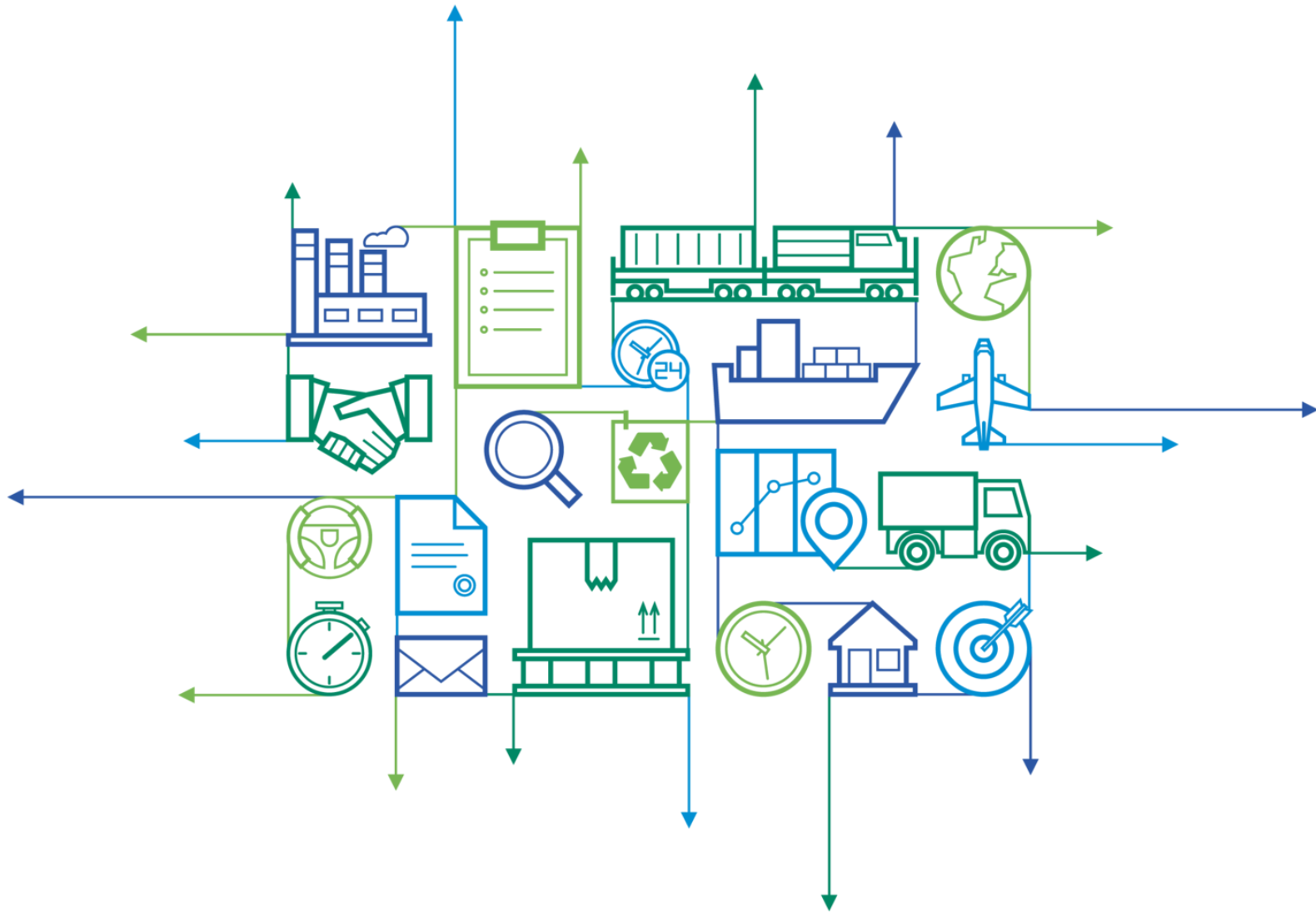




Sustainability in the Supply Chain

SEPTEMBER 2018



Thank you to our report sponsor:

INTELEX

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About NAEM

The National Association for Environmental Management (NAEM) empowers corporate leaders to advance environmental stewardship, create safe and healthy workplaces and promote global sustainability. As the leading business community for EHS and sustainability decision-makers, we provide engaging forums, a curated network, peer benchmarking, research insights and tools for solving today's corporate EHS and sustainability management challenges. Visit NAEM online at naem.org.



