ecovadis

Global CSR Risk and Performance Index 2018

Table of Contents

Foreword

Dear Reader,

Welcome to the second edition of the EcoVadis Global CSR Risk and Performance Index.

According to data from the National Oceanic and Atmospheric Administration (NOAA), 2018 will be the fourth hottest year on record. The impacts of global warming are no longer hypothetical, we can see them in everyday life. The COP24, taking place in December in Poland's southern city of Katowice, will make yet another attempt to motivate governments and companies to act.

On the human rights front, many countries are now enacting laws to push businesses to mitigate human rights issues within their value chains. At the time of writing this report, legislations intended to minimize the impact of modern slavery have been passed by seven of the G20 countries. Procurement and sustainability teams are feeling this rising pressure coming from legislators and civil society. Now, more than ever, there is a need for a simple, reliable and global supplier CSR rating platform. EcoVadis was founded with this idea in mind over a decade ago. Today, with offices in nine countries and employing more than 550 professionals, we assess close to 20,000 companies per year on their environmental, human rights and ethical performance.

In 2017, we felt it was time to analyze and share this data with the global community. This is why we introduced the Global CSR Risk and Performance Index. Following the success of the first edition, in this, second publication we are looking at trends over a three-year period. The data set has grown by 7.8 percent over last year to include more than 862,000 data points. The larger sample sizes allow us to increase the number of regions to five when doing cross-comparisons among the 9 industry divisions and two size groups.

This year, we also introduce Index Online, an interactive tool, which makes it possible to drill down to view some of these cross-comparisons of sustainability scores of industry divisions and geographic areas. The tool, which you can access at index. ecovadis.com will allow you to save or share the data views and graphs you create. We welcome feedback on this new feature and we will strive to make the future editions even more informative.

Enjoy the read and please don't hesitate to join the conversation online and share your comments.

Regards,

Sylvain Guyoton
Senior Vice President of Research

Executive Summary

Following the success of the inaugural edition of the Global CSR Risk and Performance Index published last year, this year's edition provides an updated analysis of Corporate Social Responsibility (CSR) performance of businesses around the world, now covering the 2015–2017 timeframe.

Data drawn from more than 42,000 EcoVadis assessments of over 33,000 companies allowed us to provide comprehensive snapshots of nine industry divisions along with observations on regional contrasts and similarities as well as performance analysis of large vs. small and medium-sized companies. An analysis of the four underlying theme scores, Labor & Human Rights Practices, Business Ethics (formerly Fair Business Practices), Environment and Sustainable Procurement, also provides valuable insights into how successfully businesses are addressing particular areas of CSR.

Small and Medium-Sized Companies Perform Better Overall

On the whole, the year 2017 saw mixed CSR performance, with small and medium-sized companies (26-999 employees) generally performing better than large ones (over 1,000 employees), achieving overall scores of 42.4 and 39.6 respectively. Given that results below 45 indicate an unstructured approach to CSR management (medium to high risk on the EcoVadis scoring scale), large companies have much further to go in improving their CSR practices. Zooming into the industry divisions, the small and medium-sized companies portfolio average scores improved consistently across three years in six out of nine divisions (light, heavy and advanced manufacturing, food & beverage, construction and ICT). Large companies demonstrated the same result only in three industry divisions (heavy and advanced manufacturing and ICT).

Also noteworthy is the fact that small and medium-sized companies account for some 80 percent of the organizations we assess. This likely mirrors the nature of most economies around the world, with small and medium-sized enterprises making up the majority of businesses in each country.

Varied Engagement Across Different Areas of CSR

In terms of performance across different areas of CSR, Business Ethics, which is primarily comprised of corruption & bribery and information security criteria, is the theme that improved the most in 2017. This is likely a result of increased efforts by companies to align with national and international legislations, including the EU's General Data Protection Regulation (GDPR). The Labor & Human Rights and Sustainable Procurement themes stayed level. They cover a number of aspects, including working conditions and human rights of both employees and the community. But given that some 40 million people are still caught up in the grip of modern slavery, lack of improvement here begs the question of whether enough is being done to eradicate it.

The scores for the Environment theme, which includes monitoring of Greenhouse Gas (GHG) emissions, went down in most regions, suggesting that businesses may have had difficulties to work on the goals set in the Paris agreement. Interestingly, however, they went up in the U.S. despite the country relaxing its environmental regulations and pulling out of the Paris agreement. (Details available in the Index Online).

The Expected and Unexpected Regional Differences

Looking at performance across the regions, European companies continued to outperform their counterparts from the rest of the world across all four themes.Businesses in Latin America were only slightly behind North American ones, with a potential to surpass them if they pass stronger anti-corruption and anti-bribery legislation. In terms of company size, small and medium-sized companies in Latin America and Europe improved consistently but large companies did not demonstrate the same performance in any of the regions. Companies of all sizes in Greater China continued to lag in environmental performance.

Companies Generally Improve on Second Assessment

Roughly 80 percent of companies which have been assessed at least twice by EcoVadis generally maintained or improved their performance in their latest assessment. This is true for both large and small & medium-sized companies and arguably demonstrates that once an organization commits to CSR improvements, this commitment pays off.

Implications for Risk Management

What implications do these variations in CSR performance have for risk management? For procurement functions this report gives a view of how risks are shifting by region and industry to help formulation of purchasing strategies to avoid harmful or illegal activities by suppliers that can damage brand reputation and disrupt business. Companies which have been assessed by EcoVadis can use the Index to benchmark and contextualize their own CSR performance. They can also identify areas where their industry is particularly susceptible to CSR risks, so they can begin to future-proof their business longevity.

What's New

Index Methodology Updates

The first edition of EcoVadis Index was published in 2017. To insure as accurate as possible representation of trends across different regions and industry divisions, we made some changes to this year's version, including:

- Introducing weighting in key global figures to remove bias;
- Adding two additional zones when dividing geographic regions, for a total of five;
- Including observations on key trends in each industry division.

You can find a complete description of these updates along with other methodology details in the appendix.

Also new this year, we added Index Online. This web-based tool includes additional data views and graphs, which allow you to zoom into into sectors and geographic areas. It is available on our website at index.ecovadis.com.

EcoVadis Assessment Methodology and Business Updates

Businesses assessed by EcoVadis are classified according to the International Standard Industrial Classification of All Economic Activities (ISIC). We added a new Industry ISIC category: 5222 Transport via pipelines (Transport industry division). This brings the total number of categories we can assess – with an adapted assessment questionnaire and score weighting – to 190.

In addition to these 190 ISIC categories we can assess, we support a larger set of industry ISIC categories in our list of Industry Risk Profiles, which are used for risk mapping. In 2017, we published five additional ISIC categories related to chemical manufacturing.

In July 2017, we also added Regulatory DataCorp. (RDC) data to our 360° Watch research. The new integration with RDC's database bolsters the EcoVadis methodology when it comes to identifying ethics and fair business practice risks in every company's evaluation from more than 2,500 sources.

The EcoVadis Research & Development unit developed a machine learning platform that leverages neural networks and semantic analysis to complement the 360° research on external stakeholder opinions. Artificial Intelligence supports our 360° research team by automatically identifying information about CSR related content. From July 2017, more than 450 articles identified by our machine learning platform were published monthly.

Over 180 CSR initiatives and certification schemes around the world were updated or newly added to the EcoVadis knowledge bank to enrich our assessments, including the EU CertPlus and The Forest Trust (both added in March and July 2017 respectively). These new additions to our knowledge bank bring the number of recognized initiatives and certification schemes to more than 500 around the world today.

We also reorganized our approach to human rights. In addition to child/forced labor, discrimination and harassment topics, we also included external stakeholders' human rights as relevant to certain industries, i.e. primary materials, financial services, weapons, pharmaceutical manufacturing.

Global Overview

🔆 Key Findings

- Average CSR performance stayed level with the number of both leaders and laggards increasing;

- Corruption & bribery and information security, included under the Business Ethics theme, were the areas where businesses improved the most, likely to align with the General Data Protection Regulation (GDPR) and anti-corruption legislations;

- Environmental management dipped, showing that businesses had not redesigned environmental practices after Paris agreement;

- Labor & human rights and sustainable procurement management performance stayed level, indicating persistent risks of modern slavery.

Index at a Glance: Key Global Scores

	2015	2016	2017
World — Large Companies	39.6	40.1	**39.6**
World — Small and Medium-Sized Companies	40.7	42.1	**42.4**

2017 BEST SCORING Industry Division Globally
46.8
Food & Beverage
Small and Medium-Sized Companies

2017 WORST-PERFORMING Industry Division Globally
39.6
Wholesale, Services & Professionals
Large Companies

⭐ Top Trends and Issues

- The decision by the U.S. to withdraw from the Paris climate accord as well as gaps between emissions reduction requirements for the two-degree celsius scenario and national reduction pledges by countries left global businesses – especially those based in the U.S. – without clear government guidance;

- Eight million metric tons of plastic pollute the oceans each year and more than 90 percent of plastic waste is not recycled; plastic production is forecast to triple by 2050;

- 40 million people are still victims of modern slavery and 152 million children are subject to child labor;

- Digital responsibility and information security are becoming mainstream for businesses due to the EU's GDPR coming into effect in 2018 and high-profile personal data loss incidents by companies.

Evidence-Based Business Sustainability Ratings

From 2015 to 2017, we conducted over 42,000 assessments on more than 33,000 companies, expanding our coverage by 60 percent over three years. This database forms the data universe for the Index and – with a huge variety of business sizes and locations around the globe – provides the widest coverage of evidence-backed business sustainability ratings in the world. It also puts us in a strong position to discuss businesses' CSR commitments and their impact.

In the index universe, the ratio of large companies to small and medium-sized companies remained stable at about 20 to 80. We believe this mirrors the nature of most economies around the world, with small and medium-sized enterprises making up the majority of businesses in each country.

Score Distribution Over the Years With EcoVadis Medal Benchmarks
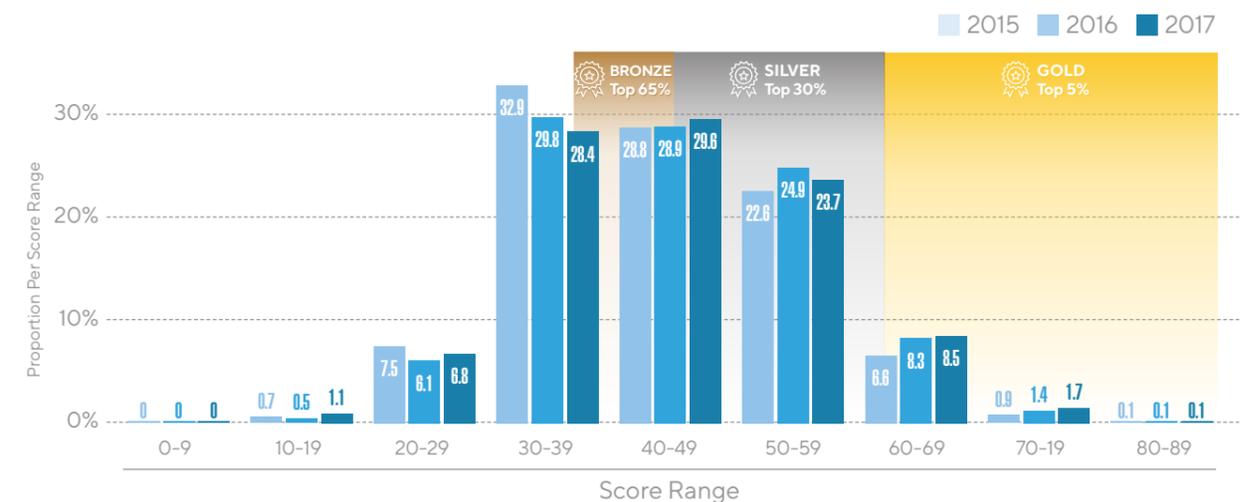
Looking at the unweighted overall score distribution in 2017, there was a larger proportion of leaders (>60 points) than in 2016. However, the number of laggards was also up (<30 points), with no clear pattern emerging in the middle ground.

Progress and Decline Across the Themes

A closer analysis of the four themes' unweighted scores reveals a marked improvement in business ethics, which includes corruption & bribery and information security. This is the only theme that saw a score improvement in 2017. Given several high-profile data breach incidents in recent years and the EU's GDPR coming into force in 2018, it is also an optimistic indicator that businesses recognize the importance of information security and are working on improving their practices.

The unweighted score for the Environment theme dipped in 2017, after a boost in 2016. It is of concern that the U.S. decision to pull out of the Paris agreement may jeopardize the gains in environmental protection. Notwithstanding the U.S. decision, there are still have gaps between emissions reductions needed for the two-degree scenario and what countries have pledged to reduce.

It appears that most businesses still do not see the climate agreement as an opportunity to redesign their activities, and are therefore not improving their environmental impact. Another global trend pertains to the scale and longevity of plastic pollution, along with a growing public awareness of the situation. The dip in the environmental score in 2017 is likely also linked to the insufficient effort by businesses to change plastic usage and disposal methods. We expect that, amid numerous public campaigns, businesses will soon become more concerned with plastic pollution.

In 2017, the Labor & Human Rights theme unweighted score stayed more or less level, after an upward shift in 2016. While this represents a stable commitment to labor issues, modern slavery continues to persist in cost-competitive industries and countries with a less robust rule of law. And modern slavery incidents have been uncovered[1] even in countries such as the U.K.

This suggests that business are still at risk and may find that modern slavery victims are present among their labor force. In addition, with Sustainable Procurement scoring the lowest out of the four themes, it is likely that on the whole businesses do not invest enough effort into working with their supply chain partners to insure their practices are free of modern slavery.

Unweighted Theme Scores Over the Years
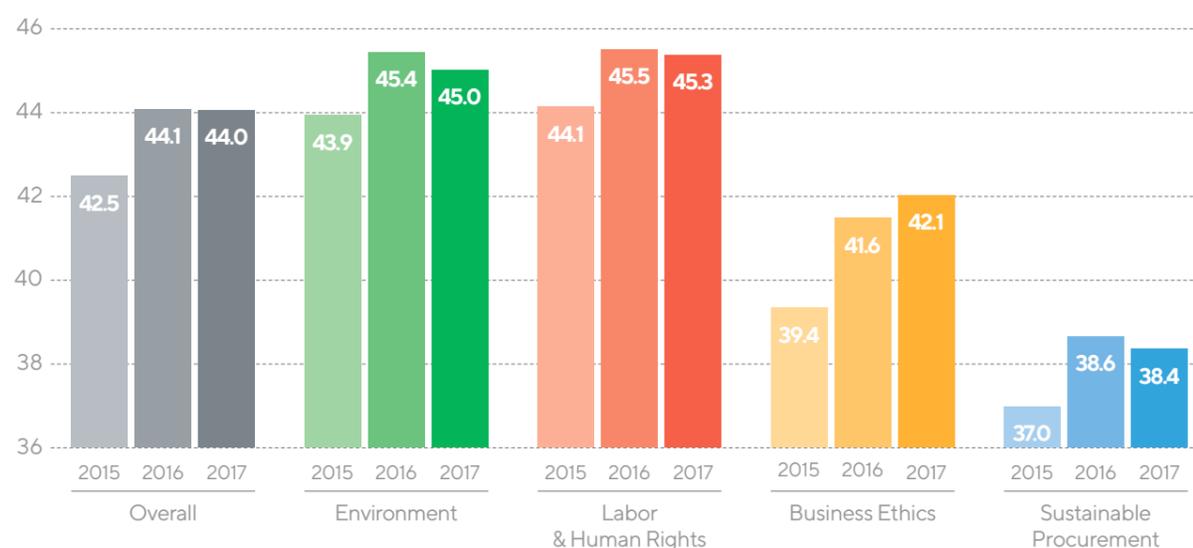
1   Reuters, October 2017, Human traffickers lure UK's homeless into modern slavery: charities

Sustainable Procurement Theme Score Distribution
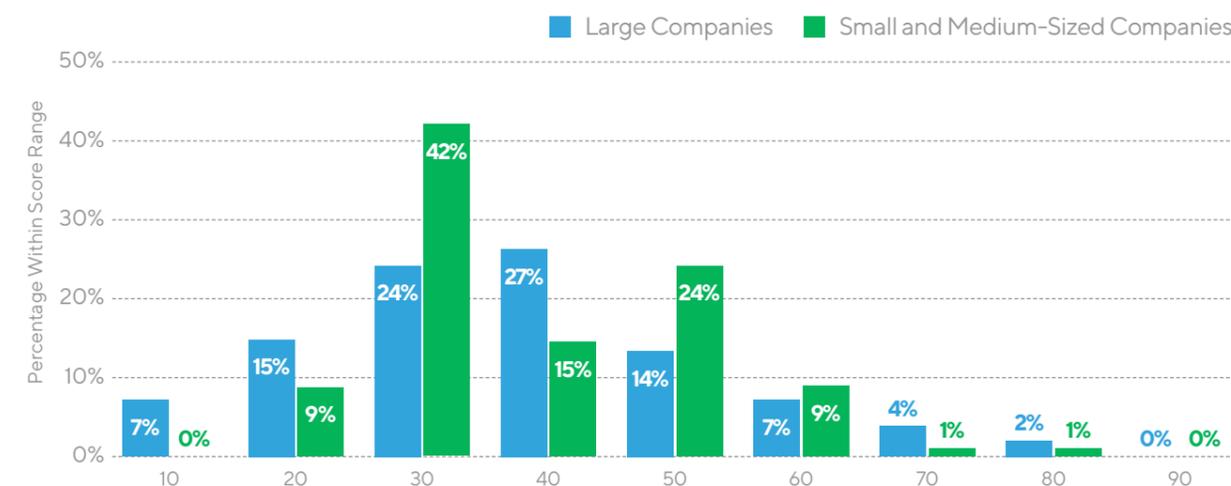
The Sustainable Procurement theme measures how companies are engaging their own supplies on sustainability topics. The year 2017 appears to have been pivotal for small and medium-sized companies to seize the strategic advantages of sustainable procurement. Given the size of supply chains of large companies, one would expect leaders in the higher score ranges (70 and 80). But small and medium-sized companies dominate in the "confirmed" ranges from 50 to 60. Given the strong positive trend, this may signal a cascading effect, where small and medium-sized businesses drive sustainability monitoring to deeper tiers in the value chain.

