

Supply Chain Excerpt

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Proven Guidance for C-Suite Action

3 Tactics From Bayer to Set Up Suppliers for Sustainability Success

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Bayer has been getting lots of recognition for environmental and social impact in the last few years. The life sciences company is included in the 20-month-old DAX 50 ESG index, the Bloomberg Gender-Equality Index, a 2020 Wall Street Journal ranking of the 100 most sustainable companies in the world and the “A List” issued by CDP, a disclosure nonprofit with a focus on climate, water and forests.^{1,2,3,4} These disparate issues play out in the supply chain too, as do others such as forced labor; a company’s reputation can rise or fall on actions taken by its vendors.

Thomas Udesen, the company’s procurement officer, has used three unconventional tactics for improving conditions at scale among the more than 97,000 businesses that hold contracts with Bayer as part of its extended enterprise:

- His team crafted a supplier code of conduct that is more detailed than typical corporate guidance and sets out examples of behavior that exceeds expectations.
- Bayer encourages sharing data related to supplier sustainability performance between functions and business units — and outside the company as well. Bayer holds leading roles in chemical and pharmaceutical industry initiatives in which supplier audits are respectively shared.

- Rather than creating standards that meet the minimum regulatory requirements, Bayer challenges itself to go above and beyond in environmental, social and governance (ESG) compliance. The company recognizes that corporate funding of sustainability initiatives is critical. That commitment to sustainability is visible in the overall business strategy (see Figure 1).

These steps add up to great expectations for suppliers, backed by a flow of information that is designed to encourage and enforce the company’s aspirations for its network.

Examples of Good Conduct and a Dedicated Hotline

A typical supplier code of conduct stipulates that suppliers should abide by local laws and custom. Bayer holds its network to a higher benchmark. Rooted in the UN Global Compact, the UN Universal Declaration of Human Rights and the International Labour Organization (ILO), Bayer’s code lays out its principles toward suppliers that internal experts developed, building on an extensive “best-in-class” benchmarking.

For instance, the working time for suppliers’ employees shall not exceed the maximum set by both the applicable national law and the ILO standards. Conventional codes state that suppliers should pay local minimum wage. Bayer’s code states that compensation and benefits for suppliers’ employees should aim to provide an adequate standard of living for both the employee and their family — even if local law doesn’t.

An accompanying guidance document explains each principle of the code in more detail by laying out expectations, giving good practices and providing further references (see Figure 2).

According to Udesen, “It’s not enough to provide examples of what not to do. We must be demonstrative in showing what a high bar

looks like too.” Traditional codes can result in dramatic differences in what is acceptable from a buyer’s versus a supplier’s perspective.

Bayer found that 357 of its suppliers evaluated in 2020 improved their sustainability performance from their previous evaluation. To nurture a community that keeps all parties ethical and steeped in the code, Bayer opened a dedicated third-party hotline and encourages suppliers to report potential misconduct — by vendors and by Bayer employees.

“We believe that driving ethical behavior up and down the supply chain ensures we are creating real, long-term value and resiliency,” Udesen said.

Data Sharing Drives Auditing at Scale

Bayer is sharing data between not just its functions but also different companies within its industry.

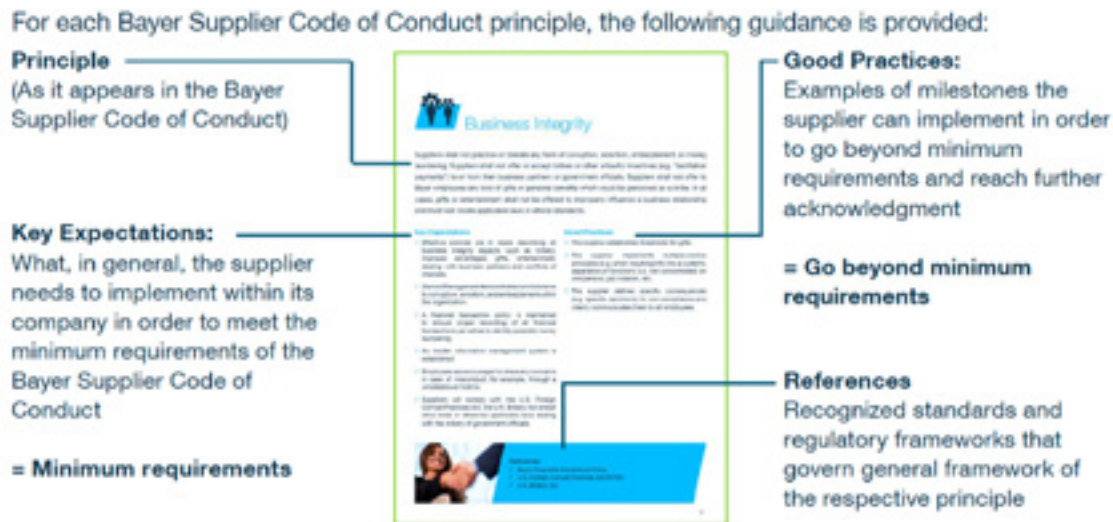
Bayer is a leader in two initiatives that aim for transparency among (1) pharmaceuticals, the Pharmaceutical Supply Chain Initiative (PSCI) and (2) chemical companies, Together for Sustainability (TfS). Both aim to have companies embed their principles in their supply chain operations, including their supplier codes of conduct. They provide audit and assessment templates for companies to use.

