to the supplier. Therefore, an education system for the buyers must be set up.

### 12.1 EcoVadis Academy

As a platform already in use and licensed by the company, all of the buyers will be required to complete EcoVadis' EcoVadis Academy Sustainable Procurement Course. This course consists of four parts:

- Introduction to Sustainable Procurement
- Sustainable Procurement Challenges
- Benefits, Supplier objections
- Continuous Improvement in Sustainability

In the first section, Introduction to Sustainable Procurement, the buyer will learn about the general information regarding the topic. He or she will learn about the difference between procurement and sustainable procurement, understand the benefits of sustainable procurement, the importance of sustainable supply chain. They will also be taught how to monitor and evaluate suppliers more diligently and the importance of supplier engagement.

In the second part of Sustainable Procurement Challenges and Benefits, the buyer will learn more in depth about the topic. The course emphasizes the importance of identifying the challenges and benefits especially for the supplier while understanding the specific industry requirements as well as understanding the specific geographic implications. This part of the course also mentions the regulations and compliance regarding sustainability, like the German Supply Chain Act, the UK Modern Slavery Act, French Duty of Care or the European Financial Disclosures Regulation 2019/2088 by the European Union.

The third chapter focuses on supplier objections and how the buyers should deal with them. In this part of the course, the buyers will also receive a lecture about active listening and the importance of this skill during negotiations, not only about sustainability.

In the last part the buyers will receive a lecture about the continuous improvement in sustainability. The lecture is divided into four parts: plan, do, check, and act. In the plan part

the buyer is educated on how to identify strengths and improvement areas and also how to create a corrective action plan. In the do part the buyer receives information how to achieve long-lasting positive changes, how to encourage the collaboration and how to leverage the corrective action plan. The check part focuses on the importance of monitoring not only the fulfilment of the correction action plans, but also the impact of changes. The last part of act focuses on the identification of next steps and how to recognize possibilities for further improvements.

The total time to complete all those courses should not exceed 2 hours.

## **12.2 Further Training**

As sustainability is a quickly developing topic, one time training does not cover what is needed to ensure fully sustainable and long-term procurement. It is advised to conduct a meeting of the procurement team at least once every six months. One member of the procurement team will be assigned a role of procurement specialist and it will be his/hers responsibility to cover current sustainability topics and present the findings to his colleagues. In those reports it is advised to cover topics of current trends in the field. The reports of development, and goals of the company where this thesis is applied shall also be communicated to the other buyers. The designated person is advised to cover Transparency International's Corruption Index (CPI). This index provides country rating based on the recognition of public sector corruption. The procurement team should avoid doing any business with business based in lower rated countries. Business with higher ranked countries should be encouraged. Another advised source is The Heritage Foundation's Index of Economic Freedom. This index covers impacts of free markets based on a metric they call the economic freedom. Similarly, to the Corruption Index, the procurement should focus on doing business with companies based in countries with high ranking in this index. While assessing the countries to do business with or to avoid, UN Human Development Index, which indicates the level human development, shall be considered also. Last advised source is United Nations Conference on Trade and Development country profiles should be looked into and assessed if it is necessary to gain deeper knowledge about situation in desired country.



## 13 PROPOSED CHANGES

Now that the current processes were described and the buyers are educated about the topic, the thesis will suggest some changes to the currently used processes.

### 13.1 Pre-selection Process

Thanks to the gained education the buyers should use the gained knowledge to filter suppliers in the research phase. This means that they should avoid countries with low rankings or insufficient indexes in the previous chapter. They should also try and focus the research in well ranked countries.

### 13.2 Self-assessment Questionnaire

To communicate the importance of sustainability, the code of conduct is not enough. Suggested changes in the self-assessment questionnaire should communicate the importance of the topic to the supplier straight away. If the supplier selects the option saying that their company is ranked in EcoVadis, they should also write the score they received while also uploading a valid certificate. This information will then be shown in the company's ERP system upon the supplier approval for the buyers to access. If the supplier is not ranked in EcoVadis, he will have to fill in further information regarding their approach to sustainability.

- The company has their own code of conduct which they require to be signed by their suppliers.
- The company follows OECD Due Diligence for Responsible Business Conduct.
- The company will have to select which of the 17 sustainable development goals they identify with and which they are working on.

Based on these basic questions the procurement team should gain basic information about the evaluated company's approach towards sustainability. Even if the company does not check or answers any of these questions it does not have to be rejected straight away as the targets are currently being met. Nevertheless, there should be a clean indication to the procurement team that there will have to be some development from the suppliers side, or the business relationship will have to be short-term as the targets of suppliers in EcoVadis is raising and these suppliers without taking the sustainability seriously will have to be eliminated.

### 13.3 Supplier Evaluation

The supplier evaluation and supplier development will be key in transferring the majority of the suppliers to achieve EcoVadis rating. Large percentage of the suppliers that will eventually have to be rated are long-term suppliers, thus eliminating them and finding alternative suppliers might prove to be difficult, time consuming, and expensive. Therefore, it is the preferred option to work with the supplier and help him towards achieving a good EcoVadis rating. The ideal tool for this is the already used supplier evaluation. As mentioned before, all of the suppliers that meet the criteria of being a food contact supplier or of achieving turnover of 500,000 euros in the previous year, are being assessed and rated. This is a good platform to build on, if needed changes to the evaluation are made. At the current state, sustainability is not considered during the evaluation and has no impact on the final mark of the supplier. By slowly including this factor of sustainability, the company can communicate the importance of taking sustainability seriously. If they do not enter the EcoVadis platform, they will be exposed to action or correction plans which can eventually lead to the termination of the existing business relationship. The factor of sustainability will be implemented on a scale following the set targets.

