

Materiality of Supplier Sustainability Assessment for Buyer Companies

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Abstract

In the challenging path to a sustainable organization, considering only internal operations is not enough. As the common saying notes “You are only as good as the company you keep”. Hence, companies should pay attention to the sustainability of their business partners, suppliers coming in the first place. Given that, this paper addresses the priority attached to supplier sustainability assessment (SSA) by buyer companies headquartered in many different countries. It investigates the priority of SSA for buyers among other sustainability strategies and the factors that influence this strategy. The paper considers SSA on four different sustainability dimensions and focuses on the variations among these dimensions. The impacts of both country- and company-level factors are analyzed on each dimension. The study uses secondary data from both company sources (sustainability and annual reports) and independent databases (e.g. World Economic Forum, OECD, DJS indices). The analysis conducted through permutation and Mann Whitney U tests, has shown that regulatory environment and sustainability orientation of companies have strong associations with the strategic priority attached to SSA particularly on human rights and social impact. The variation of the factor impacts among dimensions is particularly noteworthy: while no impact is observed for more traditional dimensions (e.g. environment, labor practices), there exist significant and strong impacts on relatively newer dimensions. The findings have important implications for both companies and policy makers: priority put on SSA only on human rights and social impact may serve as distinctive features and generate competitive advantage for sustainability reporting companies, for other dimensions the same impact is not possible. By improving regulatory environment (i.e. regulatory enforcement), policy makers may promote SSA only on human rights and social impact, not on other dimensions.

Keywords

Supplier sustainability assessment, Materiality, Sustainability reporting, Secondary data, Permutation tests

Biographies

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