Introduction

The consumer demand for environmentally responsible products is driving sustainability upstream, transforming how companies relate to their supply chain partners. But how common are formal supply chain sustainability programs at this point? What are the key components of these programs? How are they implemented? And what, if any, are the consequences for suppliers that do not respond to the call for transparency?

This report documents the results of an interactive NAEM benchmark conducted in July 2018 among corporate environment, health, safety and sustainability (EHS&S) leaders. It reveals how companies are defining sustainability in the supply chain, how they are collecting information from their suppliers and what they are doing with it. It also synthesizes key insights from the on-site discussion around the challenges associated with introducing and managing such a program.

NAEM is making these results available free of charge, thanks to financial support from Intellex.

Methodology

In 2016 NAEM developed a survey with its members to understand how peer companies are integrating sustainability into supply chain management, and to measure the maturity of those programs. The survey was fielded among the corporate EHS&S leaders that attended the association's 2016 Sustainability Conference in Milwaukee. It received 38 responses. To understand how these practices have evolved, NAEM re-fielded portions of the survey as a live, interactive poll at its 2018 Sustainability Conference in Providence, Rhode Island.

The questionnaire was designed to outline how those with formal programs are structuring their programs. The on-site discussion focused on the details of the program mechanics and how companies are addressing common management challenges.



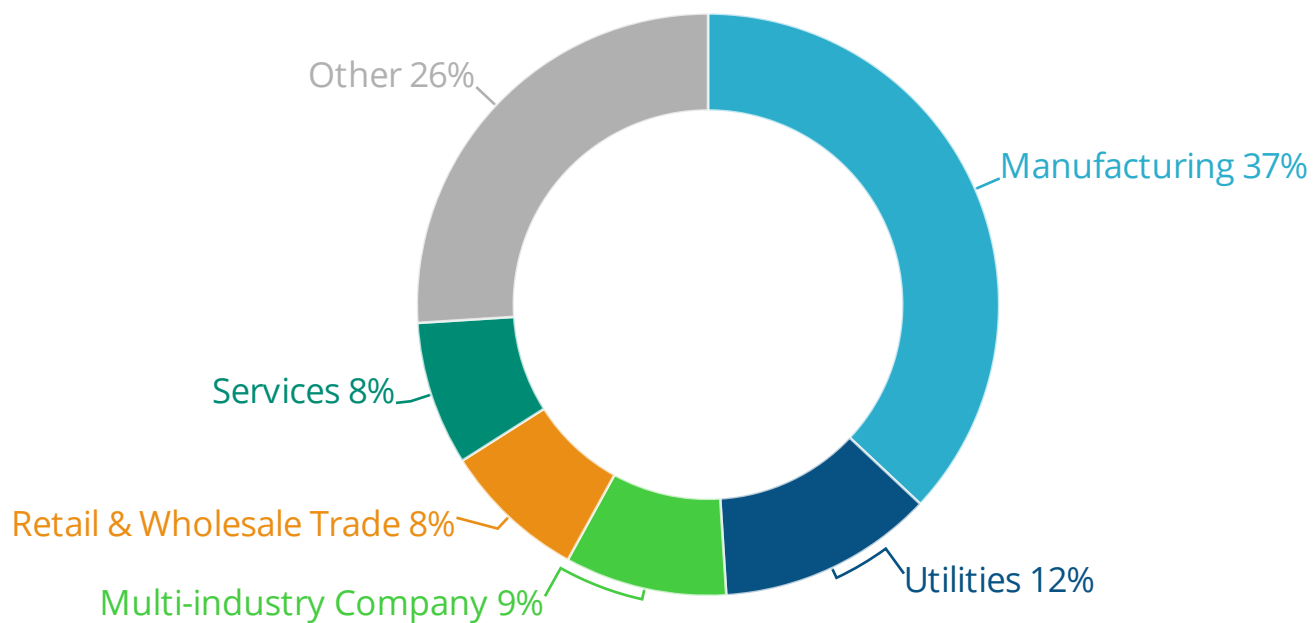
Introduction

Survey Development

A total of 68 in-house EHS&S leaders contributed to the 2018 survey. Consultants and service providers did not complete the survey but participated in the discussion. The following is a snapshot of the companies who were in the room.