Another small change based on the interview with the buyers was to reward suppliers offering sconto options. This option will play a minor role in the supplier evaluation of suppliers of direct, indirect and indirect – food contact material. If the supplier offers this option he will receive 4 points, if not 2 points will be awarded.

The changes were discussed with the leader of the procurement team.

In 2025 the weight of the sustainability factor will be 0 %. It will solely appear in the evaluation to show the suppliers that this factor will be implemented and taken into consideration from now on. Current weights of factors will be used.

In the years 2026 and 2027 the sustainability factor will have a weight of 2,5 %, growing to 5% in 2028 and to 10 % in 2030.

Table 5 Scale for 2026 and 2027 (Own creation)

	Direct	Indirect - food contact	Indirect
Certificates	10 %	10 %	10 %
Complaints	5 %	12.5 %	10 %
On time delivery	5 %	10 %	10 %
Lead-time	10 %	5 %	10 %
Incoterms	3 %	3 %	3 %
Sconto	2 %	2 %	2 %
Individual evaluation	20 %	11 %	15 %
Price stability	12.5 %	10 %	12.5 %
Payment terms	5 %	7 %	5 %
The Level of demonstrable traceability	5 %	10 %	0 %
Reaction time	10 %	7 %	10 %
Response to our request or new projects	5 %	5 %	5 %
Documentation updating	5 %	5 %	5 %
Sustainability	2.5 %	2.5 %	2.5 %

Table 6 Scale for 2026 and 2027 – Services (Own creation)

	Services
Certificates	5 %
Service fulfilment	10 %
Meeting deadlines	10 %
Lead-time	7.5 %
Individual evaluation	20 %
Price stability	15 %

Payment terms	10 %
Reaction time	10 %
Response to our request or new projects	5 %
Documentation updating	5 %
Sustainability	2.5 %

Table 7 Scale for 2028 (Own creation)

	Direct	Indirect - food contact	Indirect
Certificates	8 %	8 %	8 %
Complaints	5 %	12.5 %	10 %
On time delivery	5 %	10 %	10 %
Lead-time	10 %	5 %	10 %
Incoterms	3 %	3 %	3 %
Sconto	2 %	2 %	2 %
Individual evaluation	19.5 %	10.5 %	14.5 %
Price stability	12.5 %	10 %	12.5 %
Payment terms	5 %	7 %	5 %
The Level of demonstrable traceability	5 %	10 %	0 %
Reaction time	10 %	7 %	10 %
Response to our request or new projects	5 %	5 %	5 %
Documentation updating	5 %	5 %	5 %
Sustainability	5 %	5 %	5 %

Table 8 Scale for 2028 – Services (Own creation)

	Services
Certificates	5 %
Service fulfilment	10 %
Meeting deadlines	10 %
Lead-time	7.5 %
Individual evaluation	17.5 %
Price stability	15 %
Payment terms	10 %
Reaction time	10 %
Response to our request or new projects	5 %
Documentation updating	5 %
Sustainability	5 %

Table 9 Scale for 2030 (Own creation)

	Direct	Indirect food contact	Indirect
Certificates	3 %	3 %	3 %
Complaints	5 %	12.5 %	10 %
On time delivery	5 %	10 %	10 %
Lead-time	10 %	5 %	10 %
Incoterms	3 %	3 %	3 %
Sconto	2 %	2 %	2 %
Individual evaluation	19.5 %	10.5 %	14.5 %
Price stability	12.5 %	10 %	12.5 %
Payment terms	5 %	7 %	5 %

The Level of demonstrable traceability	5 %	10 %	0 %
Reaction time	10 %	7 %	10 %
Response to our request or new projects	5 %	5 %	5 %
Documentation updating	5 %	5 %	5 %
Sustainability	10 %	10 %	10 %

Table 10 Scale 2030 – Services (Own creation)

	Services
Certificates	2.5 %
Service fulfilment	10 %
Meeting deadlines	10 %
Lead-time	7.5 %
Individual evaluation	15 %
Price stability	15 %
Payment terms	10 %
Reaction time	10 %
Response to our request or new projects	5 %
Documentation updating	5 %
Sustainability	10 %

### 13.4 The Turnover Issue

In the current situation one of the factors deciding if the supplier is going to undergo supplier evaluation is that the supplier’s turnover in the year exceeds 500,000 euros. What is not determined is what happens if the 500,000 euros turnover was just a fluke and in the next year the turnover would be much lower, so the supplier would not be assessed again. Therefore, a condition must be added to the current guidelines. If the supplier exceeds the turnover of 500,000 euros, it will undergo supplier evaluation for the next three years even if the turnover drops under the set sum. The supplier can only be excluded based on the

turnover reason if the turnover does not exceed 100,000 in one of the years. If the supplier does not exceed the threshold of 500,000 euros in the next three years, it can be excluded from the evaluation process. Another reason to exclude the supplier from supplier evaluation is the termination of cooperation. If the supplier then comes back after the cooperation was terminated, it would have to undergo the whole selection and evaluation process all over again.