Contrasts and Similarities Across Regions

💡 Key Findings

- European companies continued to outperform other regions across all four themes;

- Businesses in Latin America were only slightly behind their North American counterparts, and may surpass them if stronger anti-corruption and anti-bribery legislations are passed;

- North America was the only region to improve the Environment theme score despite relaxed regulations and the U.S. pulling out of the Paris agreement;

- Companies in Greater China continued to lag in environmental performance.

🗨 Trends, Initiatives, Issues and Regulations

- The U.S. relaxed environmental regulations following the appointment of the new administration and left the Paris climate change agreement;

- Greater China stepped up environmental regulation enforcement, shutting down tens of thousands of factories. Continued enforcement of regulations will likely result in more factories being shut down;

- The EU enacted mandatory CSR reporting legislation for publicly listed companies with more than 500 employees, along with conflict mineral regulations and introduced CSR language into investing framework. EU's GDPR takes effect in 2018;

- More countries in Latin America increased focus on anti-corruption regulations and programs, learning from the U.K. Bribery Act and U.S. Foreign Corrupt Practices Act.

Regional Diversification: A Closer Look

The weighted score for both large and small & medium-sized companies in one geographical region is the equal weighted average score of industry divisions.

Large European companies have a definitive lead over large companies from other regions, scoring close to 20 points more than companies in Greater China. Interestingly, large Latin American companies' CSR performance is similar to those in North America.

Small and medium-sized European companies also have a lead over companies from other regions, however, it is less pronounced. Greater China and AMEA-excluding-Greater China, faired worse in 2017 than their 2016 results. Meanwhile, small and medium-sized businesses in Latin America continued to improve, narrowing their gap to North America.

Weighted Overall Score Diversification Across Regions (Large Companies)
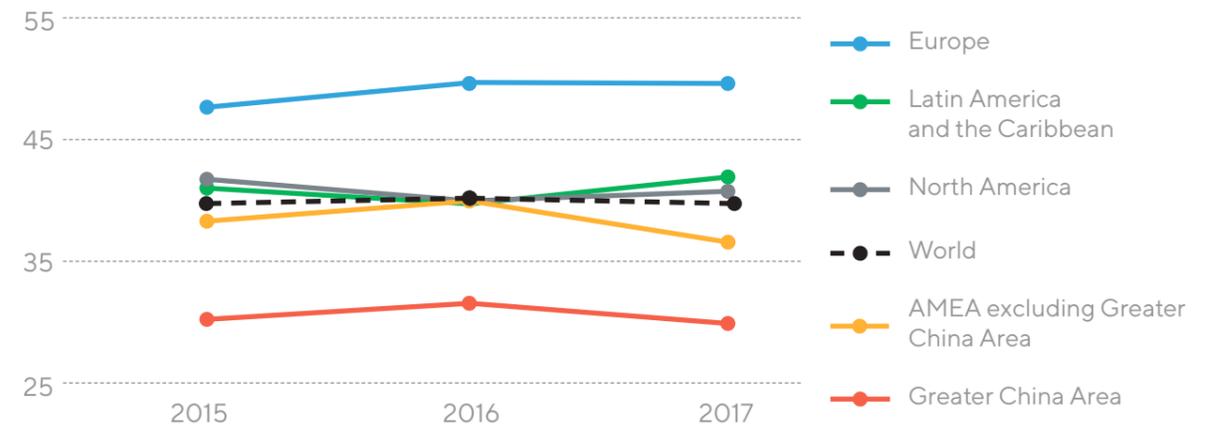
Weighted Overall Score Diversification Across Regions (Small and Medium-Sized Companies)
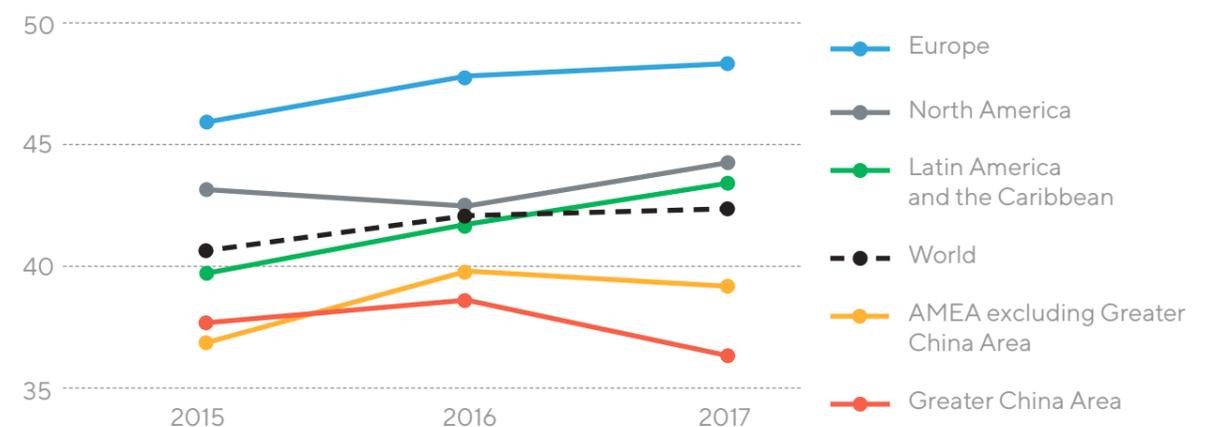
A theme-level analysis reveals that large companies in Latin America were on par with their North American counterparts in environmental management. Although last year saw improvement in the environmental theme in U.S., with the regulations being relaxed due to the new administration's policies, it is possible that the score for the region will dip and Latin America will take the lead. Greater China's environmental regulations enforcement have forced manufacturing factories to shut down. Our observation shows that the impact of this enforcement will continue to be far-reaching going forward.

The labor & human rights theme, meanwhile, is where last year small and medium-sized companies in Europe and the Americas saw their best results. Greater China and AMEA excluding Greater China, however, saw a slight drop in the results on 2016. However, large companies in all regions except for Latin America demonstrated poorer performance in the theme.

In terms of corruption & bribery and information security, included under the Business Ethics theme, both large and small and medium-sized companies improved in Europe and the Americas.

It appears that in Greater China, and AMEA–excluding–Greater China, ethics remain a lower priority relative to the more mature themes such as the Environment and Labor & Human Rights, with the region showing no improvement on 2016.

Regulations enacted in the EU and the U.S. on large companies have also had visible effects, with large companies from these two regions performing better than the rest of the world. This, we hope, may serve as a good example to follow by other governments.

Environment Theme: Weighted Score Diversification Across Regions (Large Companies)
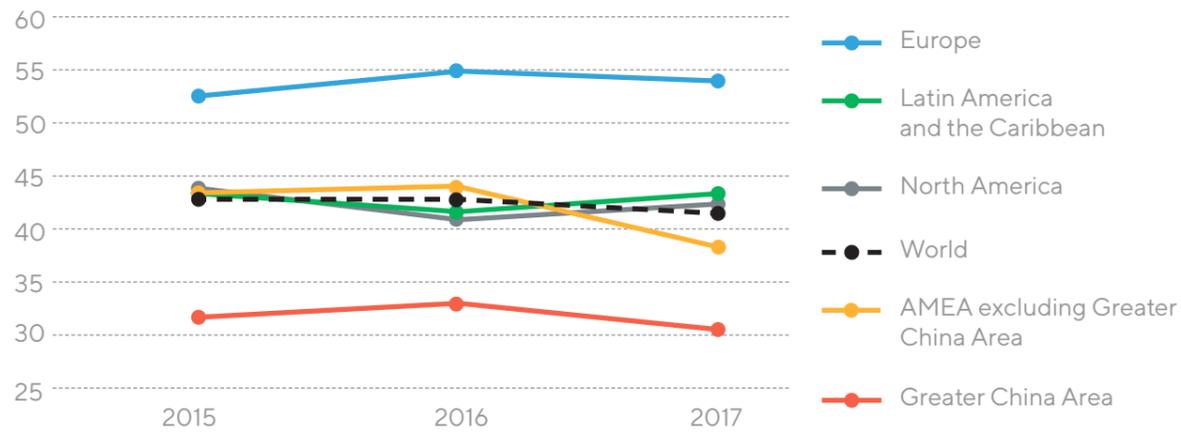
Legend:
- Europe
- Latin America and the Caribbean
- North America
- World
- AMEA excluding Greater China Area
- Greater China Area

Labor & Human Rights Theme: Weighted Score Diversification Across Regions
(Small and Medium–Sized Companies)

Legend:
- Europe
- North America
- Latin America and the Caribbean
- World
- AMEA excluding Greater China Area
- Greater China Area

Sustainable Procurement Theme: Weighted Score Diversification Across Regions
(Large Companies)

Legend:
- Europe
- North America
- Latin America and the Caribbean
- World
- AMEA excluding Greater China Area
- Greater China Area
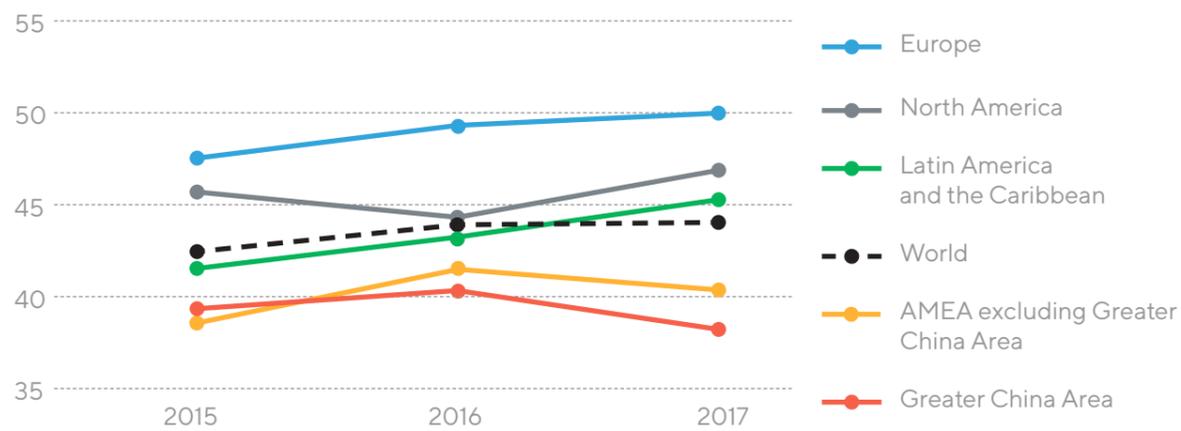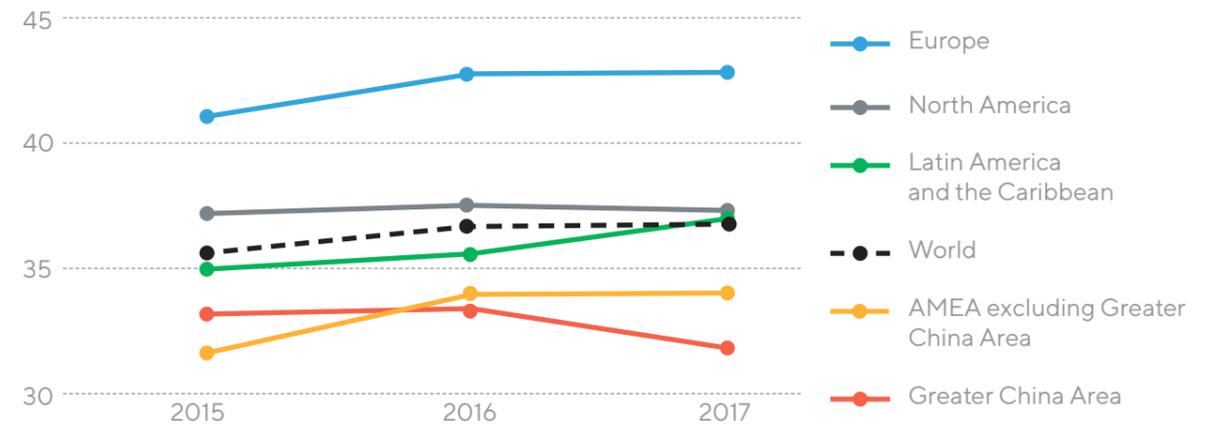
Performance and Reassessment Comparison by Company Size

💡 Key Findings

- Both large and small & medium-sized companies did not adequately address labor and human rights issues, putting their operations at risk of modern slavery;

- Corruption & bribery and information security issues (formerly Fair Business Practices, now Business Ethics theme) were improved upon relative to other themes, across large as well as small and medium-sized companies;

- Large as well as small and medium-sized companies in manufacturing industries showed better than average overall performance than non-manufacturers (e.g wholesalers).

The world weighted overall score is the simple average of our five regions' weighted overall scores. An analysis of the weighted scores reveals that small and medium-sized companies had better CSR performance[2] relative to large companies.

A closer look at particular themes reveals further interesting findings. Small and medium-sized companies performed better than large ones in the Labor & Human Rights theme. This includes discrimination/harassment, modern slavery and working conditions.

In the Sustainable Procurement theme, meanwhile, large companies' performance remained the same as in 2016. Executives at large companies are less likely to have a direct oversight of the labor force and suppliers providing goods and services, and are therefore less aware of potential modern slavery incidents. These findings suggest that large companies should invest more effort into the Labour & Human Rights and Sustainable Procurement themes to improve reduce the risk of modern slavery.

Business Ethics, which includes information security, is the only theme where large companies improved consistently over the three years. This continued improvement may be partially due to the recent emphasis on cyber security, data privacy and data security etc. and the fact that business were preparing for the EU's GDPR coming into effect in 2018. See the related article on a new service called CyberVadis that went into beta testing in 2017.

---

2   EcoVadis factors size into our scoring methodology, so that scores can be said to be size adjusted for comparisons

Weighted Overall Score Over the Years
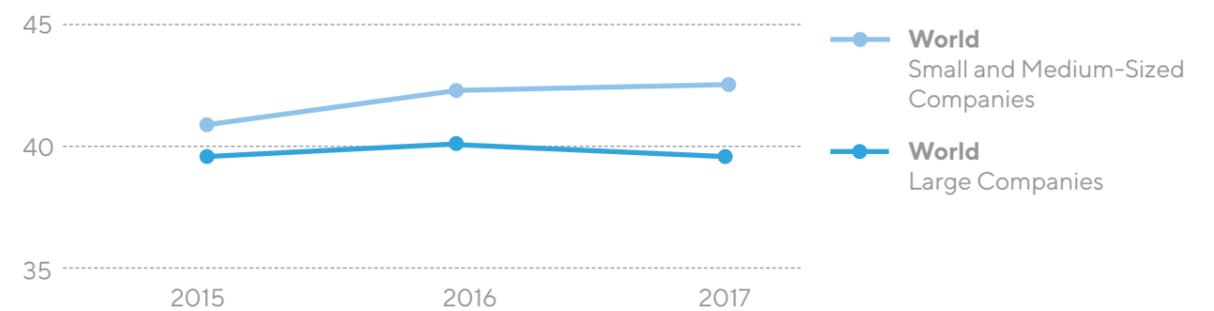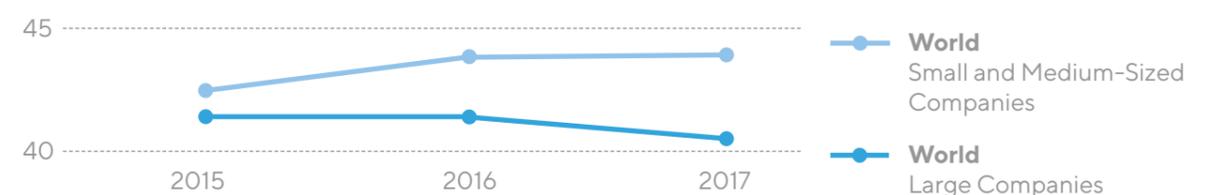
Legend:
- World Small and Medium-Sized Companies
- World Large Companies