Respondent Industry

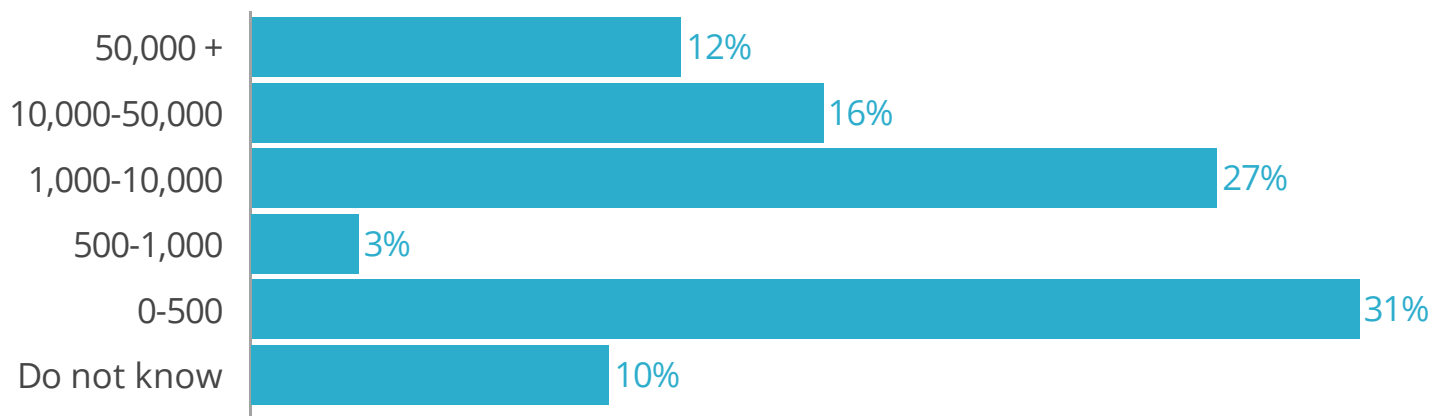
Figure 1



N=54

Number of Suppliers

Figure 2



N=67



Key Insights

Key Insights

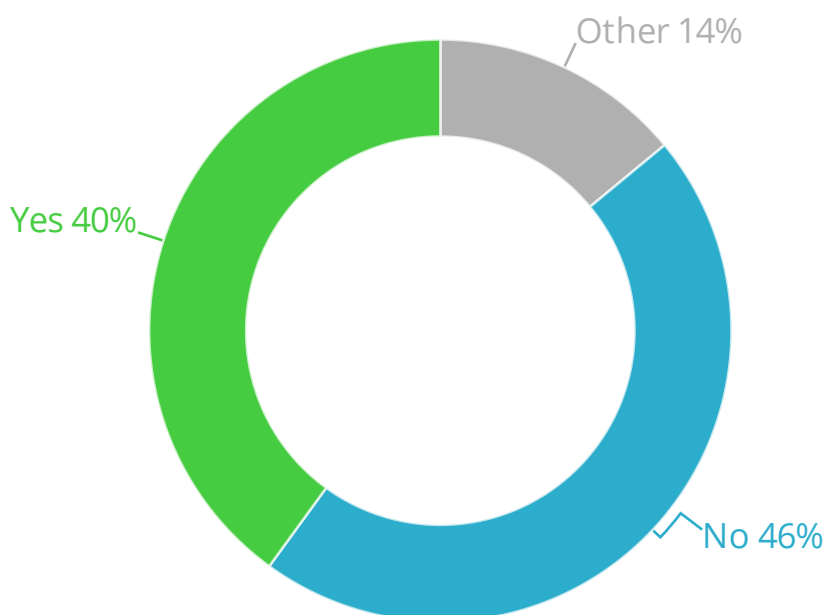
Formal supply chain sustainability programs are still an emerging practice

Among respondents 40 percent reported they had a formal supply chain sustainability program while almost half (46%) did not. These results echo the results of NAEM's 2016 benchmark in which 45 percent of respondents said that they had a formal program and 50 percent said they did not.