### **13.5 Sustainability questionnaire**

As the majority of the suppliers is not yet in EcoVadis, it is important to start communicating the message. For this purpose, a questionnaire was created with the aim of introducing some suppliers to the topic of sustainability and start preparing them for the entry to EcoVadis. The goal of this questionnaire is not to precisely evaluate and rank the suppliers, it should act as a bridge between their current sustainability situation and future entry to the EcoVadis platform. Nevertheless, answers to the questions will be rewarded by points and in the end the supplier will get a mark. Most of the questions do not have set targets as this questionnaire aims to cover varying range of suppliers across different fields and sizes. Therefore, the questions must be evaluated by the buyers, which they should be able to do after completing the suggested education programs. The questionnaire covers all of the CSR pillars, giving the procurement team more comprehensive understanding of the sustainability of the suppliers that are not ranked on the mentioned platform. This questionnaire can also be used for suppliers that are ranked in EcoVadis but their rating is below the set threshold of 50. The questionnaire will follow similar pattern to EcoVadis evaluation but in much simpler form.

#### **13.5.1 Environment Pillar**

As environment plays a major part in sustainability, the following questions will try to assess company's performance in the fields of energy consumption, waste.

*Question 1:* Does your company plan to establish circular economy? If so when? (Maximum 1 point)

As circular economy is a great landmark, the company where this thesis is conducted, is trying to achieve in 2030 and sees this as one of the highest achievements in sustainability, it will be good to know if suppliers share similar vision. If a company is planning to achieve circular economy, it is a sign they take CSR seriously. If the company has plans to achieve

circular economy, they will receive a point. If the company has no targets in terms of circular economy, it will receive no points.

The next 5 questions focus on energy consumption and energy sources. Especially in manufacturing energy consumption can play a huge role in calculating scope emissions, therefore it is good to realize the efforts done in this field.

*Question 2:* How do you monitor your overall energy consumption? (Maximum 2 points)

If the company can explain the way of monitoring the energy consumption, they will receive a point. Especially with bigger companies, the buyer should reward if the company adopted some of energy management system.

*Question 3:* Have you achieved reduction of energy consumption in the past 3 years? If so by what percentage? (Maximum 2 points)

If the supplier achieved reduction in energy consumption, a point will be rewarded. If the reduction was significant, meaning above 15%, it can be rewarded two points.

*Question 4:* What are your main energy sources? (Maximum 2 points)

Another question without any targets. It will mainly be used to gain understanding the supplier's stance towards energy sources. It can also help identify if the company uses renewable energy, from example from installed solar panels intensively. If the supplier has an answer, it will be rewarded by a point. If the buyer considers the energy sources to be greatly sustainable, for example great use of solar power, the supplier can be rewarded two points.

*Question 5:* What percentage of the energy use is from renewable sources? (Maximum 2 points)

If the supplier monitors what percentage of the energy comes from renewable sources, it will be awarded a point. To achieve the maximum points, the amount of renewable energy must exceed 20%.

*Question 6:* Has the amount of the use of renewable energy increased or decreased in the last 3 years? (Maximum 1 point)

An increase of the use of renewable energy will be awarded by a point.

*Question 7:* What measures does your company take to ensures your energy efficiency. (Maximum 2 points)



In this question the supplier will get a chance to explain measures taken to ensure energy efficiency. An answer will be rewarded by a point, if the buyer considers the measures taken to be exceptional, the supplier can be rewarded by two points.

*Question 8:* In the last 3 years have you invested in equipment or technology with the goal of being more energy sufficient? (Maximum 2 points)

This question might follow on the answer to the previous question. If there was an investment in energy saving technology or equipment, the supplier will be awarded a point. If the investment is considered significant, taking into account the current state of sustainability and companies' turnover, the buyer can reward the supplier two points.

The next series of questions will be focusing on the supplier's approach towards waste management. The rewarding of points will be similar to the previous section, if a supplier has the data and is willing to share them, the supplier will receive a point. If the buyer considers the measures exceptional, he can reward them two points.

*Question 9:* What initiatives do you take in waste reduction? (Maximum 2 points)

*Question 10:* What percentage of your waste was recycled? (Maximum 2 points)

*Question 11:* What waste disposal methods do you mainly use? (Maximum 2 points)

*Question 12:* How do you handle hazardous and e-waste? (Maximum 1 point)

Even though management of these kinds of waste is managed by laws, especially in the European Union, as the company cooperates with suppliers from all over the world, this question is still important to ensure the management of such waste especially in less developed countries.

*Question 13:* Do you track your scope 1, scope 2 and scope 3 emissions? If so what are the figures? (Maximum 3 points)

*Question 14:* How do you raise awareness about the waste management in your company? (Maximum 2 points)

The goal of this question is to know if the supplier has any waste management training for employees, if there are recycling bins at the workplace, if they use some sort of leaflets or other material to raise awareness of this issue among employees.

The supplier can receive a maximum of 26 points in this section.

### 13.5.2 Supply Chain

The following questions focus especially on the supplier's supply chain. These questions will not be asked to suppliers of services.

*Question 15:* Do you carry out periodical supplier evaluation? (Maximum 1 point)

Periodical supplier evaluation can have a great impact on the quality of suppliers. It also shows willingness of the supplier to work with suppliers ensuring quality of their products.

*Question 16:* If you do carry out periodical supplier evaluation, do you consider CSR aspects? (Maximum 1 point)

Following the previous questions, if the company does consider CSR aspects, it only elevates the quality of the evaluation and shows suppliers commitment towards sustainability.