Labor & Human Rights Theme: Weighted Score Over the Years

Legend:
- World Small and Medium-Sized Companies
- World Large Companies

Business Ethics Theme: Weighted Score Over the Years

Legend:
- World Small and Medium-Sized Companies
- World Large Companies

2017 Score Distribution

Legend: Large Companies / Small and Medium-Sized Companies

Score Range	Large Companies	Small and Medium-Sized Companies
Less than 25 High Risk	9.7%	4.3%
25-44 Medium Risk	45.8%	45.2%
45-64 Confirmed	35.1%	47.0%
65-84 Advanced	9.3%	3.5%
85-100 Outstanding	0%	0%
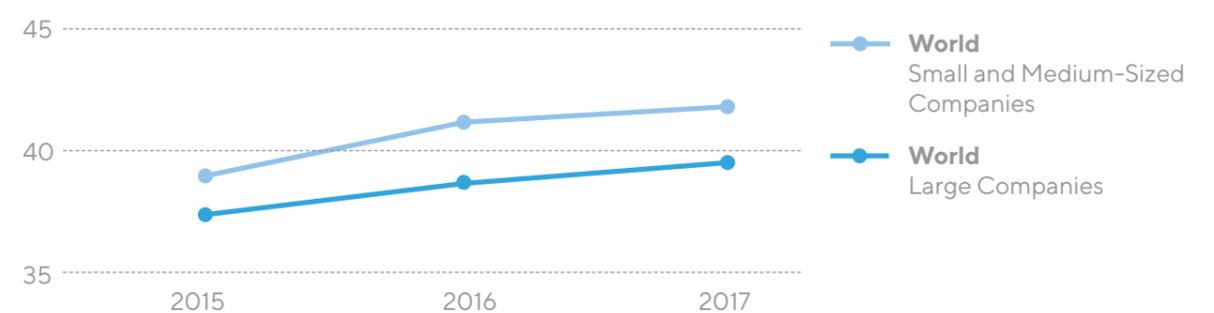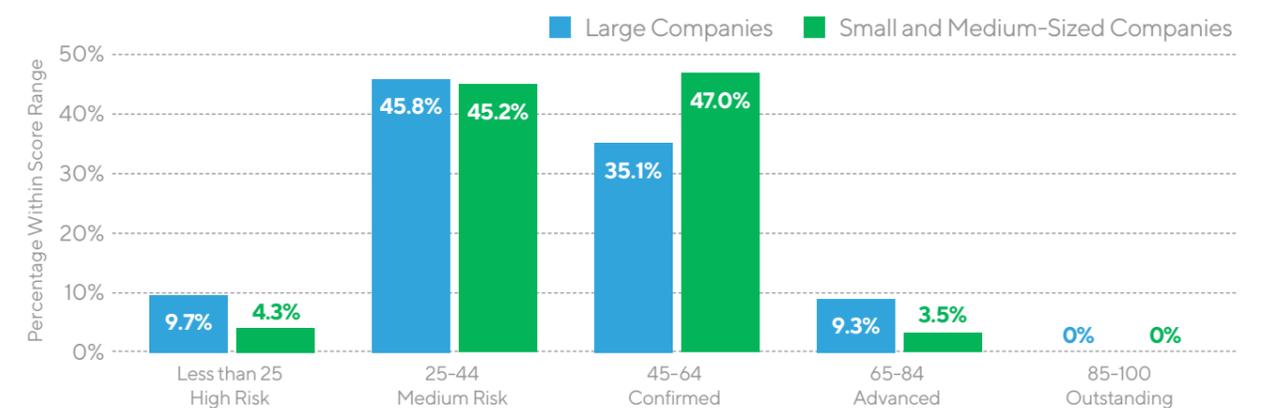
Reassessment Score Trends

Companies that have been assessed at least twice by EcoVadis generally improved or maintained their performance in their latest assessment (59.1 percent of small and medium-sized companies and 61.2 percent of large companies improved their score while 21.1 percent and 14.4 percent achieved the same results). Given that standards and expectations continually increase while certifications and evidence to support CSR commitment typically need updating, maintaining the score does require considerable effort. This arguably demonstrates that once an organization commits to CSR improvements, on average, this commitment pays off.

Score Change Between First and Second Assessment Per Region

Legend: ■ Improvement ■ No change ■ Decrease

| Region		Improvement	No change	Decrease
Latin America	Small/Med	57.5%	24.2%	18.2%
Latin America	Large	62.0%	17.3%	20.7%
AMEA	Small/Med	61.0%	17.4%	21.4%
AMEA	Large	62.5%	11.7%	25.8%
Europe	Small/Med	62.9%	20.8%	16.3%
Europe	Large	64.2%	15.0%	20.8%
Greater China	Small/Med	41.4%	19.0%	39.6%
Greater China	Large	44.3%	10.4%	45.3%
North America	Small/Med	48.6%	26.4%	25.0%
North America	Large	59.4%	15.5%	25.2%

We assessed more than 2,800 large companies, and 11,000 small and medium-sized companies in 2017. The proportion of businesses assessed for the first time decreased to 54 percent for small and medium-sized companies and 33 percent for large companies.
A slightly higher percentage of companies with headquarters in risk countries was noted in 2017 than in the previous year (4 and 2 percent up for large companies and small & medium-sized companies respectively.

Percentage of Companies Assessed for the First Time

Legend: ● Small and Medium-Sized Companies ● Large Companies

Year	Small and Medium-Sized Companies	Large Companies
2015	~74%	~43%
2016	~60%	~35%
2017	~55%	~33%
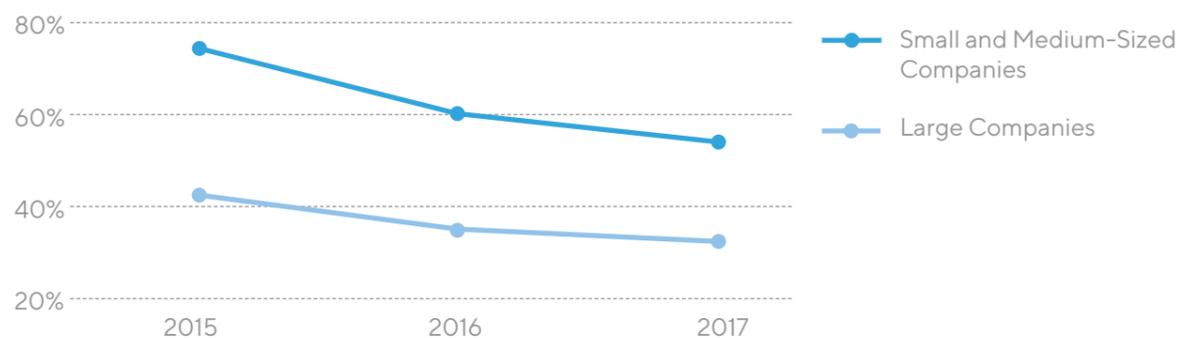
Performance by Industry Division

An analysis of industry divisions[3] reveals that all manufacturers – from both large and small & medium-sized companies – performed better than other industries. In addition, small and medium-sized manufacturers showed continued improvement over the years and last year outperformed their world average. Meanwhile, large companies from the Wholesale, Services and Professionals division were the poorest performers.

The Food & Beverage division in the small and medium-sized company group also showed marked improvement over the years and performed particularly well. However, it appears that the Finance, Legal and Consulting division in the same group found it hard keep in line with accelerating industry expectations and intensifying regulatory environment.

There appears to be little correlation of average score performance – or trend – between large and small & medium-sized companies in the same industry division.

Each industry division is discussed in detail below.

Weighted Overall Score Per Industry Division (Small and Medium-Sized Companies)

Legend: 2015, 2016, 2017

Division	2015	2016	2017
Food & Beverage	42.5	45.4	46.8
Heavy Manufacturing	41.3	43.1	44.8
Advanced Manufacturing	41.5	42.8	43.4
All Industries	40.7	42.1	42.4
Light Manufacturing	39.8	41.7	41.8
ICT	39.5	39.9	41.6
Construction	38.4	40.8	41.2
Financial, Legal, Consulting	43.9	42.5	41.1
Transports	40.5	42.3	41.1
Wholesale, Services, Professionals	39.0	40.5	39.7
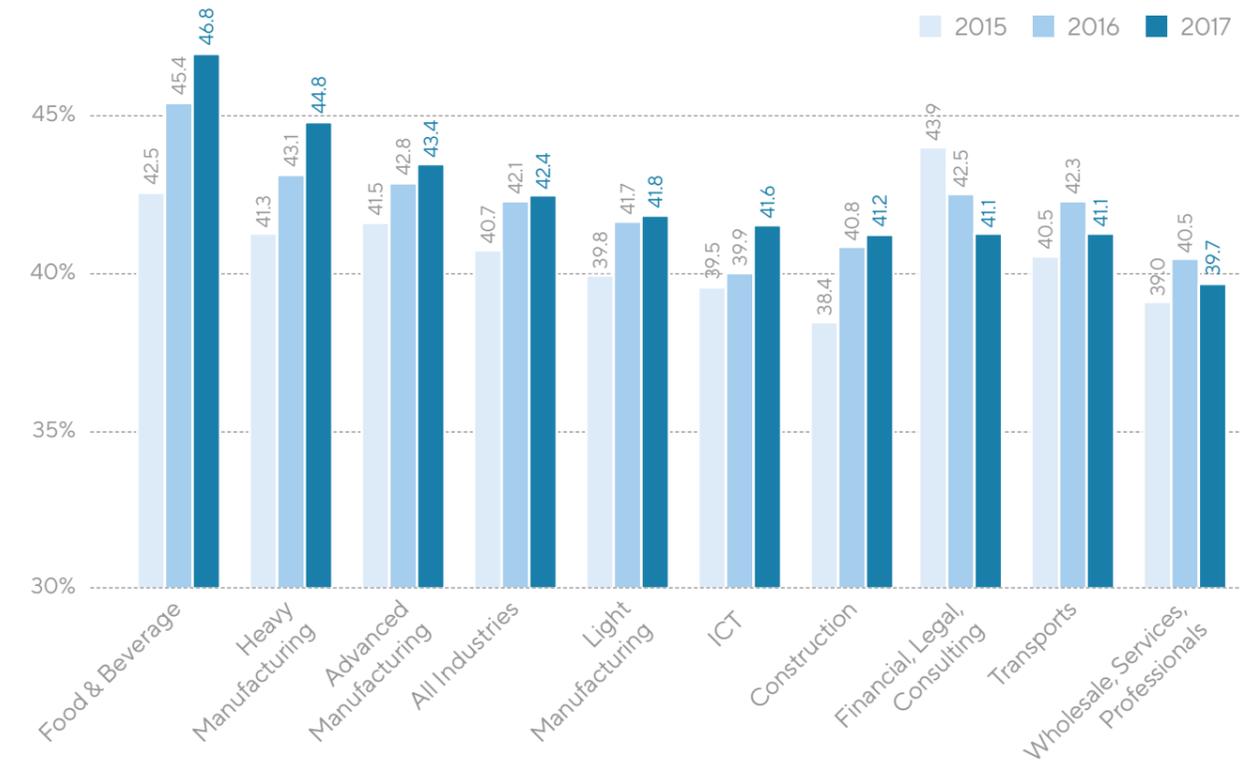
Weighted Overall Score Per Industry Division (Large Companies)

Legend: 2015, 2016, 2017

Division	2015	2016	2017
Advanced Manufacturing	42.4	43.7	44.2
Heavy Manufacturing	40.9	41.9	42.7
ICT	43.3	40.1	41.6
Financial, Legal, Consulting	39.7	45.9	41.1
Light Manufacturing	41.0	43.2	40.9
All Industries	39.6	40.1	39.6
Food & Beverage	39.6	40.0	39.1
Transports	37.6	37.4	37.0
Construction	36.1	36.5	36.1
Wholesale, Services, Professionals	35.9	35.3	34.2

---
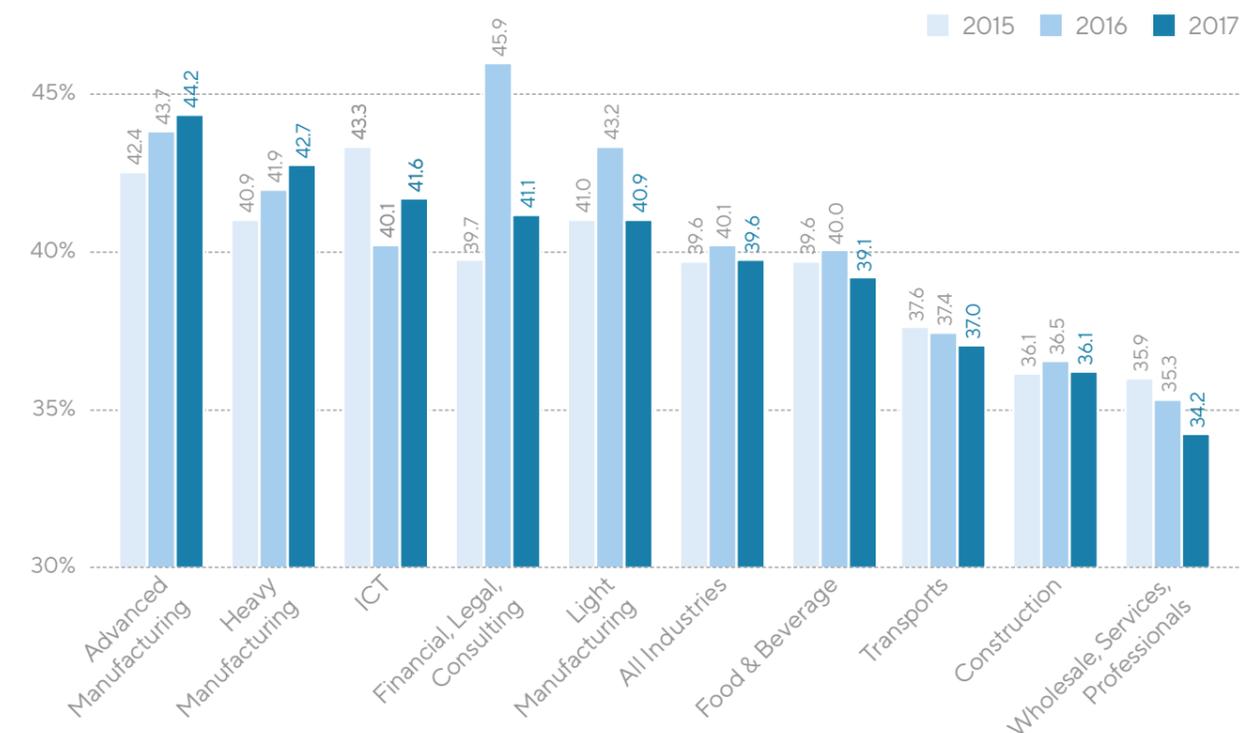
3 Results for the Primary Materials division are not included due to a limited number of companies assessed, making it impossible to draw meaningful insights.

Industry Snapshots

Food and Beverage

PERFORMANCE LEADER
Small and Medium-Sized Companies

💡 Key Findings

- Small & medium-sized food and beverage companies with an average score of 46.8 achieved the highest overall score of any portfolio in the last three years, indicating that regulations facilitate best practice adoption by smaller companies;

- Large food and beverage companies performed well in the environmental management, but had poorer scores in the Sustainable Procurement and Labor & Human Rights themes. These lower scores echo investigative journalists' articles[4] about poor working conditions in factories;

- Small and medium-sized food and beverage companies from all five geographical regions performed well in 2017, resulting in the portfolio's strong overall performance.

🗓 Top Trends and Issues

- The food and beverage industry is tightly regulated and characterized by multiple national regulations as well as international certifications, such as ISO 22000, due to its direct impact on human health and safety;

- Consumers pay more attention to healthy ingredients, ecological packaging and organic products, e.g. Amazon's purchase of Whole Foods, but are not always willing to pay for them;

- Cost pressure is high, with documented high labor turnover, high accident rates, poor working conditions and vulnerability to modern slavery.

What's in the Snapshot?

The analysis is based on food and beverage companies from ISIC divisions 10 and 11, i.e. manufacturers of food and beverage products. Companies in these industries process crops and animal products, delivering goods ready for consumption by an end user or to be used as ingredients for another product down the value chain.