According to the on-site discussion among those who did not have a formal program, the most common reasons seemed to be insufficient support by the procurement function, and a lack of sufficient resources to manage such a program.

Have a Formal Supply Chain Sustainability Program

Figure 3



N=68

Key Insights

Insofar as 55 percent of respondents have 1,000 suppliers or more, it requires significant resources to introduce such a program, from collaborating with procurement and engaging suppliers to analyzing the data, conducting audits and ensuring that corrective actions are closed.

Together with results from figure 3, the data suggests that programs remain at the leading-edge, and an area of opportunity for those who are seeking to further integrate sustainability into the fabric of business operations.

Advice from a peer:

Don't give up on a good idea

This was round two or more; there were some false starts before. When environmental affairs tried to push it on them [procurement], they weren't as receptive to the idea. We are very lucky that our Vice President is the VP of Procurement and Environmental Affairs, so if the VP wants it then it's driven from the top down...We had a different team within procurement that was engaged this time, a younger group that I think really wanted to take this further, as opposed to those who saw it as just another task they had to do. There was just a different vibe this time that really made it work well.

Key Insights

Transparency is the basis of most supply chain sustainability programs

Most companies (73%) with formal supply chain sustainability programs request ESG data from their suppliers, and one-third report the information they get from suppliers (33%).

Based on the write-in responses and on-site discussion, most companies are using surveys to communicate with their supply chain partners.

According to one participant whose company recently started engaging its suppliers, the questionnaire mainly consists of questions about environment, health and safety performance. The company based its survey on a template developed by its industry group, and customized it to focus on the “sustainability initiatives that would provide benefit to us for this particular program.”



Almost half of respondents request data from all suppliers

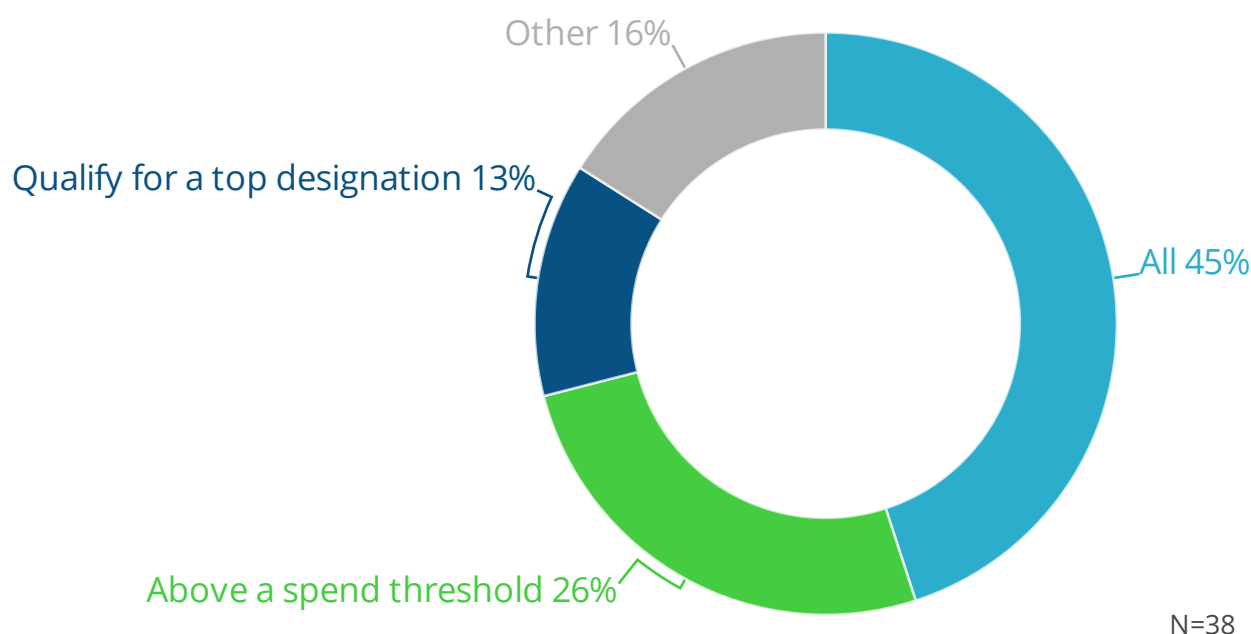
Given the size of the global supply chains represented by those who participated in the survey, it's noteworthy that 45 percent of respondents collect data from all suppliers.