*Question 17:* Has your company created a code of conduct? Do you request suppliers to sign the document and if so, what percentage of your suppliers signed the document? (Maximum 1 point)

As mentioned before, well written codes of conduct play a major role especially in ethics department. If the supplier has a code of conduct covering important issues of sustainability, it again shows great supplier commitment towards the topic. The question of what is the percentage is purely informative and should act just as a reference or space for possible improvement.

*Question 18:* How do you ensure ethical sourcing? (Maximum 1 point)

Ethical sourcing is an important aspect in supplier selection. Viable answers to this question can be checking suppliers website, checking their certificates, checking their sustainability ratings on platforms like EcoVadis, or having a code of conduct by suppliers, etc. If there is a method behind ensuring the ethical sourcing, the supplier receives a point.

*Question 19:* Do you monitor your suppliers in any way, if so how? How often do you carry out audits? (Maximum 1 point)

Similarly to ethical sourcing, monitoring of suppliers, in the best case regularly by audits ensures the quality of their product.

*Question 20:* Do you consider the life cycle of your products including the post-life cycle of your products? (Maximum 1 point)

Consideration of products life cycle and especially the post-life cycle of the product, plays an important role of sustainability. Therefore, by assessing these aspects of products a supplier can receive a point if they consider the post-life cycle of the product.

Supplier can receive a maximum of 6 points.

### 13.5.3 Social Pillar

This section of the questionnaire will focus on the social pillar of CSR to analyse what the company does for their stakeholders, in this case mostly their employees but also society such as in-kind contributions etc.

*Question 21:* Do your employees receive annual reviews? (Maximum 1 point)

Annual employee reviews are great tool for employers for a communication with their employees, therefore annual employee reviews should be encouraged and rewarded.

*Question 22:* Does your company have an ethics code for your employees? (Maximum 1 point)

Similarly to annual reviews, ethics code is something that should be established even in smaller companies as it can benefit both the employer and employee.

*Question 23:* How many hours of training do your employees undergo every year on average? (Maximum 1 point)

*Question 24:* Does your company have any community engagement goals, such as supporting education, sport, health, etc.? (Maximum 1 point)

Engagement with different communities play significant role in the social pillar of CSR and most of the companies should engage at least in some kind of support of some community.

*Question 25:* Has your company done any in-kind contribution over the last year? (Maximum 1 point)

*Question 26:* How do you ensure the health and safety of your employees? (Maximum 1 point)

*Question 27:* What was your frequency of major accidents per one million hours worked in the last 3 years? (Maximum 1 point)

The threshold to receive a point for this category is 10 accidents per one million hours worked. If a company averages lower number then 5 in this metric, it shall be rewarded two points.

*Question 28:* Do you measure almost accidents? (Maximum 1 point)

Almost accidents are, as the name suggests, accidents that almost happened. There should be a system where employees should report those almost accidents which should then be addressed and eliminated by the employer. An example of an almost accident can be an employee mistaking switches due to the similar description or positioning of the switches.

*Question 29:* How does your company engage in labour unions? (Maximum 1 point)

*Question 30:* Does your company have a whistleblowing platform? (Maximum 1 point)

The company will be asked if there are any whistleblowing platforms established. If the audited company agrees it can share some of the issues that this platform helped them to solve as it will show the active use of the platform.

*Question 31:* How do you attract and retain talent? (Maximum 1 point)

One of the questions without a set target. If the company explains its methods of attracting and retaining talent, it will receive a point.

*Question 32:* What is your hiring rate by gender? (Maximum 1 point)

A question that might not say much in some cases and in some industries, nevertheless it still is a metric the assessed companies should know.

*Question 33:* What is the number of women in managerial positions within the company or is there a target of this metric for the future? (Maximum 1 point)

Following onto another question, as the previous question might not represent relevant information as in some industries men are more likely to pursue a career and the other way round, in management positions these differences should be smaller. The latest trend is that some companies are setting a target percentage of women in managerial position and if such plan exists, the companies should be rewarded for it.

#### **13.5.4 Financial pillar**

To assess the company financial stability a few questions will be asked about the topic.

*Question 34:* What was your net turnover last year? (Maximum 1 point)

The company will be asked about the net turnover of the company which will help with showcasing the company's financial ability, represent their revenue generation and act as profitability indicator.

*Question 35:* What was your EBIT last year? (Maximum 1 point)

For similar reasons of assessing the company's financial health, the company will be asked about their earnings before taxes.

*Question 36:* What is your EBIT/Turnover ratio? (Maximum 3 points)

The sums answered in the previous questions will be put together as a ratio. If the ratio of EBIT/turnover will be under 2% it signals issues with the company, therefore the company should be approached carefully by the buyer. If the ratio is in the range of 5% to 8%, it signals well-run company and if the ratio exceeds 8% it signals really good financial health of the company.

*Question 37:* What is your equity ratio? (Maximum 1 point)

Asking about equity ratio will help with understanding the proportion of company's total assets financed by shareholders equity.

*Question 38:* What percentage of revenue or EBIT was invested? And what percentage of CAPEX was invested? (Maximum 3 points)

This question aims to assess the company's investments to showcase the willingness of the owners to move the company forwards. In terms of the CAPEX investments. The investment above 10% is considered to be excellent and signals the companies development, investment of 5% to 10% is considered ok and if the investment is under 5%, the supplier should be approach with caution.

*Question 39:* Do you have high portfolio ratio customer? (Maximum 1 point)

This question might be difficult to get an answer to, nevertheless it still should be asked and the auditee should get at least a general idea if such supplier might be in the portfolio. If the supplier answers that there is a supplier with over 50% ratio to the company's total turnover, the supplier should be considered to be risky and approached with caution.