Overall Score: Food and Beverage vs. All Industries

Legend:
- **Food and Beverage** Small and Medium-Sized Companies
- **All Industries** Small and Medium-Sized Companies
- **All Industries** Large Companies
- **Food and Beverage** Large Companies

Weighted Theme Scores Over the Years
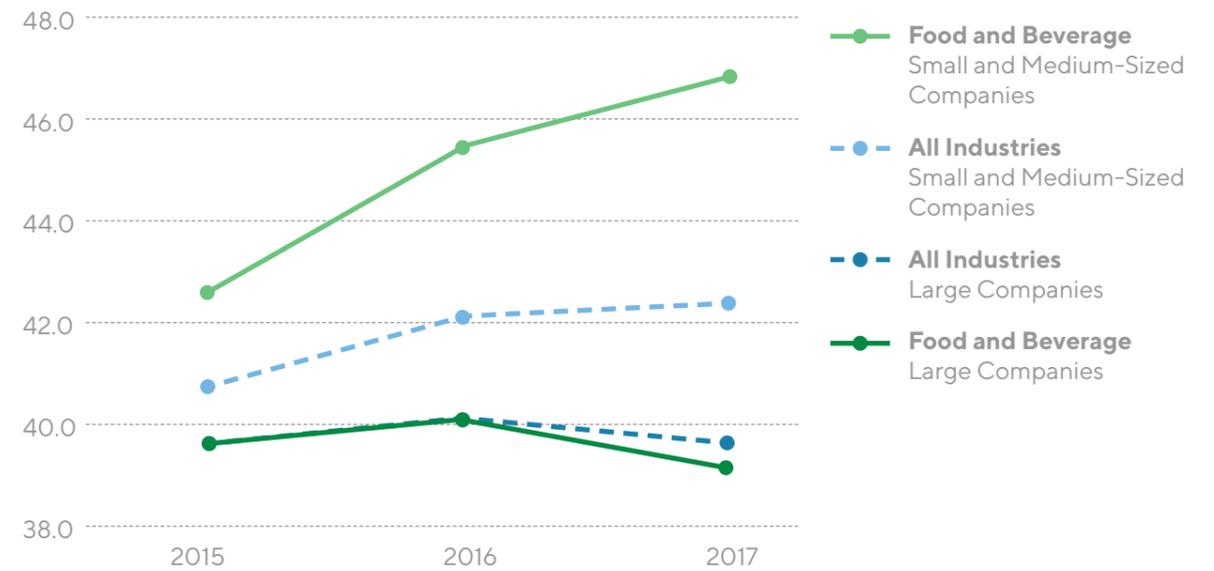
Legend:
- Environment
- Labor & Human Rights
- Overall
- Sustainable Procurement
- Business Ethics
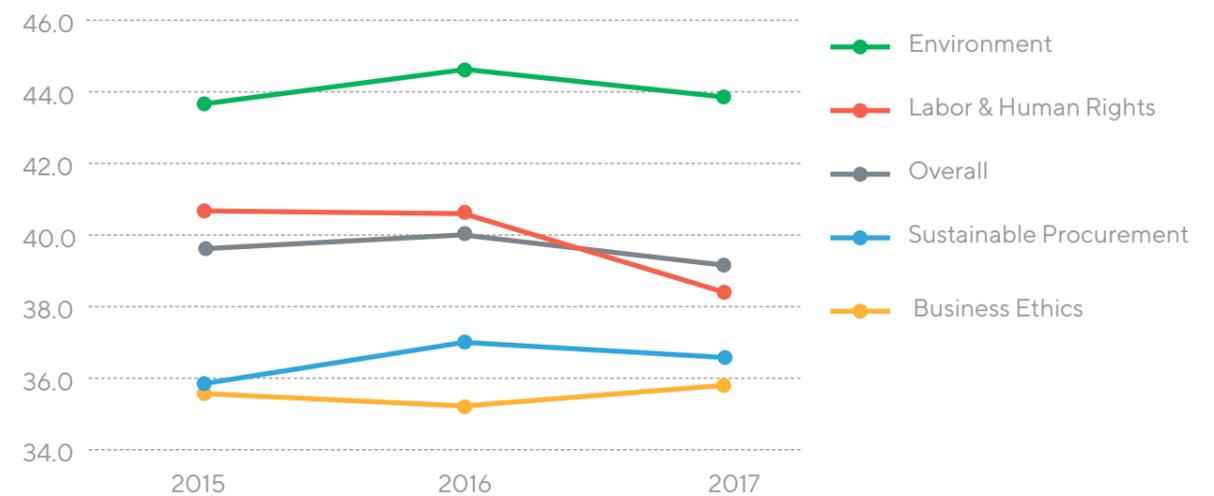
4 The Bureau of Investigative Journalism, Davies, M., Wasley, A., 2017, Blowing the whistle on the meat industry,

Advanced Manufacturing

PERFORMANCE LEADER
Large Companies

💡 Key Findings

- Large advanced manufacturing companies performed well in the Sustainable Procurement theme, indicating strong awareness and ability to deal with the industry's long-standing supply chain problems, e.g those related to conflict minerals;

- Both large and small & medium-sized companies continued to improve and performed particularly well in the Environment and Labor & Human Rights themes. The Environment theme performance has potential for improvement with product redesigned to include end-of-life considerations;

- Small and medium-sized advanced manufacturing companies' performance in the Business Ethics (formery Fair Business Practices) theme was mediocre, which suggests that their awareness of information security risks has not caught up with the latest technology.

🔄 Top Trends and Issues

- Incorporating the Internet of Things in the products made by advanced manufacturing companies will increase capacity, efficiency and precision, but will also exposes more products to cyber security risks;

- Rare earth metals are increasingly used as components for the products manufactured by this industry, yet rare earth metals, similar to conflict minerals, are often sourced from countries with less robust regulations, exposing manufacturers to potential legal sanctions and/or consumer backlash via their supply chain;

- Product end-of-life and recyclability are still largely not accounted for in product design, with many products ending up in waste landfills, risking pollution to local environments. Some countries have adopted Waste Electrical and Electronic Equipment (WEEE) regulations, including extended producer responsibility, the first step toward circular economies.

What's in the Snapshot?

Advanced manufacturing represents businesses (ISIC divisions 25 to 30), which either require more advanced manufacturing processes and technology and/or manufacture technologically advanced products (e.g electrotherapeutic equipment). The CSR risks and impacts of these businesses arise during the manufacturing process, and also from the use and end-of-life of the products manufactured.

Overall Score: Advanced Manufacturing vs. All Industries

Legend:
- **Advanced Manufacturing** Large Companies
- **Advanced Manufacturing** Small and Medium-Sized Companies
- **All Industries** Small and Medium-Sized Companies
- **All Industries** Large Companies
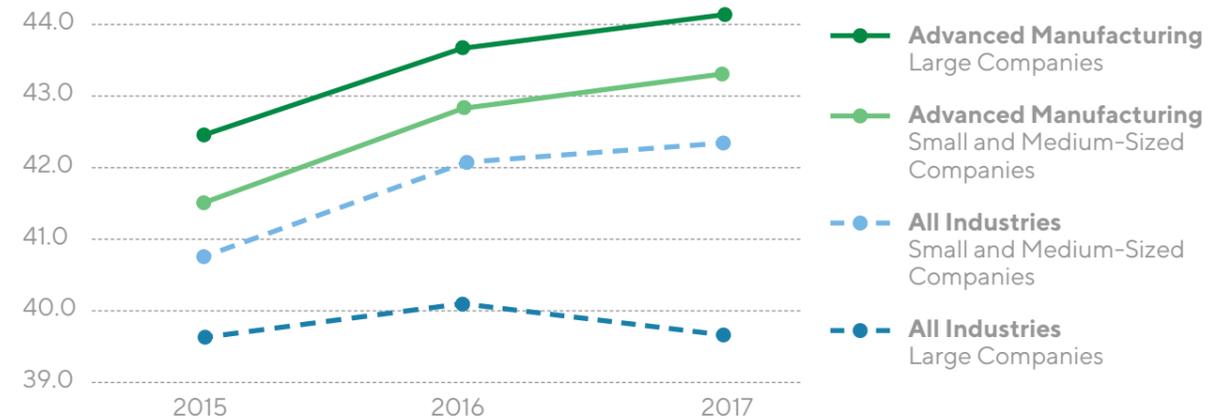
Weighted Theme Scores (Small and Medium-Sized Companies)

	Overall	Environment	Labor & Human Rights	Business Ethics	Sustainable Procurement
2015	41.5	42.1	43.5	38.6	36.2
2016	42.8	43.5	44.6	40.8	37.8
2017	43.4	44.3	45.0	41.4	38.0
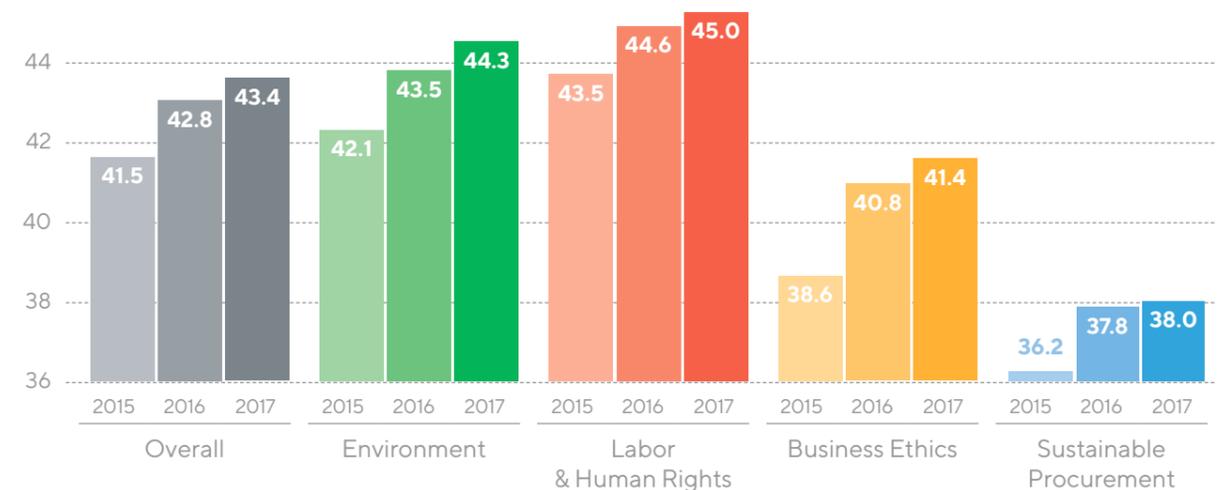
Theme Scores: Advanced Manufacturing vs. All Industries (Large Companies)

	Overall	Environment	Labor & Human Rights	Business Ethics	Sustainable Procurement
Large Companies	44.2	49.6	43.0	41.9	40.7
World	39.6	41.8	40.4	39.3	36.7
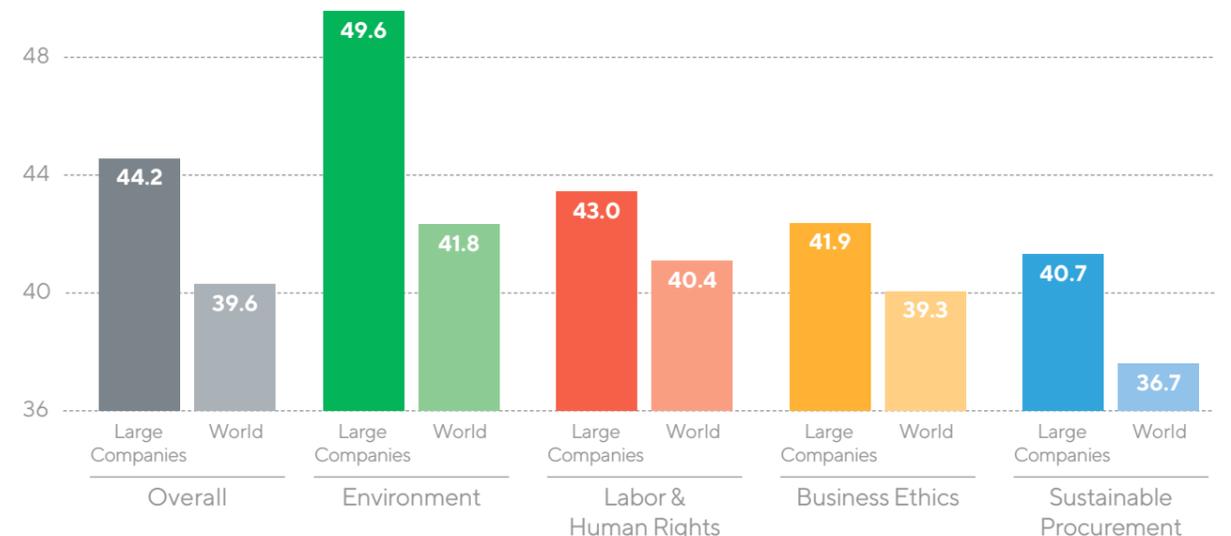
Light Manufacturing

☼ Key Findings

- Overall, risk in this industry division has increased;

- Small and medium-sized companies did not improve and large companies' CSR management performance dropped, particularly in the Labor & Human Rights theme, which arguably suggests that the Bangladesh accord, introduced in 2013 to improve working conditions made little impact during its five-year duration;

- Scores for the Sustainable Procurement theme were down on 2016 among both large and small & medium-sized companies, likely to do decreased market pressure for sustainable resources, which may lead to more deforestation.

Top Trends and Issues

- Textile and fabric industries continued to be exposed to fast-fashion cost models, which disincentivize investments in supplier capability building and in scaling up "greener" materials, despite consumer demands for ethical fashion;

- Deforestation activities continued to lead to ecosystem losses valued at USD 2-5 trillion due to extraction raw materials, such as timber and wood pulp as well as repurposing land for cash crop production, cause ecosystem losses valued at 2 to 5 trillion USD annually;

- Businesses continued to respond to consumer demands for more transparency in production and materials used, including a push for more use of recycled or sustainable materials.

What's in the Snapshot?

Light manufacturing groups all categories involved in the production of textiles and footwear (ISIC 131-152) as well as wood and paper products (ISIC 1701 – 1709). Major CSR issues associated with these activities are social and human rights abuses as well as excessive water and energy consumption. A number of scandals have been associated with these sectors, ranging from exploitation of factory workers in textiles, to irresponsible or illegal sourcing of tropical wood and paper pulp.

Light Manufacturing vs. All Industries

Legend:
- **Light Manufacturing** Large Companies
- **All Industries** Small and Medium-Sized Companies
- **Light Manufacturing** Small and Medium-Sized Companies
- **All Industries** Large Companies

Weighted Theme Scores Over the Years (Large Companies)

Legend:
- Environment
- Overall
- Labor & Human Rights
- Business Ethics
- Sustainable Procurement
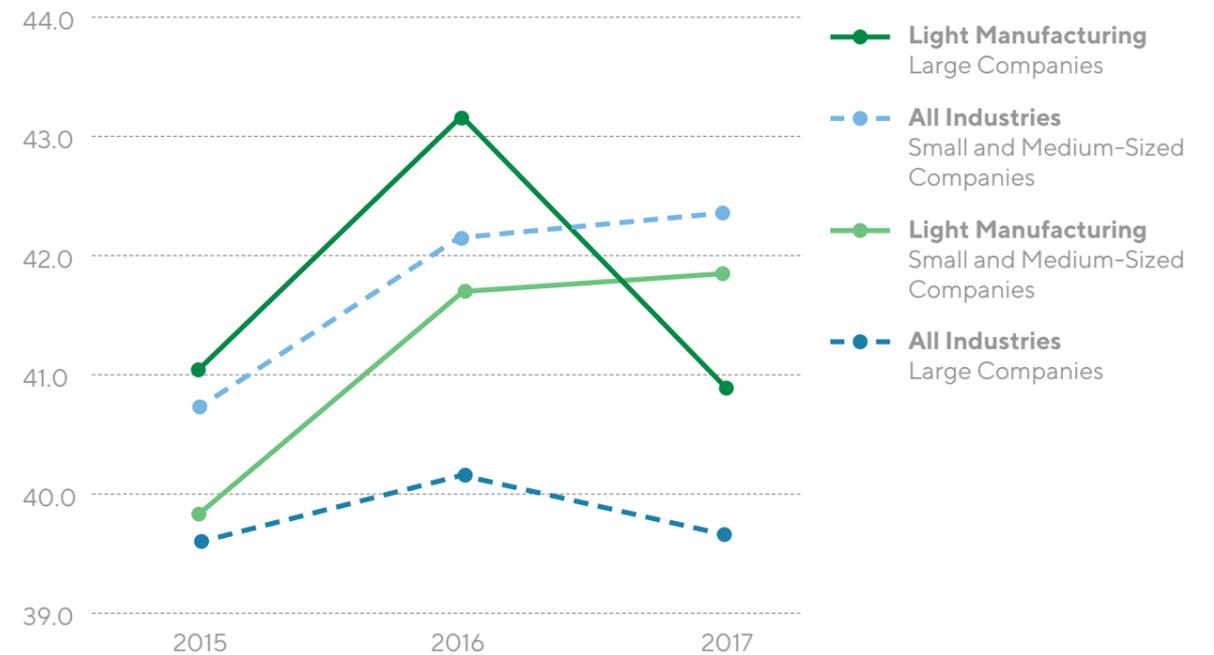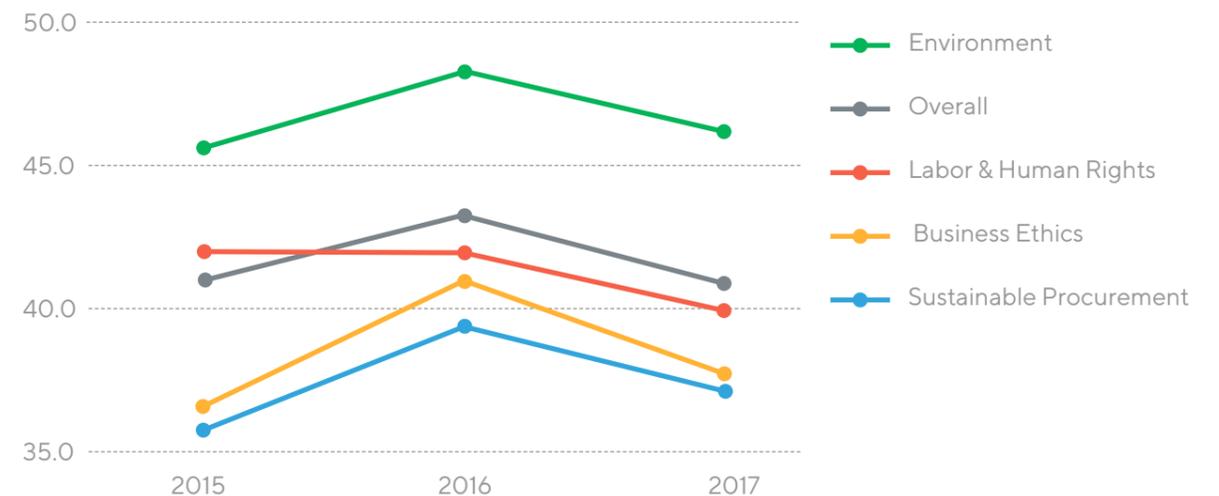
Heavy Manufacturing

⚡ Key Findings

- Both large and small & medium-sized companies improved in 2017, which indicates commitment to CSR issues;

- The score for Sustainable Procurement was the lowest of the four themes, for both large and small & medium-sized companies. The latest supply chain legislations may facilitate improvements in the management of sustainable procurement;

- Small and medium-sized companies improved across all themes, but in Sustainable Procurement the change was slight;

- Manufacturers improved the most on environmental management among small and medium-sized companies from all industries.

