# Companies still prioritise financial factors over sustainability in supply chains

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Companies still consider sustainability less important than financial factors when selecting other companies as customers and suppliers, finds new study from Mannheim Business School.

The EU’s Supply Chain Act, adopted in May 2024, requires large companies to make greater commitment to environmental protection and social standards, motivating all companies in supply chains to comply with sustainability goals.

Dr. Jannis Bischof, Professor from Mannheim Business School, and colleagues surveyed more than 2600 companies on environmental, social, and governance (ESG) in supply chains, including how important they consider non-financial indicators to be when selecting customers or suppliers, or how they rate the new standards for sustainability reporting.

They found that many companies hold a negative attitude towards current sustainability regulations, including the EU’s new sustainability reporting standards: 56% of companies without an ESG focus and 39.2% with an ESG focus rate the new standards for sustainability reporting as “rather negative” or “very negative”, describing the requirements as too bureaucratic and complex.

However, companies that voluntarily report on sustainability and align their business model accordingly for strategic reasons welcome the new regulation.

The study also finds that expectations associated with the new Supply Chain Act are only being fulfilled to a limited extent. Although a similar act had already been implemented in Germany, companies still overwhelmingly rely on financial indicators when selecting business partners, customers, or suppliers along their supply chain, such as price, product features, terms of payment, and delivery terms. Non-financial indicators, such as environmental protection and sustainability, rank at the bottom of the list.

These results not only apply to large companies (more than 1000 employees), which are required to disclose their ESG performance, but also smaller companies.

“The many bureaucratic obligations for supply chains do little to change the fact that companies are hardly willing to change their usual processes out of consideration for social or environmental goals when selecting their business relationships," says Dr. Bischof. “In too many cases, the implementation of the law is purely a compliance exercise with no real impact on sustainability goals.”

Companies that use ESG factors for their own business model and therefore have a strategic focus on sustainability goals are prepared to increase their environmental and social efforts and adapt supply chains accordingly.

This study was conducted as part of the German Business Panel long-term survey.

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