*Question 40:* Does your company valorise regularly wages? (Maximum 1 point)

These days the companies should valorise their employees' wages in regular periods. If it is not the case a conversation about the topic should be started.

*Question 41:* Does your company offer any other financial benefits to your employees?  
(Maximum 1 point)

The supplier will be asked about what other financial benefits do they provide to their employees. With the European countries at least pension contribution is expected, which is not always the case for countries outside the European union

*Question 42:* Does your company offer any non-financial benefits to your employees?  
(Maximum 1 point)

Similarly, to the financial benefits, companies willingness to support their employees should be assessed and taken into consideration while assessing the company

## 13.6 Evaluation of the Questionnaire

The goal of this chapter is to explain how the questionnaire will be evaluated.

### 13.6.1 Points

As some of the categories have different points per category, the total points achieved will be translated to percentages and points. The range will look as follows:

- 100 % - 10 points
- 99 – 90 % - 9 points
- 89 – 80 % - 8 points
- 79 – 70 % - 7 points
- 69 – 60 % - 6 points
- 59 – 50 % - 5 points
- 49 – 40 % - 4 points
- 39 – 30 % - 3 points
- 29 – 20 % - 2 points
- 19 – 10 % - 1 point
- 10 % or bellow – 0 points

For example, the category of environment has a maximum of 25 points. If the supplier achieves the maximum of 25 points, this will translate to 100 % from the category, awarding the supplier the maximum score of 10 points. This process will be repeated for all the categories and points will be then added together.

For the suppliers where supply chain is evaluated the maximum will be 40 points. If the supplier achieves 32 points or above, it can be considered as excellent. Supplier achieving such score should easily achieve a good ranking in EcoVadis evaluation and should be encouraged by the responsible buyer to do so as soon as possible. If the supplier achieves less than 6 points, it signals poor approach to sustainability and buyer should reconsider any cooperation with such supplier. It is highly unlikely that such supplier would achieve any sort of decent ranking in EcoVadis evaluation. Anything in between signals that the supplier is taking some sustainability measures and can still achieve good EcoVadis rating.

For categories where supply chain is not considered, the excellency threshold is at 24 points, and anything below 4.5 points signal really poor sustainability situation.

### **13.6.2 Categories**

As some sections of the questionnaire are more important for different fields, the current categories of suppliers have been simplified to provide an opportunity to differentiate different weights of different sections. The weights will be on the scale from 1 – least important to 5 – most important.

The pre-existing categories have been merged together, resulting in the creation of six overarching categories that share commonalities, streamlining the entire sustainability rating system. Each of these categories will be individually assessed based on specific criteria to evaluate their competency within their respective domains.

The first group includes those categories concerning facilities and infrastructure. The first group consists of repairs and maintenance, construction works, rental and water installations and heating.

The second group consists of those suppliers whose product plays a major part in production of the company's product. Film, decorations, printing inks and accessories, metal production, granulates, master batches and packaging material creates this group.

Third category consists of equipment and technology suppliers consisting of hydraulics and pneumatics, connecting material/movable components, electric material, hardware,

software, machines and peripherals, metrology, spare parts, purchased parts (components outside of the holding), internal purchased parts (within the holding) and moulds and preparations.

Detergents and cleaning agents together with personal protective equipment creates fourth category of safety equipment suppliers.

Fifth category connects the suppliers of service and external support. Therefore, services (laboratories, testing, certification institutes, lease services), consultant, translation agencies, staffing agencies, cooperation/hired labour, marketing and communication, and other services can be found in this category.

The last category concerns the suppliers connected to transportation.

Table 11 Supplier categories (Own creation)

<b>1. Facility and Infrastructure:</b>
• Repairs and Maintenance
• Construction Works
• Water Installations and Heating
<b>2. Production:</b>
• Film
• Decoration (K3 adhesives)
• Printing Inks and Accessories
• Metal Production
• Granulates
• Masterbatches
• Packaging Material
<b>3. Equipment and Technology:</b>
• Hydraulics and Pneumatics



•	Connecting Material/Movable Components
•	Electric Material
•	Hardware
•	Software
•	Machines and Peripherals
•	Metrology
•	Spare Parts
•	Purchased Parts
•	Purchased Parts Internal
•	Moulds/Preparations
<b>4.</b>	<b>Safety and Compliance:</b>
•	Detergents and Cleaning Agents
•	PPE (Personal Protective Equipment)
<b>5.</b>	<b>Services and External Support:</b>
•	Service (Laboratories, Testing, and Certification Institutes, Lease Services)
•	Consultant
•	Translation Agency
•	Staffing Agencies
•	Services (Other)
•	Cooperation/Hired Labour
•	Transportation
•	Rental (for storage)
•	Subscriptions, Memberships, and Marketing
<b>6.</b>	<b>Transportation</b>

The facility and infrastructure category will follow scaling of 2 for environment category 3 (if the supply chain category is not applicable), 4 for the social category and 3 for financial, if the category of supply chain will be applicable to the specific supplier it will carry the weight of 1.

In the production category, the most weight of 4 will be carried by the environmental impact, as their products directly impact our own environmental performance, followed by their performance in the supply chain category with the weight of 4 as well. Their performance in the categories of social and financial impact will carry the weight of 1.