📑 Top Trends and Issues

- 3D printing technologies and big data analytics may change heavy manufacturers products; there is significant potential to reduce waste, energy use and health & safety incidents, with higher manufacturing precision;

- Intense use of plastic has lead to "plastic pollution" in oceans, followed by increasing consumer pressure for alternatives;

- Given the high energy consumption in this industry, carbon trading schemes are typically applicable, including China's trading scheme, poised to be the world's largest one;

- Raw materials, e.g. rubber latex, metal ores, sand and palm oil, used in heavy manufacturing typically come from countries where the rule of law is less robust. As a result, recent extraterritorial legislations pertaining to supply chains, e.g France's Devoir de Vigilance, may impact companies in this industry.

What's in the Snapshot

Heavy manufacturing represents a collection of industries, which presents significant risks on CSR issues (e.g Environment impacts, OHS impacts). Companies with the 2-digit ISIC divisions 19-24, typically process raw materials. During the manufacturing process, one or more of the processing stages often includes hazardous materials, which carry significant risks for the environment and people. Companies with the 2-digit ISIC divisions 35 to 39, are also included in this portfolio, because of the similar magnitude of CSR risks and potential impacts from their activities, e.g waste collection.

Heavy Manufacturing Theme Scores Over the Years (Small and Medium-Sized Companies)

Legend:
- **Environment** Heavy Manufacturing
- **Labor and Human Rights** Heavy Manufacturing
- **Labor and Human Rights** All Industries
- **Environment** All Industries
- **Business Ethics** Heavy Manufacturing
- **Sustainable Procurement** Heavy Manufacturing
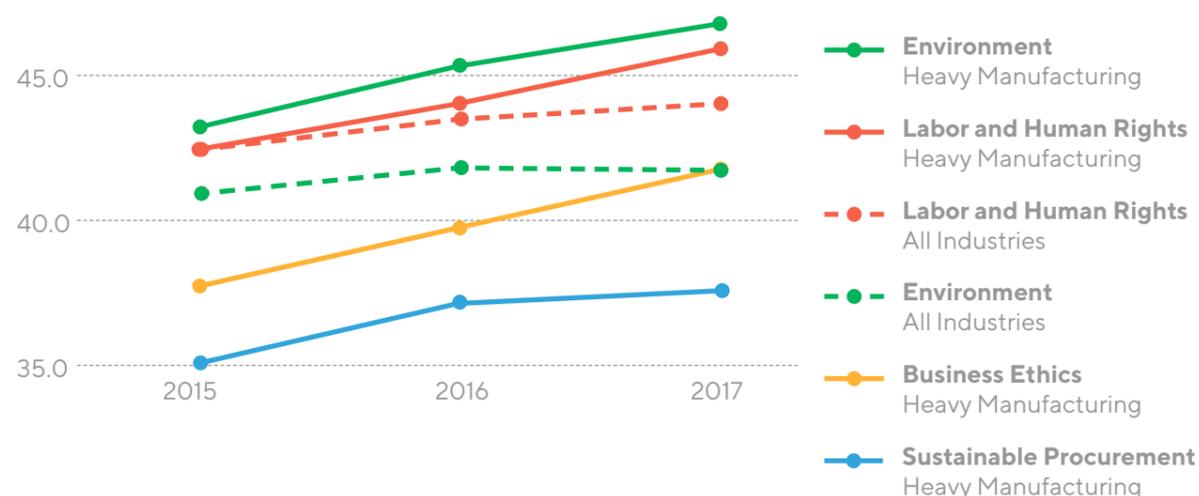
Overall Score: Heavy Manufacturing vs. All Industries

Legend:
- **Heavy Manufacturing** Small and Medium-Sized Companies
- **Heavy Manufacturing** Large Companies
- **All Industries** Small and Medium-Sized Companies
- **All Industries** Large Companies
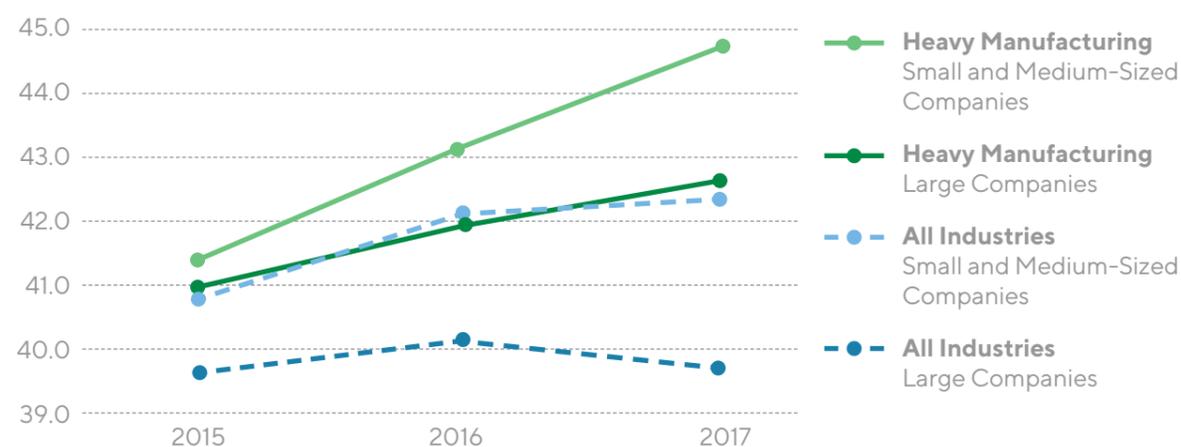
Weighted scores - Large Companies

	Overall	Environment	Labor & Human Rights	Business Ethics	Sustainable Procurement
2015	40.9	46.1	42.2	36.9	32.6
2016	41.9	47.6	43.3	38.6	33.7
2017	42.7	46.4	43.6	40.6	36.2
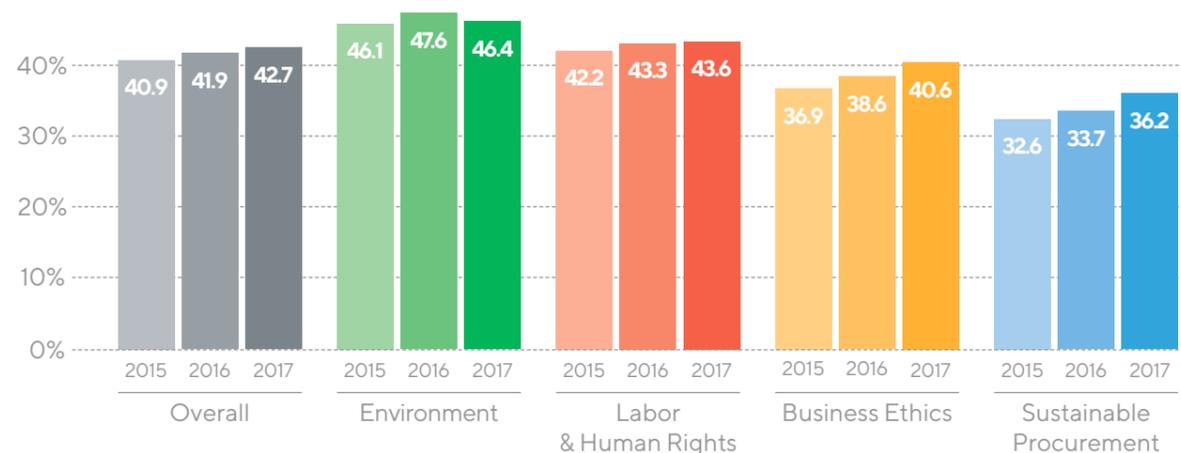
Construction

💡 Key Findings

- For the third year running, large construction companies had the second lowest overall score compared with their counterparts in other industries, indicating that new legislations and technologies are yet to prove effective;

- Both large and small & medium-sized companies continued to underperform in the Business Ethics theme, potentially putting at risk confidential information entrusted to the companies;

- Small & medium-sized construction companies saw consistent improvements in the Environment and Labor & Human Rights themes, suggesting that market pressure to improve CSR practices are taking effect.

🗨 Top Trends and Issues

- The industry is seeing an increase in demand for sustainable and modular construction methods as well as for labels for sustainable building, e.g LEED in the U.S. or DGNB in Germany;

- New technologies, such as drones, 3D printing, and virtual reality allow depictions of completed constructions, which could allow for predictive analytics to reduce energy consumption of buildings, accident rates during construction and waste reduction from precision construction.

- As one of the most dangerous and accident-prone industries, new legislation and technologies, e.g using augmented reality for health and safety training, are utilized more frequently to reduce accident rates.

What's in the Snapshot

This industry follows the UN ISIC of broad section F - Construction. CSR risks associated to this industry division are generally significant and include environmental local pollution, health and safety accidents involving construction workers, child and forced labor incidents, corruption risks regarding acquisition of land rights and approval of various permits, all with potentially severe impacts.

Overall Score: Construction vs. All Industries
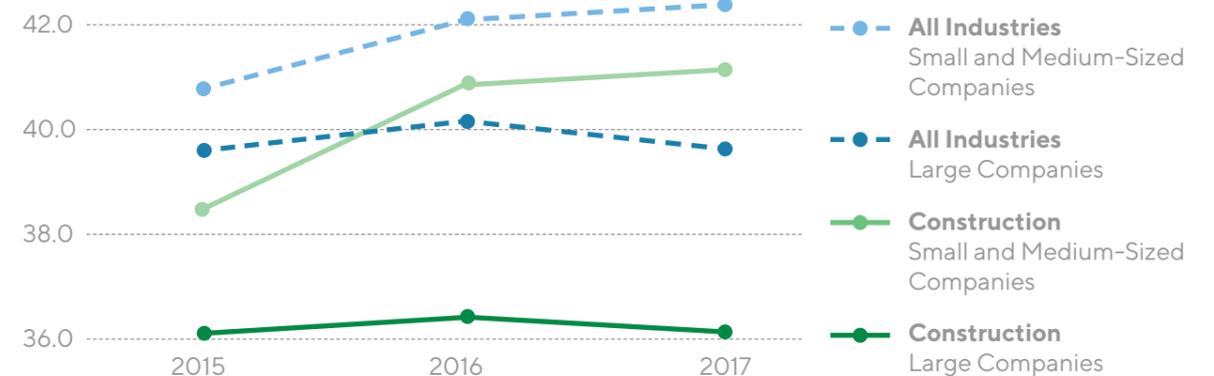
Business Ethics Theme Score (Small and Medium-Sized Companies vs. Large Companies)
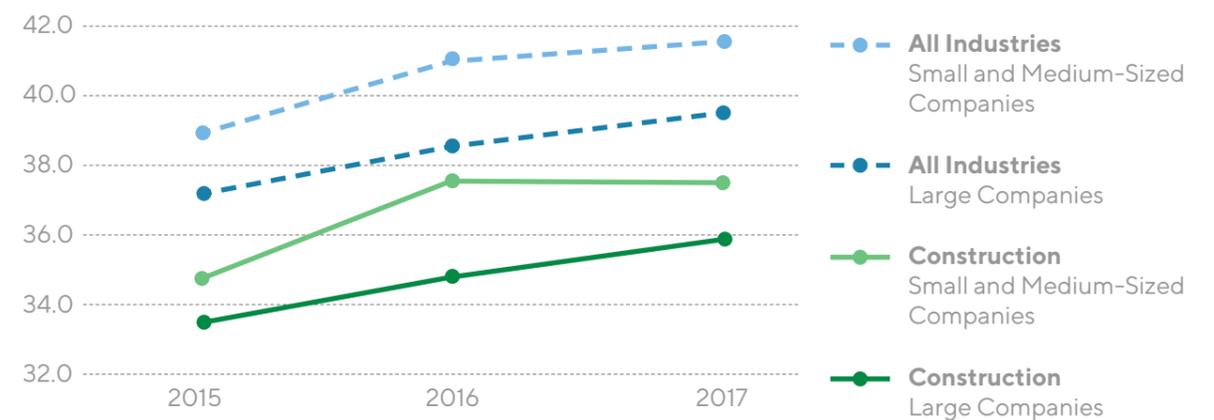
Weighted Theme Scores Over the Years (Small and Medium-Sized Companies)
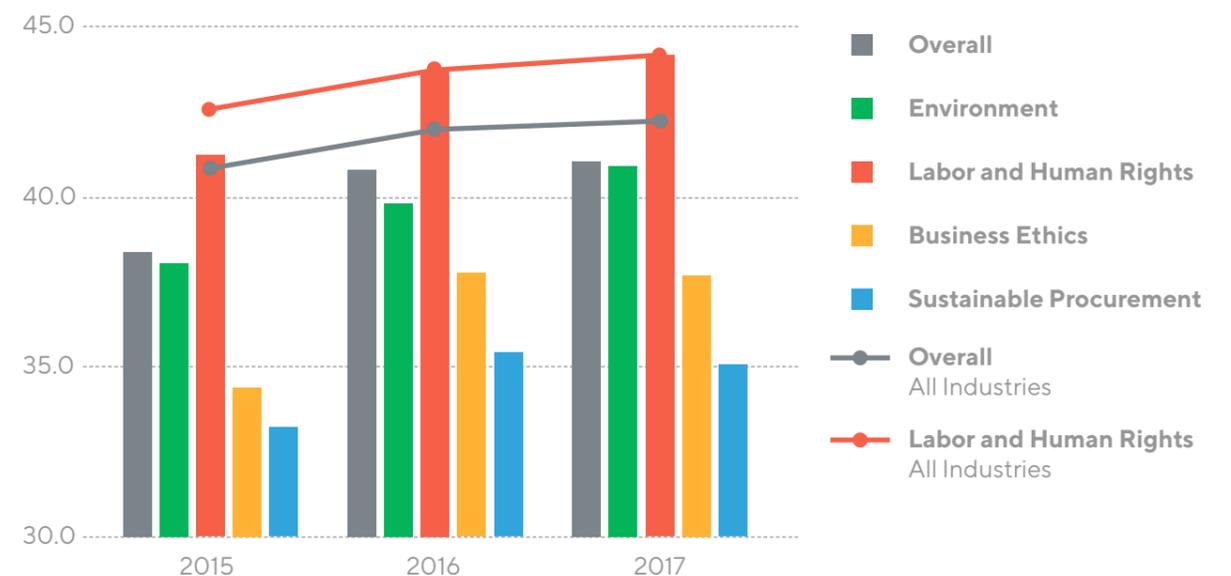
Wholesale, Services and Professionals

💡 Key Findings

- Large companies in this sector consistently underperformed the world average in the Sustainable Procurement theme for large companies, especially in sustainable procurement management, which shows that supply chain CSR risks remained largely invisible to customers who depend on this industry for goods, people, services and information;

- Business Ethics (formerly Fair Business Practices) scores for large companies in 2017 recuperated some of their point reduction from 2016, showing a degree of action taken to deal with digitalization and information security.

📑 Top Trends and Issues

- Digitalization of systems and increased connectivity result in more information being stored on cloud systems, which increases cyber security risks;

- New legislations and potential use of Blockchain drive transparency in supply chains.

What's in the Snapshot

This industry covers Wholesale (ISIC division 45 to 47), Services (55, 56, 78 to 82) and Professionals (71 to 74). These are companies whose economic activities are all carried out by people employed in office based environments even if the activities themselves are very different from one another. This industry group facilitates the flow of goods, people and information between multiple parties. More importantly, the CSR risks related to this industry division are mostly those around health & safety, harassment and skill development, and Sustainable Procurement issues (e.g environmental, social and ethics practices of suppliers and responsible procurement).