Others focus their efforts based on the level of spend (26%) or other criteria (13%).

"I would say we ask everyone for data, but not all suppliers are equal, right? Some we view as more strategic, so we ask them for more information. I guess the good news is if you're getting a lot of questions, you're probably really important to your customer."

Level of Suppliers Approached for Sustainability Data

Figure 5



Key Insights

Not surprisingly, those who are surveying their suppliers are also communicating their expectations.

Some companies work with industry associations to communicate a unified set of expectations for common suppliers.

"We try to make it easier by working through an industry association and asking for a document upfront that will discuss and present all of those expectations early in the year so that they know what to expect from us."

The company's code of conduct includes details such as how non-conformances will be handled.

For some companies the expectations might relate directly to the suppliers' performance, as one participant explained:

"At the beginning of the year our supply chain sustainability team comes together and pulls together a document that explains our expectations, trying to mitigate and minimize some of the things that pop out of the blue. We do have a supplier score card and a lot of those requirements are specifically detailed in that document."

For those with newer programs, the survey itself is tacit declaration of what they expect from their suppliers.

"At this point it's only to identify areas for concern or opportunities to engage with our suppliers and communicate to them whatever our future expectations are and what drives our company."



Key Insights

Supplier goals may include both customer-facing goals and continuous improvement targets

One participant's company has a goal of having 95 percent of its top tier suppliers report on their GHG emissions and to set target reductions below those goals.

The company also has a goal for their suppliers to issue sustainability reports using the Global Reporting Initiative or a framework of their choosing.

Those with less mature programs said it's still too soon to set goals.

"We are only use it [the data] to create a baseline that in the future we might say they have to meet the certain threshold."

And for some, the goals and expectations depend on the size and maturity of the supplier they are engaging, as was the case for one participant, whose company does business with a number of smaller businesses.

"They are not going to have the same level of sophistication, so we have a different set of goals for them [...] it's more helping them along than the hard, top-down goals of greenhouse gas reductions, or things like we have with our larger tier suppliers. So we have a layered approach depending on both risk and the type of business we're dealing with."



Key Insights

Explicit procurement standards are less common around sustainability

While most companies are communicating their expectations to their suppliers, fewer are directly incorporating explicit requirements into the language of the contract (24%). The noteworthy exception seems to be where serious regulatory violations may pose a legal risk to the customer by association.

“Things like GHG reduction [...] those we don’t have specific measures that if you don’t meet it you’re going to stop being a supplier ours,” one participant from a large manufacturer explained.



“However, there’s all kinds of contractual language that have legal obligations, so when you get into the broader range of social responsibility, blatant disregard for environmental compliance, blatant disregard for employee discrimination, those kinds of things we would terminate a contract based on a legal basis.”

”

Compliance is a big deal for us [...] We expect compliance.

Key Insights

Customers primarily want hard data, but also use the results to initiate deeper engagement with suppliers around sustainability

Of the data that companies request from their suppliers, the chemicals that suppliers use to produce parts or ingredients and compliance with environmental and safety regulations are core areas of concern, according to participants, particularly for those in certain industries.

“Maybe it’s just a defense contractor mentality,” said one participant whose company does work for the military, “but compliance is a big deal for us [...] We expect compliance.”

Participants said they rely on surveys to collect the metrics they need, but also analyze the responses for signs that greater engagement may be needed.