In the equipment and technology category all aspects will carry the same weight of 3. The supply chain category will be treated similarly as with the facility and infrastructure category, therefore if the category is applicable to the specific supplier, it will carry the weight of 1. If the category is not applicable the extra point will be added to the financial category.

In the safety and compliance category all aspects will also carry the same weight of 3. The supply chain will be treated equally as in the previous category of equipment and technology. If the category is not applicable, the extra point will go to the environment category.

For services and external support, the most important category is deemed to be the social part of the questionnaire as the “main product” of those suppliers are people. Therefore, it will be awarded the maximum weight of 4 points. The financial section is considered to be the second most important aspect, therefore awarded 3 points. Suppliers in this category will have a pretty small impact in the environmental aspect in comparison to other categories, therefore in this case, the supplier will be awarded 2 points (3 points if the supply chain category is not applicable). The supply chain will most often be not utilized by suppliers of this category, nevertheless this section can still be filled out by the supplier if deemed applicable. If that is the case, the supply chain will carry the weight 1.

The transportation category will be considered mainly from the environmental perspective carrying the weight of 5. In this field the social aspect is often underestimated and on a lower than desired level, therefore it will be considered as second most important aspect with the weight of 3. The financial stability will be considered as the category with the smallest impact on this part of evaluation carrying the weight of 2. The supply chain part is not applicable for this category, therefore weight does not have to be assigned.

Facility and Infrastructure:

- Environmental – 2 (3 if supply chain is not applicable)
- Supply chain – optional 1
- Social - 4
- Financial – 3

Production:

- Environmental - 4
- Supply chain - 4
- Social - 1
- Financial – 1

Equipment and technology:

- Environmental - 3
- Supply chain – 0
- Social - 3
- Financial – 3 (4 if supply chain is not applicable)

Safety and compliance:

- Environmental – 3 (4 if supply chain is not applicable)
- Supply chain – optional 1
- Social - 3
- Financial – 3

Services and External support:

- Environmental – 2 (3 if supply chain is not applicable)
- Supply chain – optional 1
- Social - 4
- Financial – 3

Transportation:

- Environmental - 5

- Supply chain – 0
- Social - 3
- Financial – 2

Based on these categories, the current supplier portfolio looks as follows:

- Facility and Infrastructure – 0 suppliers
- Production – 40 suppliers
- Equipment and technology – 15 suppliers
- Safety and compliance – 1 supplier
- Services and External support – 11 suppliers
- Transportation – 15 suppliers

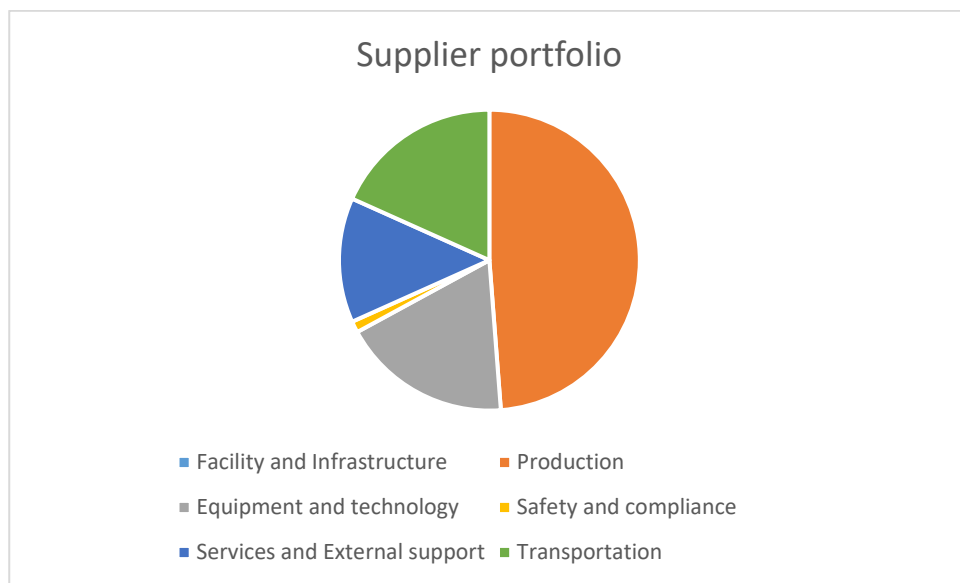


Figure 6 Supplier portfolio (Own Creation)

As the graph shows, the category with the most suppliers is the production category with 40 suppliers, followed by equipment and technology and Transportation category with 15 suppliers. Services and External support follows with 11 suppliers. Single supplier is in the safety and compliance category. No supplier currently meets the criteria of having to undergo the supplier evaluation.

### **13.7 Points for Sustainability in Supplier Evaluation**

In the complete supplier evaluation, the supplier will receive 4 points if he already is EcoVadis and has a rating above 50. If the supplier is in EcoVadis but the rating is below 50, he will receive 3 points in the evaluation. If the supplier is not in EcoVadis but was willing to fill out the sustainability questionnaire and has achieved more than 32 with supply chain section or 24 without supply chain section, the supplier will receive 2 points. If the supplier filled out the questionnaire and achieved more than 6 points with the supply chain part or 4.5 without the supply chain part, the supplier will be rewarded 1 point. If the supplier achieves less than 6 (with supply chain) or 4.5 (without the supply chain), the supplier will be rewarded no points as well as if the supplier is not in EcoVadis and is not willing to fill out the questionnaire.

## 14 SELECTING A NEW SUPPLIER

The goal of this chapter is to describe different situations in which a buyer will have to select a supplier.