**Weighted Overall Score: Wholesale, Services and Professionals vs. All Industries**
(Large and Small & Medium-Sized Companies)

- – ● – **All Industries**
  Small and Medium-Sized Companies

- ——— **Wholesale, Services and Professionals**
  Small and Medium-Sized Companies

- – ● – **All Industries**
  Large Companies

- ——— **Wholesale, Services and Professionals**
  Large Companies
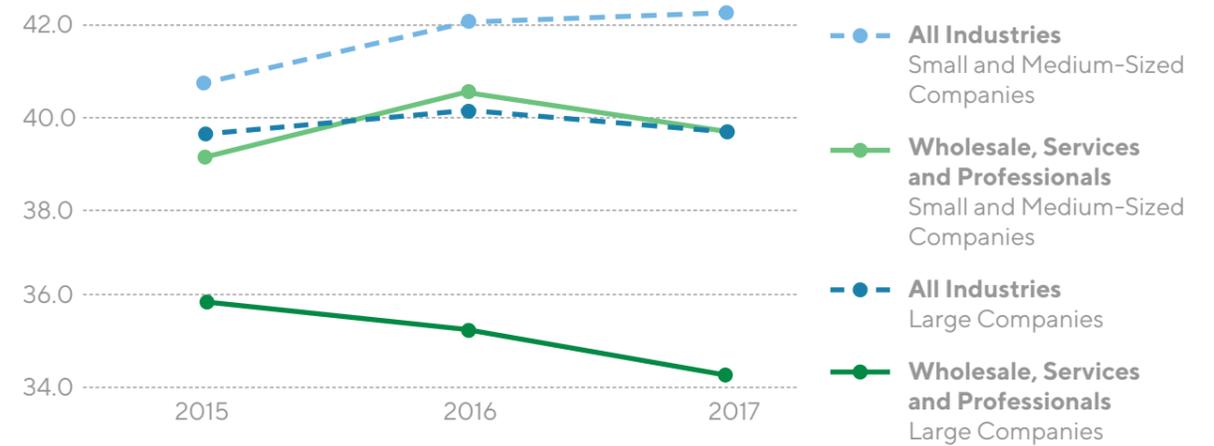
Sustainable Procurement Weighted Theme Score (Large and Small & Medium-Sized Companies)

- – ● – **All Industries**
  Large Companies

- ——— **Wholesale, Services and Professionals**
  Small and Medium-Sized Companies

- – ● – **All Industries**
  Small and Medium-Sized Companies

- ——— **Wholesale, Services and Professionals**
  Large Companies
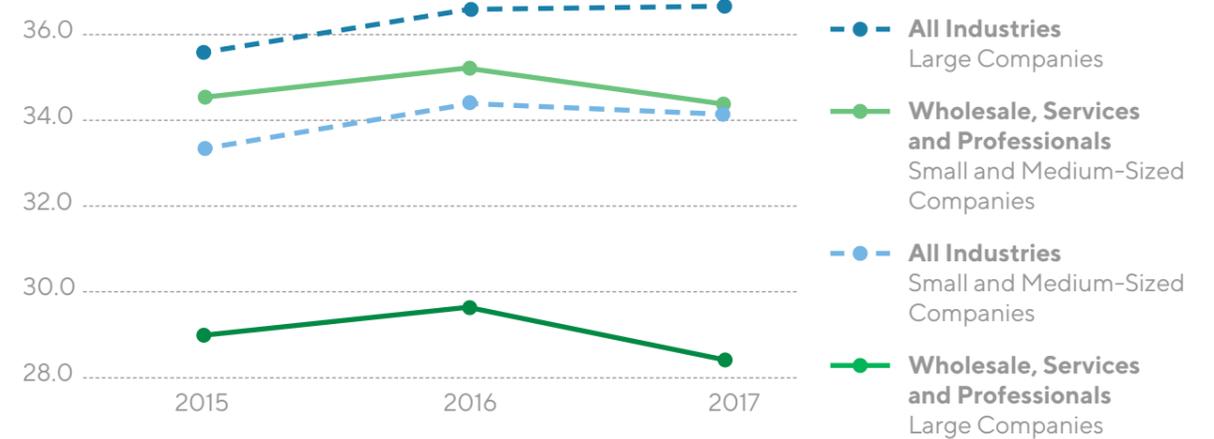
Theme Weighted Scores Over the Years
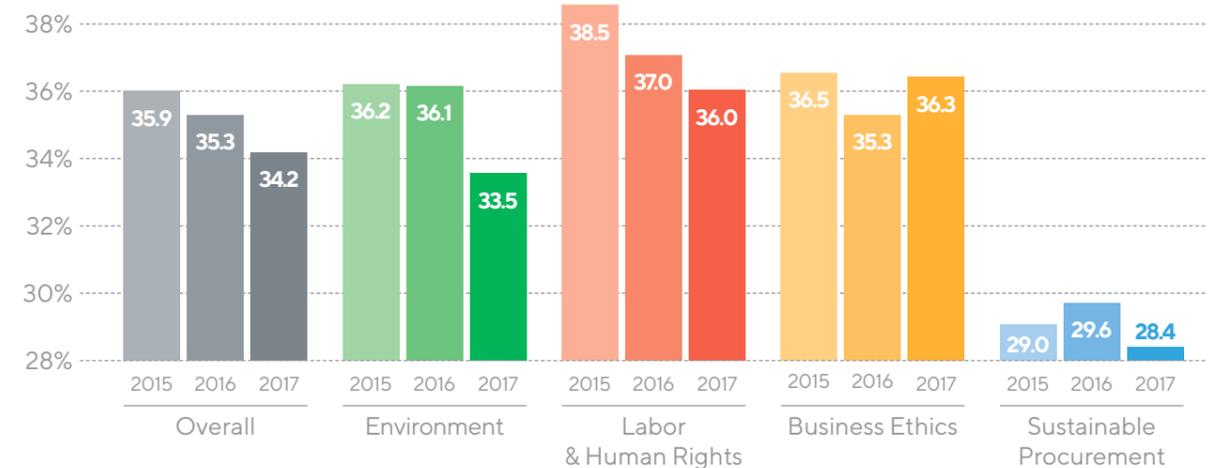
Transport

☼ Key Findings

- Large transport companies' overall performance continued to decrease and for the third year running was below the world average for large companies;

- Both large and small & medium-sized transport companies' performance in environmental management and labor & human rights management went down in 2017, indicating potential labor violations and environmental mismanagement in the industry;

- Large transport companies consistently performed poorer across the years in environmental management, potentially indicating that global CO2 emissions from this industry are unlikely to fall.

⊞ Top Trends and Issues

- Companies are demanding faster delivery times at lower cost from their logistics providers, which, compounded with increasing online purchase volumes, may potentially lead to labor mis-management;

- The use of electric and hybrid vehicles has spread to the transportation industry for last-mile delivery;

- Carbon emissions reporting is increasingly important for transparency within transport industry, as it accounts for 20 percent of global CO^2 emissions.

What's in the Snapshot

This snapshot groups together ISIC divisions 49 to 53, i.e. companies with activities around land, water and air transport as well as warehousing, storage and other related services. The material issues for these companies are fuel consumption, GHG emissions, working conditions and employee health and safety.

Weighted Overall Score: Transport vs. All Industries (Large and Small & Medium-Sized Companies)

- - ● - - All Industries
Small and Medium-Sized Companies

──●── Transport
Small and Medium-Sized Companies

- - ● - - All Industries
Large Companies

──●── Transport
Large Companies

Environment Theme Weighted Score: Transport vs. All Industries (Large and Small & Medium-Sized Companies)

- - ● - - All Industries
Large Companies

- - ● - - All Industries
Small and Medium-Sized Companies

──●── Transport
Small and Medium-Sized Companies

──●── Transport
Large Companies
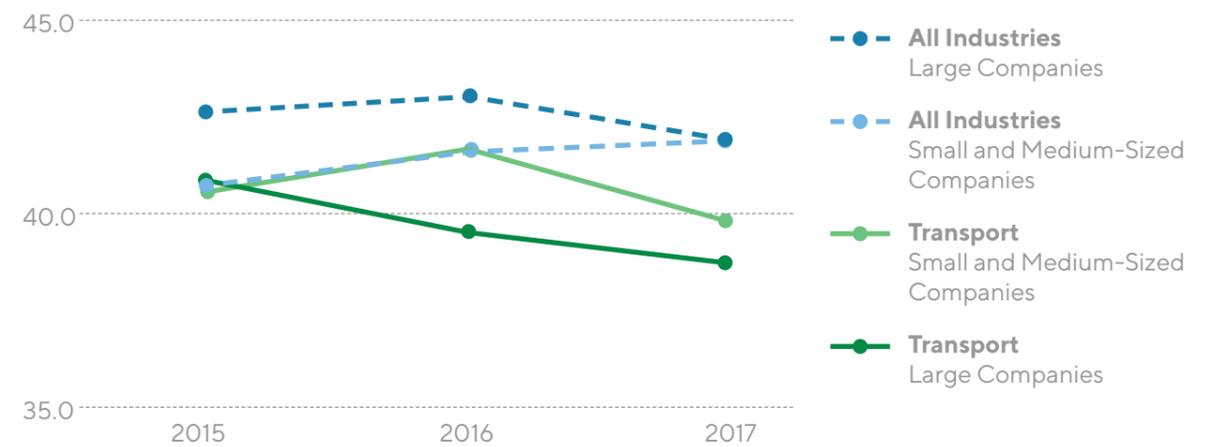
Labor and Human Rights Weighted Theme Score: Transport vs. All Industries (Large and Small & Medium-Sized Companies)

- - ● - - All Industries
Small and Medium-Sized Companies

──●── Transport
Small and Medium-Sized Companies

- - ● - - All Industries
Large Companies

──●── Transport
Large Companies
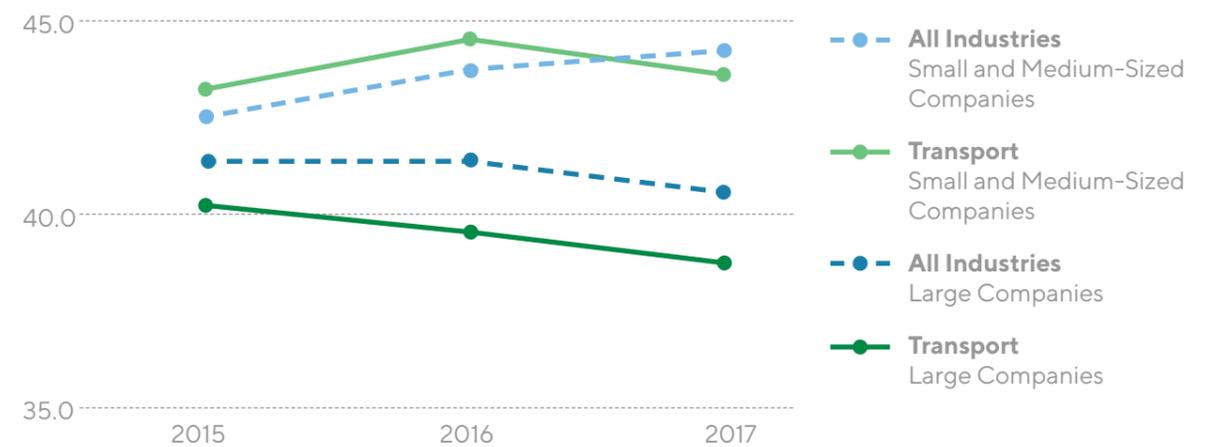
Information and Communication Technology

Key Findings

- The ICT industry had a great 2017, experiencing average score increases in all themes and for both large and small & medium-sized companies;

- Business Ethics (formerly Fair Business Practices) was the highest scoring theme for both size groups, also making this the highest scoring industry in the theme, showing proof of leadership; the industry looks poised to manage compliance with EU GDPR;

- Scores for the Sustainable Procurement theme among both large and small & medium-sized companies improved, indicating some progress in providing market pressure to root out conflict minerals.

Top Trends and Issues

- GDPR in the EU and push for other similar regulations around the world are nudging companies to strengthen data protection practices;

- Information security is becoming increasingly important due to consumer privacy concerns and threats of cyber attacks;

- Issues of discrimination and harassment continue to be high profile issues within the industry, more particularly among software development companies;

- Telecommunication companies are faced with new conflict mineral regulations in the EU.

What's in the Snapshot

The Information and Communication Technology (ICT) industry (ISIC divisions 58 to 63) includes companies whose main activities are publishing and broadcasting content in different forms, e.g. paper, software, video and audio as well as telecommunications and computer programming. The most material criteria is the responsible management of information.

Weighted Overall Score: ICT vs. All Industries (Large and Small & Medium-Sized Companies)
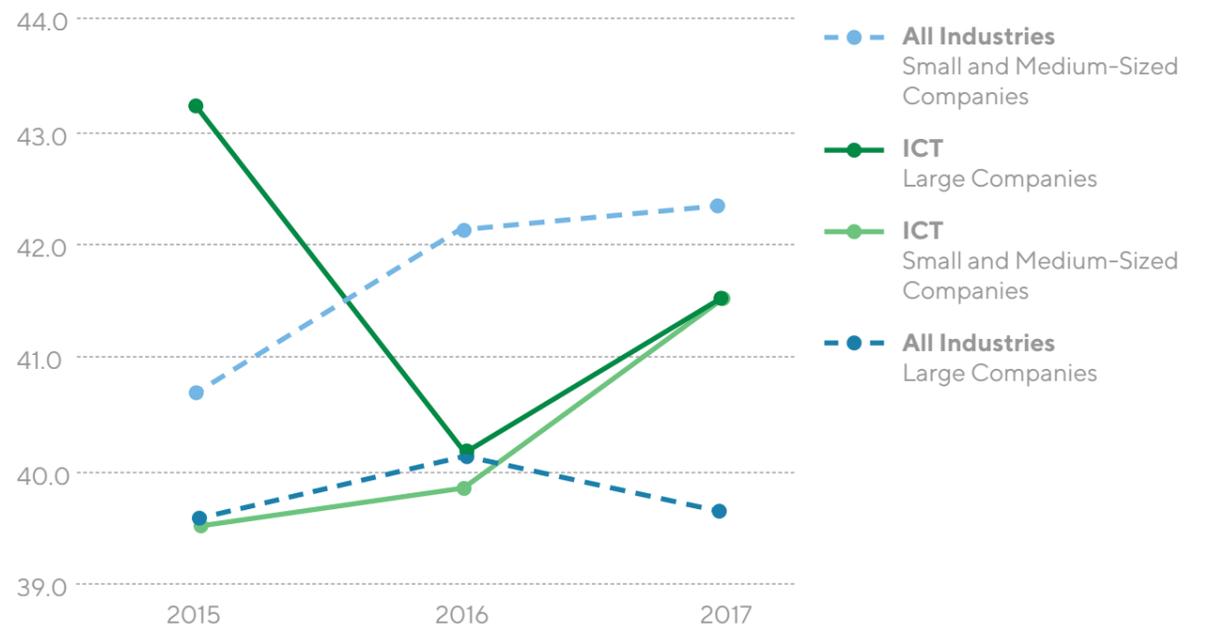
Weighted Theme Scores Over the Years (Large Companies)
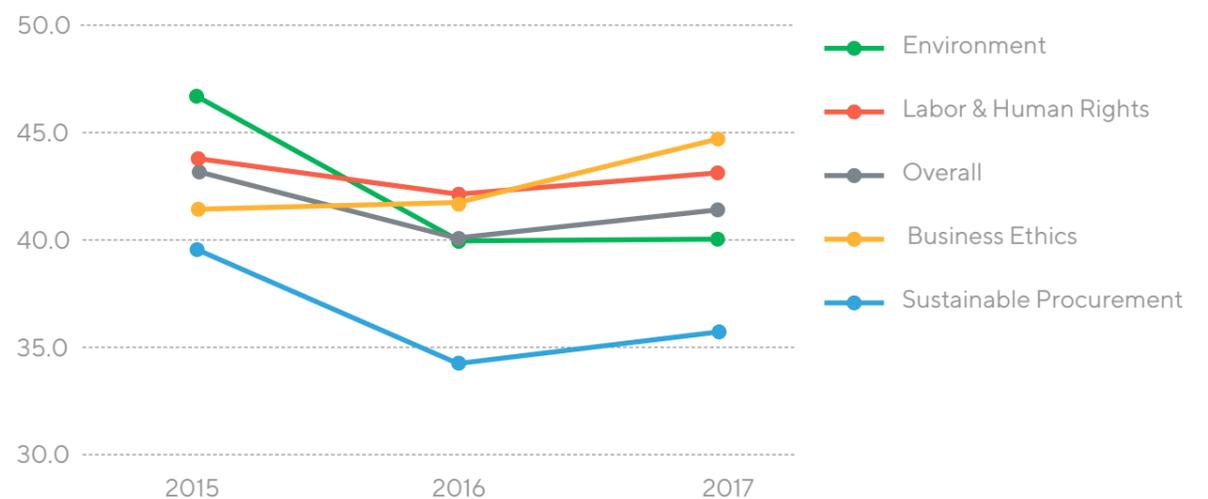
Finance, Legal and Consulting

💡 Key Findings

- Small and medium-sized companies in the Finance, Legal and Consulting industry division fell consistently behind in managing their industry's CSR issues;

- Scores in the Sustainable Procurement themes among large companies were the lowest in three years, increasing vendor liability risks. Both large and small & medium-sized companies were able to deal with corruption and information security issues better than other industries;

- A dip in the Business Ethics (formerly Fair Business Practices) theme score performance, particularly among large companies. In wake of increasing regulations, large companies may potentially be exposed to future sanctions.

🎇 Top Trends and Issues

- Consulting and finance institutions are adopting CSR issues into its products and services (ESG investing, green bonds etc.), beyond their own operations (e.g. ING Wholesale Banking) ;

- Banks face higher regulatory pressure to prevent money laundering and illegal tax avoidance, and secure consumers' financial data;

- Regulators implement stricter controls holding financial institutions liable for their vendors (lender liability): With increasing amount of outsourced processes, banks can end up guilty by association when lacking control and visibility of their supply chain;

- Minorities, and gender inequality (e.g gender pay gaps, minority representation), have become key issues for the industry in talent attraction.

What's in the Snapshot

This industry division groups ISIC divisions (64 to 70, 82) related to financial services activities, insurance, real estate as well as legal and accounting activities. Business ethics risks and impacts are significant for these companies (e.g. corruption, bribery, information security). With ongoing debates on diversity, equality and respect for minorities in high-skilled sectors, human rights criteria are a further key focus in CSR management.

Business Ethics Theme Weighted Score: Finance, Legal and Consulting vs. All Industries
(Large and Small & Medium-Sized Companies)

- Finance, Legal and Consulting Large Companies
- Finance, Legal and Consulting Small and Medium-Sized Companies
- All Industries Small and Medium-Sized Companies
- All Industries Large Companies

Theme Weighted Scores

	Environment		Labor & Human Rights		Business Ethics		Sustainable Procurement	
	Small and Medium-Sized Companies	Large Companies	Small and Medium-Sized Companies	Large Companies	Small and Medium-Sized Companies	Large Companies	Small and Medium-Sized Companies	Large Companies
Score	37.1	39.7	42.1	42.7	44.0	43.9	34.6	32.1

Weighted Overall Scores

- Finance, Legal and Consulting Large Companies
- All Industries Small and Medium-Sized Companies
- Finance, Legal and Consulting Small and Medium-Sized Companies
- All Industries Large Companies

Guest Articles

Once companies begin to engage their value chain partners on sustainability topics, either through assessments, audits or similar data collection processes, the next challenge is how to help them improve. While many brands have gathered worker feedback to increase engagement, when closely examined, the efforts have tended to be brand-centric with workers' interests often overlooked or marginalized in favor of supply chain risk management.