Figure 1. Bayer’s Purpose and Vision



Source: Bayer

Figure 2. Bayer's Supplier Code of Conduct Guidance



Source: Bayer

Such anonymized industrywide data sharing is becoming a wider trend. For example, five large companies in the cosmetics industry are teaming up to create a scorecard that discloses the environmental impact of their products.⁵ The hope is that an industrywide standard of environmental sustainability will take hold.

Both initiatives aim to reduce resources spent on expensive audits and instead provide organizations flexibility to invest those resources in other sustainability or business initiatives.^{6,7} External data sharing is a powerful tool for achieving that goal.⁸ According to PSCI, organizations that share their data more effectively allocate their own resources and improve sustainability standards across global supply chains.⁹ That corresponds with our findings that 31% of companies showing others their data are seeing economic benefits from it.¹⁰

Additionally, the coalitions' data sharing amplifies the urgency of improving suppliers that fall short. If suppliers begin proactively complying with these widely held standards, organizations might need to do less auditing in the future. "We believe that creating this singular voice makes it easier for suppliers to identify and prioritize improvement opportunities and make effective changes," Udesen said. He doesn't believe this information needs to be closely held. "We are not competing on our supply chain; we are collaborating."

Those with concerns can limit how much they share. The agreement filled out by members of

the pharmaceutical initiative asks what audit documents they feel comfortable distributing and if they want to restrict sharing to certain members within the initiative.

Proactive Standards Setting

As part of its commitment, Bayer is committed to combating the climate crisis. The company joined the Science Based Targets initiative (SBTi) and has set itself respective targets to reduce greenhouse gas emissions that are in line with the Paris Agreement requirements.

Bayer is also one of 815 companies worldwide that have joined the Business Ambition for 1.5°C — an urgent call to action from a global coalition of UN agencies, business and industry leaders — in partnership with the Race to Zero (as of 30 September 2021).

Additionally, 100% of its palm oil is sustainably sourced; cultivation of this crop has been a major cause of deforestation around the world.¹¹

These may look like one-off endeavors, but they make a collective impact, including to the company's P&L. "It was not difficult to convince senior leadership at Bayer to initiate proactive standards," Udesen said. "This is essential for how we do business and how we deliver value; it just makes sense."

Bayer's Steps Toward Sustainability

- Review the standards and goals laid out in international agreements such as the UN Global Compact and the Paris Agreement, and create an actionable — not merely aspirational — supplier code of conduct.
- Then, conduct an internal audit and review of the company's ESG efforts.
- Once done, create an action plan to begin creating and applying proactive standards to meet and exceed those goals.

- Identify opportunities to improve data sharing within and outside the organization. Together with data and analytics partners, identify opportunities for building digital hubs that can serve multiple functional needs. Investigate industry associations that offer the opportunity to bring ESG initiatives to scale through shared auditing reports.

¹ DAX 50® ESG Futures & Options, EUREX.

² Bloomberg Gender Equality Index, Bloomberg.

³ The 100 Most Sustainably Managed Companies in the World, Wall Street Journal.

⁴ The A List 2020, CDP.

⁵ Cosmetics Giants Team Up to Create Environmental Scorecards for Product Labelling, Edie.

⁶ Why Collaborate on Audits, PSCI.

⁷ Benefits, TFS.

⁸ Smart Data Sharing Requires Mapping Use Cases to Architectures and Vendor Solutions.

⁹ Why Collaborate on Audits, PSCI.

¹⁰ Survey Analysis: Fifth Annual CDO Survey — Growth Must Continue in Order to Achieve Real Impact.

¹¹ 8 Things to Know About Palm Oil, WWF.

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