### 14.1 Already Approved Suppliers

If the buyer decides to work with an already approved supplier, he must check if the supplier was evaluated with CSR factors in mind or not. By checking the supplier evaluation, the process will start right away, rather than having to wait another year before these factors would start effecting the buyer's perception of the supplier.

If the evaluation is already considering CSR factors, the buyer should note this fact in SharePoint to avoid the need of having to check the whole evaluation next time he/she wants to work with the supplier. Those suppliers that are in EcoVadis and have a rating above 50, should also have a \* assigned next to their rating. This will make the information more accessible and if a situation where two suppliers provide a similar offer, the one rated in EcoVadis should always become the preferred option. Making this information visible and easily accessible will make the whole process easier for the buyer.

If the supplier's evaluation does not consider the CSR factors, the evaluation shall be redone. Should the supplier drop into the B ranking, thanks to addition of the sustainability factor, the supplier does not have to be informed right away, likewise the action plan does not have to be immediately set up. These things can wait until the next evaluation at the end of next year. Like those suppliers with a good EcoVadis rating will be assigned a note in SharePoint to make this information accessible to the buyer, also those suppliers who are not in EcoVadis and have not yet filled out the questionnaire or have filled out the questionnaire but their rating was below 6 with supply chain category or 4.5 without the supply chain category will be assigned a – sign in SharePoint. This note will inform the buyer that this supplier should be used only if there is not another option. Also, a search for another supplier should start immediately.

### 14.2 New or Not-Approved Supplier

The work with a new supplier will also be a little bit different. During the search for suppliers, the buyers shall already take the sustainability aspects in mind, using their gained knowledge in the field. Nevertheless, the start will be more or less the same until the buyer receives a filled out SAQ form by the supplier, where he receives more detailed information

about the company. At this stage the supplier can be declined if the information signifies some issues, now also with sustainability. If the supplier does not fill out the newly added questions, buyer can send the supplier the created questionnaire to assess the sustainability situation. If the supplier shows willingness to work on sustainability issues, the cooperation can start, and major evaluation will come after one year during the supplier evaluation. If the supplier is from the start hesitant towards these issues, and the buyer can tell that working with the supplier on sustainability topics will be difficult, the supplier can be declined at that very moment. If the supplier has EcoVadis, the basic information in the SAQ does not signal any major issues or the supplier is willing to fill out the sustainability questionnaire, the process can continue as usual. This approach is applicable until 2028, more in the next chapter.

### **14.3 2030 Escalation**

As 2028 was selected as a year starting the last stage of preparation for achieving the 2030 goal the previous consideration of CSR factors in the supplier evaluation through the created questionnaire is not enough for the suppliers that are BRC specified or turnover over 500,000 euros is expected. All of the current approved suppliers that do not have an EcoVadis rating will immediately drop into the B category and will be given a chance to commit to getting EcoVadis rating verified by an action plan. If the supplier is not willing to do so, it cannot be selected if there is another option available.

In 2029 all of the suppliers entering cooperation with the company that are supplying food contact material, or turnover of at least 500,000 euros is expected, must have EcoVadis rating above 50. If they do not, they cannot be selected. The only situation where such supplier can be selected is if the material or service could put the fluidity of production at risk. If that is the case, one time purchase is allowed for the buyer.

## 15 FINANCIAL IMPACT

The financial demands of the changes to the processes will be pretty small. All of the calculations are done with an average salary for a strategic buyer in the Zlín region. Which by jobble.cz is 43,906 CZK per month and more representative figure for this case 274.41 CZK per hour. (Strategický nákupčí mzdy v Zlín, 2024)

The education will be applicable for 3 strategic buyers and the leader of the procurement team. As the website where the buyers will complete the course state, that the total amount to complete all the courses shall not exceed 2 hours. Therefore, the cost for 3 buyers is 1646.46 CZK in total.

Based on the interviews the added workload of having to check all the CSR results or even communicate the interviews with suppliers will be minimal, the agreed time needed for such actions was set to four hours a month. The established cost was therefore set to 39515.04 CZK.

The amount of time that will be needed for one designated buyer to analyse CSR trends and current situation was estimated 50 hours a year therefore resulting in the total figure of 13 720.5 CZK.

The meeting conducted by the designated buyer will be done twice a year with an estimated length of 2 hours. This meeting will have to be attended by all of the buyers resulting in a figure of 3 292.92 CZK per year.

The total costs in year one will be under 60,000 CZK. As the training will not have to be repeated and the buyer's knowledge and skill increases, the total costs will marginally decrease.

Most of the financial demands will be transferred to the suppliers as they have to implement CSR measures.



## 16 RISKS

This adopted selection of customers can lead to some risks. By being more demanding on customers can lead the company into a situation where there are no suppliers meeting the criteria. This is why it is important to start the work with the customers early, way before the 2030 deadline set by the holding. It is also important to be ready on this possibility and the buyer should do a diligent market research to always have multiple suppliers lined up if issues with some existing suppliers arise, preparation will be key for successful implementation. Insufficient preparation can negatively impact the pace of suppliers getting their sustainability rated.

Increased workload can have a negative impact on the procurement team, nevertheless from the initial reaction of the buyers seem highly unlikely. They see the purpose of the changes already. If some issues arise anyway, education and explanation of the point will be crucial and will likely reduce the unhappiness.