The findings reported in a new white paper from Gap Inc. and Verité, Employing Workers' Sense of Value as a Key Performance Indicator (KPI) to Drive Facility Improvement in Social Responsibility, demonstrate that taking a worker-centric approach to sustainable supplier performance improvement can be mutually beneficial to both workers and management. The report, which covers Verité's work with Gap to engage and improve labor practices of suppliers across five countries, underscores the importance of having an independent, local partner, who can help engage suppliers and their workforce.

Using Data on Worker Sense of Value to Guide Improvements in Social Performance in the Supply Chain

By Lawrence David, *Communications and Marketing Manager, Verité*

A Local Program for an International Brand

In 2015, Gap Inc. launched a Workforce Engagement Program to measure the degree to which garment workers feel valued and engaged at work, and the factors that affect these feelings. The program sought to set priorities and goals for facility improvement. Another goal was to develop connections between various CSR programs to effectively respond to the feedback of workers. Gap Inc. partnered with Verité to develop and implement this program.

From 2015 to 2016, Verité assessors gathered information from workers and management through written surveys, focused group discussions (FGD) and individual interviews to derive insights on issues that are of concern to workers. The initial Verité survey assessments were conducted in five countries (China, Bangladesh, India, Guatemala and Vietnam) covering 78 facilities with a total worker population of 187,036.

Based on Verité's findings, Gap Inc. partnered with its suppliers to make investments in response to worker feedback. The assessment also informed the training programs for facility managers, who can have a direct and profound impact on workers' sense of value (SOV), engagement, knowledge and overall well-being.

Improvement in Management Practices Leads to Higher Engagement

In 2017, Verité conducted 34 reassessments to measure improvement. The study indicates that improvement in management practices, especially in the areas of Immediate Supervisors, Training and Development, Fair Treatment, and Communication and Feedback had significant impact, with positive changes in these areas driving score improvements in workers' SOV and engagement.

- Workers' SOV scores increased by an average of 14.01 percent in 24 out of the 34 facilities reassessed;

- Workers' sense of engagement scores increased by an average of 11.62 percent in 25 out of the 34 facilities reassessed;

- Workers' rating of management practices improved by an average of 11.49 percent in 25 out of the 34 facilities reassessed.

In short, this study found that this type of assessment can maximize workers' participation in setting facility improvement goals that matter most to workers, as well as measure the impact of programs on workers.

A Huge Potential for the Garment Industry

"Verité's new report shows that when our apparel suppliers make investments in worker engagement – whether through supervisory training, innovative communications channels, or career advancement opportunities – people and business alike can benefit," said David Hayer, SVP of Global Sustainability at Gap Inc. and President of Gap Foundation. "We know there's more work to be done, but by putting garment workers at the center of our supplier partnerships, we believe these factories can become preferred places to work in the communities in which they operate, and help drive our business."

Most important, this project points to the significant potential for sector-wide, sustainable change that is possible if the practices outlined here are adopted widely by brands and suppliers alike. The entire apparel sector will gain much from articulating and measuring impact in terms of concrete, verifiable gains made in workers' SOV and engagement as the core building blocks of mutually beneficial worker/management cooperation.

The Critical New CSR Challenge: Third-Party Cybersecurity Risk

By Greg Bouchard, *Marketing Manager, CyberVadis*

The specter of cyber-security related incidents in the supply chain has risen from a marginal concern to a top issue for many companies. BCI's most recent Supply Chain Resilience Report listed cyber attacks and data breaches as the second leading cause of supply chain disruptions — outdone only by unplanned IT or telecommunications outages. This year's EcoVadis Index shows the only CSR theme that improved in 2017 was Business Ethics, which includes among its criteria responsible information management. This was due in part to some major cyber-incidents as well as GDPR preparation. This attention reflects a larger shift in the way companies must think about their supply chains: The numerous third-party software solutions that are shared across the value chain constitute a digital ecosystem. This ecosystem requires the same attention to risks as do environmental and sociopolitical ecosystems.

Third-Party Cybersecurity Vulnerabilities on the Rise

When companies use third-party software vendors, they take on the cybersecurity risk and vulnerabilities associated with each vendor, expanding their overall risk profile and raising their chances of suffering a data breach. With companies depending on third-party vendors for a wide range of functions — everything from HR operations to air conditioning, payment processing to communications — third-party cybersecurity risk touches every part of an organization and can only grow as an organization expands.

A 2017 Ponemon survey found that the majority of the reported data breaches occurred via third-party vendors, crossing across industries and verticals. Delta Air Lines could be the target of a class-action lawsuit after the company's third-party chat software was exploited to obtain an unknown amount of customer information. TCM Bank, which issues credit cards, said many of its customer accounts were hacked via third-party vendor site, resulting in the theft of the personal information (such as names, social security numbers and addresses) of about 10,000 people. Healthcare providers, which handle some of the most personal, intimate data about individuals, are at particular risk; the theft of about 800,000 records has been linked to third-party vendors or associates.

A Growing Regulatory Response

Accompanying this growing third-party cybersecurity risk is an increase in regulations affecting the processing of personal data, most of which hold companies equally responsible for data breaches whether they occur through the company itself or a third-party vendor.

GDPR, Europe's answer to managing and protecting individuals' information at an enterprise level, is only the tip of the iceberg. In the U.S., states are beginning to roll out their own protections that require compliance. New York's Department of Financial Services has included, as part of its mandate, that financial services providers are responsible for performing their due diligence in regard to third parties (section 500.11). More recently, the California Consumer Privacy Act of 2018 brings strict new regulations to the processing of personal data by organizations and third-party vendors alike.

Managing Risk in the Digital Ecosystem

If CSR is intended to address the ways in which a corporation impacts people and the environment, then it is increasingly crucial to include cybersecurity under the umbrella of CSR. The handling of personal data is an act of growing social importance, as we increasingly place our finances, health, and personal communications into the hands of digital processors.

As Scott Shackelford of Indiana University put it, "by protecting privacy, free expression and the exchange of information, cyber security helps support people's human rights, both online and offline." Going beyond bottom line, and beyond compliance, cybersecurity is an ethical issue affecting corporations as they expand their digital ecosystems. They must rise to face the challenges, risks, and moral imperatives that this entails.

Science Based Targets: An Essential Piece of a Complex Climate Strategy Puzzle

By Daniel Wiegand, *Scientific Project Manager R&D at the DFGE, EcoVadis' consulting partner for the German-speaking region*

Climate change is a fact and it is happening right now – this message has recently been reinforced by new findings showing that the Antarctic ice sheet is melting faster, which leads to higher sea level rise than previously expected . The implications for life and business across the world are devastating to contemplate. However, while they highlight the scale and urgency of the problem, they should not lead to despair: There is still time to mitigate the most severe consequences of climate change, and the 2015 Paris Agreement has laid the foundation for a global and concerted action.

The endeavor to keep the temperature rise well below two degrees is ambitious, to say the least, given the gap between what has to be done and governmental commitments . Governments, customers, employees, communities and stakeholders across the value chain are all looking at the private sector as the key player responsible for closing the gap. Setting Science Based Targets (SBTs) – emission reduction targets based on the two-degree scenario – is the first step in the strategic transformation required.

Although the famous letter from Larry Fink, head of the world's largest investor, Blackrock, signaled the beginning of a significant shift seeing companies serve a social purpose, there is no doubt that a business must be profitable. This begs a fundamental question: Is it possible to tie Science Based Targets to a business case? The short answer is yes – provided your strategic view is long-term. The Science Based Targets Initiative (SBTi) identifies four ways setting SBTs can pay off:

- Strengthen long-term business resilience and competitiveness: Adopting SBTs enables a company to go beyond reaping the financial benefits of the "low hanging fruit" of incremental cost savings from direct energy use reduction and capitalize on opportunities that are uniquely aligned with a low- to zero-carbon economy of the future;

- Drive innovation and transform business practices: Setting targets sends a clear signal of a company's strategic ambition to stimulate innovation that leads to truly transformational change. This goes beyond tactical adjustments and incremental changes to how a company delivers on its existing business model, toward for example collaboration among value chain partners on new "circular" models for how they engage;

- One very visible advantage of a successful SBT engagement lies in boosting credibility and reputation in the eyes of a company's stakeholders. Aligning emission reduction measures with an established standard based on scientific findings is becoming a powerful differentiator compared with competitors, and unmistakably signals that a company is a transformational leader in its industry;

- A further advantage of setting science-based targets lies in the anticipation of regulatory measures, which enables a company to proceed at its own pace instead of just being driven and constrained by legislation. Being a climate leader rather than a laggard also ensures greater public attention and influence on policy, as a company is more likely to be considered as a role model in this field.

As stated above, there is no one catch-all answer to the question of how individual companies will benefit from setting science-based emission targets. Some of the advantages can be realized only in the long-term or cannot be planned with certainty. But SBTs make perfect sense for companies that take a proactive and holistic approach to corporate sustainability, as these targets become an essential puzzle piece in a consistent sustainability strategy. Seen from this angle, SBTs provide a link between emission reduction activities and a business transformation strategy founded on a credible climate science-based story, which brings advantages in terms of credibility, reputation and resilience.

To summarize, climate change is a fact, and further emission reduction measures are unavoidable. Setting SBTs may not always pay off when seen as a standalone measure; in the context of a holistic and proactive approach to corporate sustainability that aims for strategic transformation of the company and its value chain. However, SBTs are an essential puzzle piece in a company's approach to sustainability. Besides advantages in terms of transformation credibility, reputation and resilience, this narrative also pays off in terms of better ratings on platforms like EcoVadis or CDP.

Tomorrow's Brands Will Be Sustainable or They Won't Exist at All

By Eric Mugnier, *Partner at EY Sustainable Performance & Transformation, France*

The world today is facing social and environmental challenges with an awareness never seen before. The conventional wisdom in business has historically seen a necessary trade-off between economic efficiency and social and environmental performance. But because of this awareness, the way businesses are run has shifted with a more comprehensive and multi-dimensional understanding of value creation: Creating long-term social, environmental and civic value for business and communities.

Consumers are living their own revolution. Increasingly aware and demanding, they have the means to investigate before making a purchase and let the world know what they think -- good or bad -- in just a few clicks. Connected and distrustful toward brands, today's consumers use mobile apps to compare products and ask peers about their experiences. They also want to know the story behind the product: Where and how was it manufactured? What is the impact on my health? Are the brands I'm using reflecting my own personal values? Are they genuine in their commitments and consistent in what they are their doing? The shopping cart has become a daily ballot!

At EY, we are convinced that building the brands of tomorrow will require companies to take four key steps:
- Commit to being part of the solution to the great challenges of our time;
- Deliver sustainable products and services supported by a responsible value chain,
- Engage customers and clients in dialogue and action,
- Communicate in a transparent and honest fashion.

Committing to Purpose

A sustainable brand is a brand committed to solving our society's challenges, as stated by the United Nations with the 17 Sustainable Development Goals. The key will be linking the commitment with the brand's real purpose. Unilever strives to "make everyday living sustainable," and it works. Today, 70 percent of the company's growth relies on the 26 committed brands -- out of more than 400! Starbucks, with its core activity focused on friendliness and diversity, committed to hiring over 10 000 refugees over the next five years.... A direct response to Washington's protectionist policy.

Delivering Sustainable Products and Services Supported by a Responsible Value Chain

Integrating environmental, social and societal criteria in product design and development will soon become a must-have to align the product portfolio with corporate purpose and CSR, consumer expectations and shareholder concern for resilience. Consumer needs are evolving, slowly but surely, and sustainable products are entering mainstream

consumption. And this is a real revolution. Today, leading companies have already begun the transformation of their portfolio and are facing the challenge of measuring product sustainability, integrating it in existing processes and in their value chain in order to promote product performance to consumers and stakeholders. It's a long term job that requires involving every layer of the organization.

Engaging Consumers and Stakeholders

New technologies and social networks have completely reconfigured interactions between companies, brands and stakeholders, and especially with consumers. Patagonia is a great example of a brand which successfully managed to involve consumers in the very core of the brand's history, generation after generation. Beyond the consumer base, investors, clients, suppliers, local communities, regulators and NGOs are now considered as a very tangible eco-system a brand cannot afford to ignore and who can prove to being exceptional levers of innovation and opportunity!

Communicating With Honesty and Transparency

Stakeholders around the world are demanding for robust, trustworthy and comprehensive information on sustainability, from the HQ through the value chain. If challenges were too complex to tackle with the tools available just a few years ago, new technology is making transparency much easier. Companies and brands now have access to a wide selection of emerging tools and technologies to know their practices and impacts, all along the value chain and therefore communicate: real-time databases, blockchain traceability, QR codes on products, dedicated apps and software... secrecy and confidentiality are no longer go-to answers. Transparency is hardly risk-free and a real cultural leap for some, but it is becoming and irreversible standard to gain and maintain market trust.

Tomorrow's brands will be sustainable or won't be at all. Being sustainable is more than worthy words, it's about changing the business and operating model to make a bigger difference and foster positive impact. We are convinced that only a genuine and in-depth transformation project will enable brands to gain and maintain a competitive advantage, rebuild trust and give the brand a real purpose. Time for action!

Study Methodology

Overview

EcoVadis assesses companies' CSR management system performance according to 21 CSR topics, across four themes[5]:

- Environment, including environmental impacts from business operations, e.g water impacts, and also from the goods and services consumed by stakeholders, e.g impacts from the use of goods and services;

- Labor & Human Rights, including impacts on employees, e.g working conditions, and human rights of both employees and the community, e.g harassment;

- Business Ethics (formerly Fair Business Practices), including corruption & bribery, anti-competition, and information security;

- Sustainable Procurement, in other words and assessment of how companies are able to influence environmental and social impacts of their suppliers.

More information on the EcoVadis Assessment Methodology is available on our website.

Each company is classified according to its ISIC category[6], size, headquarters location and geographical locations of the company's operations.

Each company receives an overall CSR score, which is a weighted average of four theme scores, all of them out of 100 points[7]. EcoVadis ratings methodology factor in industry, location, and size adjustments, therefore allowing for comparisons between different industries, size and locations.

Global CSR Risk and Performance Index Scope Of Analysis

The Index analyzes EcoVadis ratings from our index universe comprised of all of the companies assessed since 2015, in total 42,000 assessments of over 33,000 companies.

Data Universe

862,000 Assessment Data Points Used	**956,000** Documents Evaluated	**42,000** Assessments	**33,000** Unique Companies
10 Industry Divisions [8]	**30** Portfolios	**197** Countries	**197** EcoVadis ISIC Categories
2 Size Groups	**5** Regions	**1** World	

Number of Companies Assessed Over the Years

Bar chart — Number of Companies Assessed Over the Years:
- 2015: Large Companies 2101, Small and Medium-Sized Companies 8441
- 2016: Large Companies 2541, Small and Medium-Sized Companies 10027
- 2017: Large Companies 2873, Small and Medium-Sized Companies 11090