The risk most likely to occur will be an increase in pricing. The forcing of customers into accepting the EcoVadis platform can also lead to a rise of prices as the suppliers will try to compensate for the extra costs. Nevertheless, the criteria of turnover exceeding 500,000 euros should ensure that the investment needed for the EcoVadis membership should represent a small part in the whole relationship having a small to no effect in the pricing. It is also important for the buyers to explain to the suppliers the added benefits of CSR which should counter the initial investment. The suppliers might have some arguments against adopting the suggested measures. Buyers' ability to communicate the importance and positives will be crucial once again, therefore buyers' education must not be underestimated.

It must be remembered, that at the end it is always the buyer together with the procurement team making the decisions, therefore exceptions can always be done if required by the arisen situation. Nevertheless, these exceptions should always be shorter as the procurement team should be working on finding suitable supplier or creating a clear pathway for a non-suitable supplier to become suitable one.

The risks mentioned are displayed in the table below. The individual aspects are ranked on a scale from 1 to 5, with 1 being the lowest likeliness or impact and 5 being the highest likeliness or impact. The importance is then calculated by multiplying the likeliness with the potential impact. If the importance is 9 or lower, the risk can be considered low. Importance of 10-15 is considered as medium. Importance of 16 and above is considered as high.

Table 12 Risk assessment (Own creation)

Risk	Likelihood	Impact	Importance	Level of importance
Elimination of suppliers	2	5	10	Medium
Unhappiness of suppliers	4	2	8	Low
Increase of prices	4	4	16	High
Unhappiness of employees	1	3	3	Low
Insufficient preparation	3	3	9	Low

## 17 SUGGESTIONS

The company should implement the recommended changes outlined in Chapter 10 for supplier analysis, ensure that buyers receive the suggested education from Chapter 11, adapt the supplier rating process and utilize the created questionnaire from Chapter 12, and make adjustments to the supplier selection process as described in Chapter 13 as soon as possible.

All the changes are easy to implement into the current process and by starting as soon as possible, the next supplier evaluation at latest, the company can increase the likelihood in achieving the set targets in the desired timeframe.

Nevertheless, it is important to remember that buyers will be key for succeeding, therefore if the suggested measures are not sufficient, further investment into the buyers might be required. The uninterrupted running of the company is non-negotiable and it is important to remember that if the situation requires, they buyer must do what is necessary to ensure that, even if that means working with sustainably insufficient supplier. Also, if the company is struggling with meeting the objectives, they can always be adjusted. Other than adding the sustainability category to the supplier evaluation, the ranking of the certificates category should be changed, so if a supplier does not have any valid certificates, no points should be awarded in the category. The mission and vision of the procurement team should also be adjusted so it includes the focus on sustainable procurement.

## CONCLUSION

This thesis inspected the role of the procurement team in company's sustainability ventures and suggested changes to the procurement processes with the aim of improving sustainability performance.

The theory part of this thesis described the term of procurement and its links to the company management while defining connected terms such as sustainable, strategic, or proactive procurement. Then term corporate social responsibility was described as well as defining the environment, supply chain, social and financial pillars. Trend and regulations connected to this topic were also mentioned in the theory section of this thesis. Lastly this part focused on third party assessments.

Once all of the needed terms were defined, this thesis focused on the introduction of the company and analysed current procurement processes, identifying areas in which sustainability shall be considered and in what way. As EcoVadis platform was selected to be the supplier assessment of choice, the ranking process was also described. The areas that were identified as most useful for the implementation was supplier selection which required changes to the current processes as well as raising the awareness of social responsibility in the company, especially by educating the buyers. Buyers will play a crucial role in the implementation as often they will be the first in contact with the supplier and in some cases, they will have to explain the topic and potential benefits for the company as well as for the supplier. Major role in the early stages of implementing corporate social responsibility into procurement will be the supplier evaluation as most of the suppliers will need to have some time to adapt to the set requirements. A supplier sustainability questionnaire was created which should help with the supplier's introduction to the topic. The supplier evaluation questionnaire should also prepare the supplier for a much smoother start of the cooperation with EcoVadis, which will be required. At the end financial impact and potential risks were analysed.

The implementation can have a not only a positive impact on the performance of the company but also on the public perception.

The total financial impact for the implementing company will be minimal, not exceeding 60,000 CZK as most of the cost are transferred to the supplier who will have to adapt to new requirement.

Overall, this thesis analysed the corporate social responsibility and linked it to a company's procurement team, adjusted existing processes in the current procurement form while creating a questionnaire which should help with the suppliers with meeting the new requirements. The buyer's preparation was also addressed by suggesting ways and education programs to help them with embracing the topic of sustainability.

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## LIST OF ABBREVIATIONS

BRC – British Retail Consortium standard

CSR – Corporate Social Responsibility

CSDD – Corporate Sustainability Due Diligence Directive

CSRD – Corporate Sustainability Reporting Directive

CZK – Czech koruna

DEI – diversity, equality, inclusion

EBIT – Earnings before interest and taxes

EMS – Environmental Management System

ERP – Enterprise Resource Planning

ESG – environmental, social and governance

etc. – et cetera

FSC – Forest Stewardship Council

GFSI – Global Food Safety Initiative

GRI – Global Reporting Initiative

HACCP – Hazard Analysis and Critical Control Points

KPI – Key Performance Indicator

PCO – Potential Change Order

PPE Hardware – Personal Protective Equipment

PPM – Parts per million

PvM – Packaging and machine supplier

PVO – Production Value Output

SAP – System Analysis Program Development – ERP software

SAQ – Self-Assessment Questionnaire

€ - Euro

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