---

5 For detailed explanation on the EcoVadis evaluation and methodology, please visit EcoVadis resources
6 See UN statistics board for ISIC explanation
7 See appendix for scoring scale. For detailed explanation on EcoVadis scoring methodology, please visit EcoVadis resources
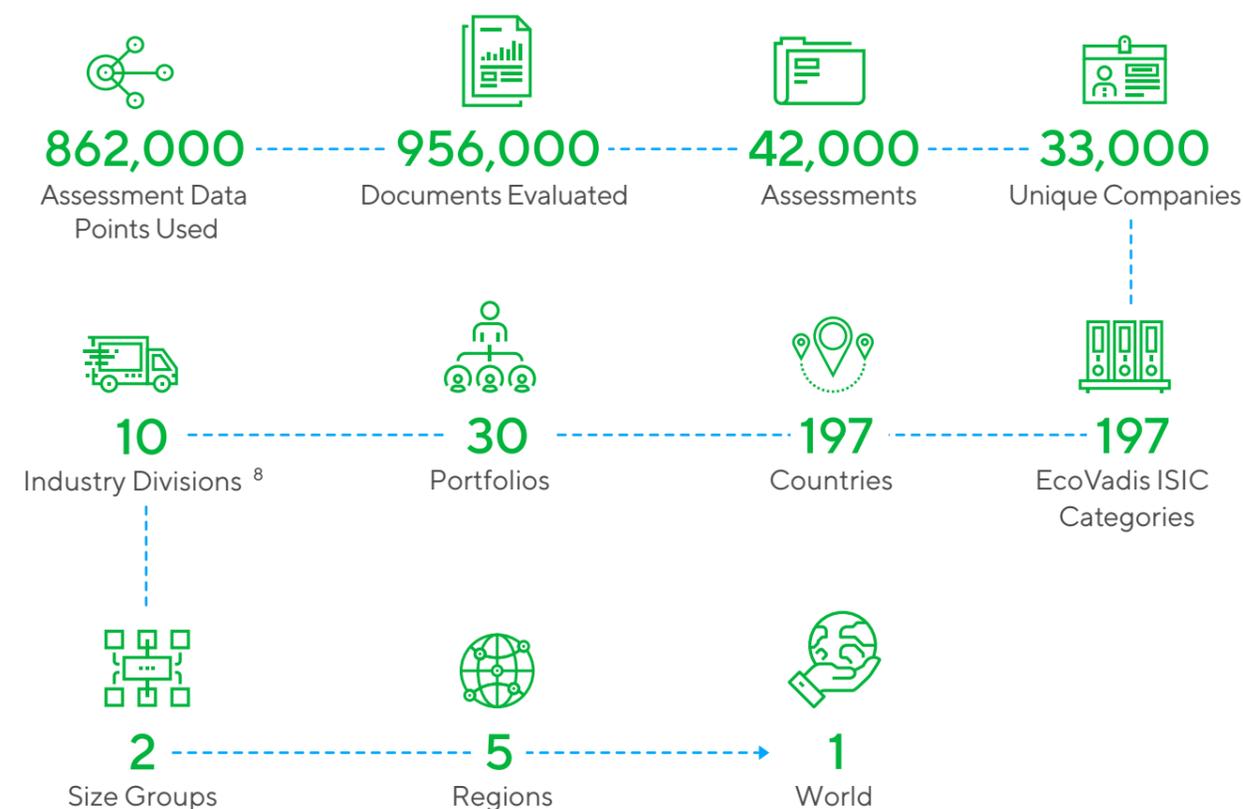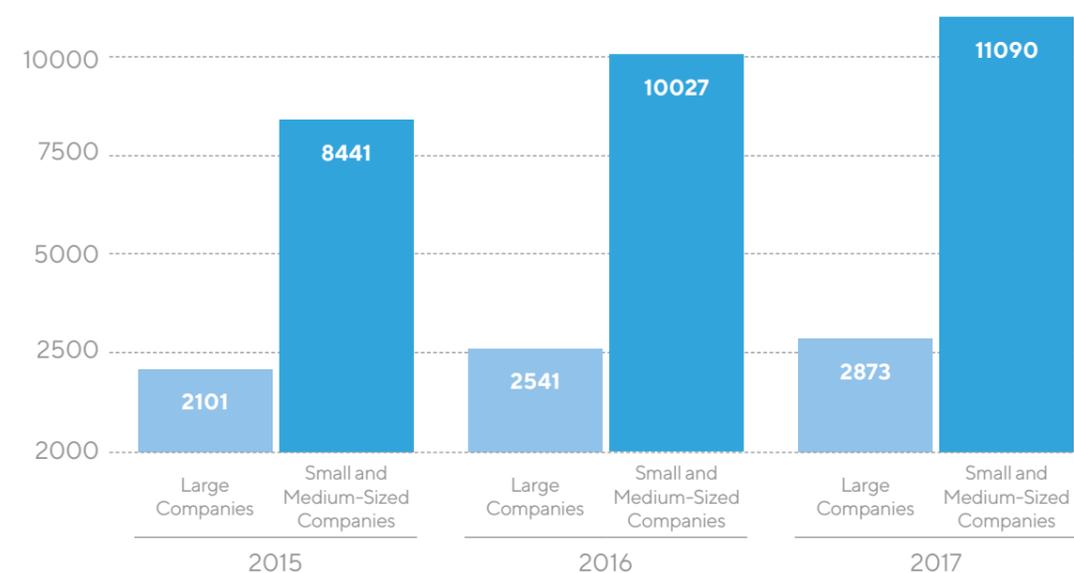
8 Results for the Primary Materials division are not included due to a limited number of companies assessed, making it impossible to draw meaningful insights.

This edition is based on assessment data from in the calendar years 2015, 2016 and 2017.

We further define the index universe by three broad parameters:

- Industry divisions: broad groupings of similar business activities, based on ISIC code;

- Size groups: either small and medium-size (26-999 employees) or large (over 1000 employees);

- Regions: geographical location of a company's headquarters.

A portfolio refers to a subset of companies belonging to either one size group of one industry division (e.g Transport - Large), or one size group of one region (e.g Europe - Small and Medium-Sized).

In addition to average overall scores, we present several other indicators:

Indicator	Explanation
Average of [theme] score	Average of the theme score for the indicated theme (environment, labor and human rights, ethics or sustainable procurement) of companies in that portfolio
Average of score improvemen	Average of score improvement of companies in that portfolio who had at least two assessments
Percent HQ country risk	Percentage of companies in that portfolio whose HQ is located in a Risk Country (The definition of risk country can be found in the EcoVadis Methodology Overview document)
% 1st Assessment	Percentage of companies in that portfolio which were evaluated by EcoVadis for the 1st time since EcoVadis inception in 2008

Score improvement is seen as the difference between overall CSR score in assessment N and N+1. If a company had assessment 1 (A1) in 2015 and the two assessments (A2 and A3) in 2016, the score improvement of A1 is not applicable, scoring improvement in A2 is ignored because it is not the latest assessment in that calendar year, and only score improvement in A3 is used.

Weighted Scores

In this edition, we have introduced weighted scores to reduce data bias generated by the fact that the geographic and industry distributions of the companies assessed within the EcoVadis Network do not match the true proportions.

Almost all EcoVadis assessments are performed at the request of our large enterprise customers, who provide lists of their business partners (suppliers, distributors, contractors, customers, etc.) to engage and onboard into the network. They decide on the geographic regions, industries and sizes of companies they wish to assess based on their strategies and priorities, which does not necessarily match the proportions of those attributes of all

companies globally. For example, as EcoVadis was founded in Europe this is also where many of our longtime customers come from and they began by assessing business partners close to their headquarters. As a result we have a disproportionately high number of assessments in Europe, compared to the rest of the world.

Similar is true of industry divisions, we may receive requests to assess for our enterprise customers' suppliers because our enterprise customers use EcoVadis to help them understand and manage their supply chain CSR issues. Our enterprise customers may choose to assess only their European suppliers, or some specific raw materials suppliers, or service vendors etc. in a specific industry based on their preferences. This means we have virtually no control over who gets assessed. Consequently, this introduces bias to the our EcoVadis Index data universe, which may become overpopulated by companies from a specific region (geography bias) or from a specific industry (industry bias). Although these biases diminish over time as the network expands, they also change from year to year.

To reduce these biases in our index, we assigned equal weights to scores from each a particular region, or industry, when calculating a portfolio's weighted score. By doing so, we achieved a balanced view of global averages, and that allows our indices to be comparable across time.

For example in 2017 our industry portfolio "Transport - Large Companies," 50 percent of our data was populated by European companies and 10 percent by those from North America. This would significantly bias an indicator such as the global average toward the performance of Europe. Since the portfolio should theoretically reflect transportation companies belonging to five geographical zones, equally, instead of allowing the portfolio's average score to be half explained by European companies, this year, we assigned 1/5 weight to the scores of European companies and 1/5 to of each of the other four five zones each (including Europe), to arrive at our weighted score 41.1 for Transport - Large." (The unweighted score would be 43.4). Similarly, for a geographical portfolio, e.g North America -- Large, we assigned equal weights to industries.

With the weighted score approach, regardless of how EcoVadis customers change, or how our customers change their preferences for suppliers to be evaluated, these changes are neutralized, and we'll be able to reliably track performance changes of regions and industries over time.

Industry Divisions

All assessed companies are associated to a business activity defined by International Standard Industrial Classification (ISIC) code. For the EcoVadis index, scores are gathered into related ISIC groups called industry divisions. Nine are included in this study (the tenth had too small a sample for meaningful analysis). Review the complete list of industry divisions and ISIC codes in the Index Online.

Changes To Region Definitions Changes in This Year's Edition

We have expanded our region categories from three in last year's edition to five in this year's edition.

- Europe continues to exist as Europe
- Americas is changed to:
  - North America
  - Latin America (with the Carribean)
- Africa, Middle East, Asia is changed to:
  - Greater China
  - Africa, Middle East, Asia (with Australasia) excluding Greater China

Region Definitions

The number of companies (both large and small & medium-size) assessed per year increased in each region, except for Latin America in 2017. In addition, there were fewer first timers for both large and small and medium-sized companies in most regions, except large companies in Greater China (4 percent higher in 2017). This suggests our scores are generally more reflective of businesses' actual performance (EcoVadis assessment learning effect) in 2017, while to a less extent for large companies in Greater China.

Our region classification references United Nations publication "Standard Country or Area Codes for Statistical Use" (commonly known as M49 standard).

We use M49's definition of North America, consisting of 5 countries - Bermuda, Canada, Greenland, Saint Pierre and Miquelon, and United States of America.

We also use M49's definition of Latin America (with the Caribbean), and Europe.

When analyzing Asia, we deviate from M49, and define a region we label "Greater China" that includes People's Republic of China, its two special administrative regions of Hong Kong and Macau, and the Republic of China. Home to around 20 percent of the world's population, the scope of Greater China and its unique characteristics that shape global markets make it worthy of separate, focused analysis, and allows clearer insights in surrounding regions.

For our Africa, Middle East, and Asia (with Australasia), excluding Greater China region, we use M49's definition of Asia (which includes Middle East as Western Asia), and include M49's Oceania, but we exclude Greater China (above).

Number of Large Companies Assessed Over the Years
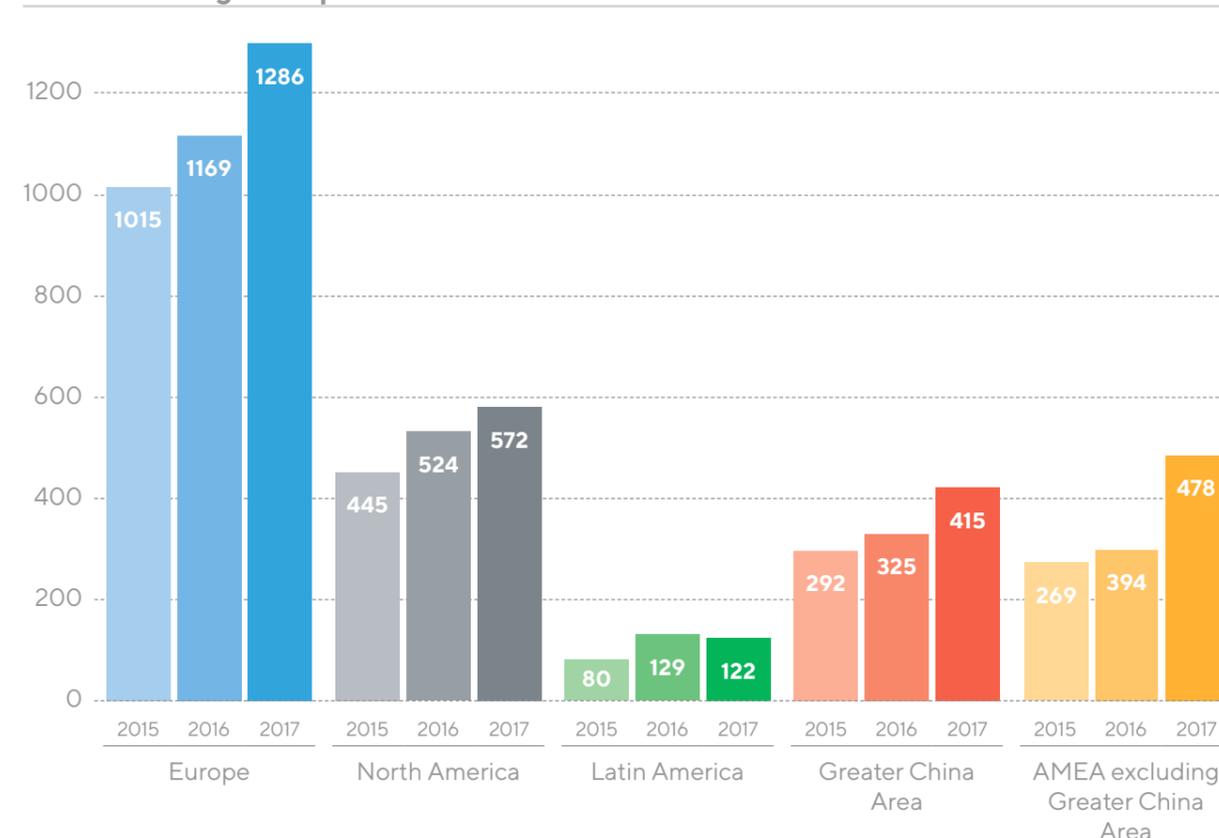
Number of Small and Medium-Sized Companies Assessed Over the Years
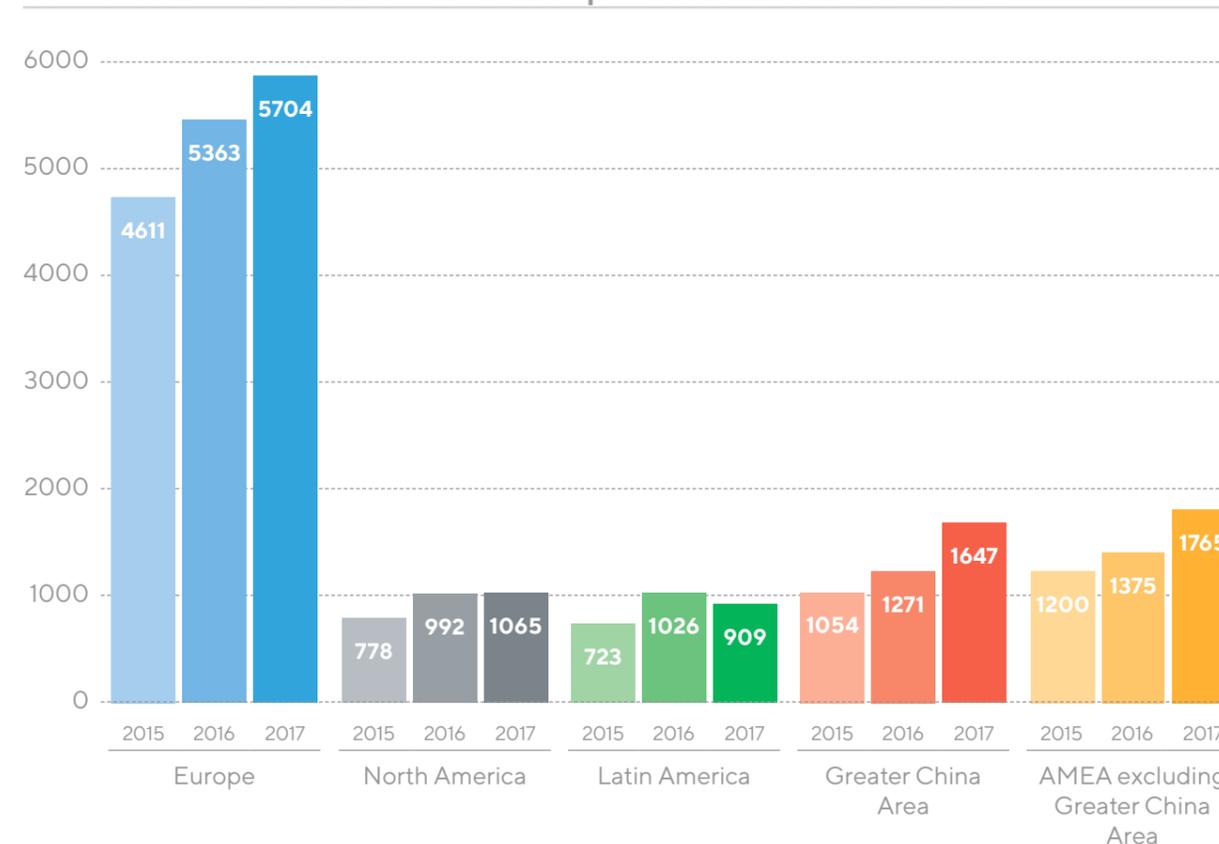
EcoVadis CSR Methodology Overview and Principles

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

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

POLICIES

1 POLI
Policies, objectives, targets, governance

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

RESULTS

6 REPO
Quality of reporting readily available to stakeholders

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

ACTIONS

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

4 CERT
Certifications, labels, 3rd party audits

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

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

21 CSR Criteria

ENVIRONMENT	LABOR & HUMAN RIGHTS	ETHICS	SUSTAINABLE PROCUREMENT
• Energy Consumption & GHGs • Water • Biodiversity • Local & Accidental Pollution • Materials, Chemicals & Waste • Product Use • Product End-of-Life • Customer Health & Safety • Environmental Services & Advocacy	• Employee Health & Safety • Working Conditions • Social Dialogue • Career Management & Training • Child Labor, Forced Labor & Human Trafficking • Diversity, Discrimination & Harassment • External Stakeholder Human Rights	• Corruption • Anti-Competitive Practices • Responsible Information Management	• Supplier Environmental Practices • Supplier Social Performance

Interpreting EcoVadis Overall CSR score

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

The scoring of the seven management indicators is based upon strict scoring add a comma after guidelines which are applied by all analysts. Each scoring level is associated to a detailed definition and a database of sample documents. The seven management indicator scores will then generate a score for each theme based upon the weight

allocated to each management indicator. The three management layers, policies, actions and results are given the following respective weights: 25%, 40% and 35% (see diagram below).

The overall score is a weighted average of the theme scores. The activation and weight of each theme depends on the company industry, size, and its location. This allows taking into account the characteristics of a company, each theme being more or less critical depending on their activities.

About

EcoVadis is the world's most trusted provider of business sustainability ratings, intelligence and collaborative performance improvement tools for global supply chains. Backed by a powerful technology platform and a global team of domain experts, EcoVadis' easy-to-use and actionable sustainability scorecards provide detailed insight into environmental, social and ethical risks across 190 purchasing categories and 150 countries. Industry leaders such as Johnson & Johnson, L'Oréal, Nestlé, Schneider Electric, Michelin and BASF are among the more than 50,000 businesses on the EcoVadis network, all working with a single methodology to evaluate, collaborate and improve sustainability performance in order to protect their brands, foster transparency and innovation, and accelerate growth.

ecovadis

www.ecovadis.com