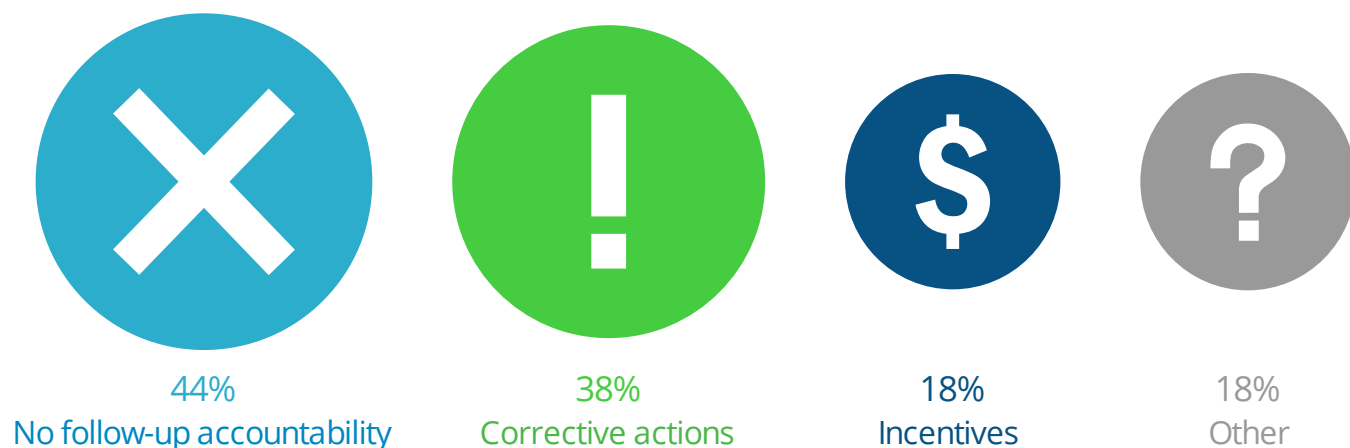
“[The survey responses] tend to be a starting point, to ask if they have any compliance violations and then to start a conversation based on their responses,” one participant said.

“Where there are red flags, we go into qualitative stuff. [...] If somebody comes back and says that don’t have a sustainability policy, then we would look into what else is there.”

At another company with a well-established reporting program, the surveys are part of a broader strategy of engagement. The company holds quarterly meetings with its suppliers.

How Suppliers are Held Accountable

Figure 9



N=34

Key Insights

Risk drives decisions about accountability, but the emphasis tends to be on continuous improvement

While 44 percent said their companies do not have “follow-up accountability” for supplier performance, 38 percent said they create corrective actions.

At one company with a well-established program, for example, the supply chain sustainability team audits 95 percent of its high-risk suppliers on a two-year cycle.

“Last year we conducted about 439 audits between primary audits, secondary audits and follow up audits. And we collect all of the data, review it and whenever there’s a priority or a major non-conformance then we put corrective actions in place. And depending on the seriousness of the corrective action or violation then we require them to close it in a specific period of time. All of these requirements are specified in the code of conduct.”

“Compliance is a major concern, but if a company has had a compliance violation that would not necessarily exclude them from doing business with us. But we would want to see what their violation was for, what steps they’ve taken to address that issue and to follow up with them. [...] We wouldn’t say if you’ve had a violation, you’re out. We would say, “What are you going to do about it?”

Another participant agreed, emphasizing that the risk is ultimately the key driver in decisions about accountability.

“It depends. It’s all risk-based. If it’s a serious issue, they’re gone within hours. We’ve kicked a company off within 48 hours, if it’s for a safety issue. That being said, if it’s something long-term, like we want to improve the water or the greenhouse gas work that they’re doing, they may give them two or three years. But we do assign a senior vice president or even an executive vice president in charge of that contract to monitor their progress and report back to the rest of the executive council. So there’s a line of sight within the organization to that contractor that’s responsible for that.”



Key Insights

Sometimes all suppliers need is a little help, respondents said

Another tactic some companies are using is to offer capacity-building direct assistance to suppliers who are striving to develop their sustainability programs (13%).

One participant shared an example of a large software company that paid for 75 of its largest suppliers to attend a meeting to discuss the company's sustainability expectations.

"And they said, 'Look, we realize you're key parts of our business and we want to be partners with you. We don't want to put a lot of strain on you right now, but we've been doing GRI reporting for more than a decade and we want to teach you how to do GRI reporting.'"

Not only did the company earn positive media mentions from the move, but it strengthened its relationship with those partners on whom their own sustainability performance relies.

"I thought it was a brilliant move," the participant said.



Acknowledgments

Publisher

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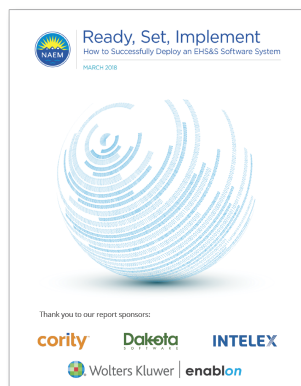
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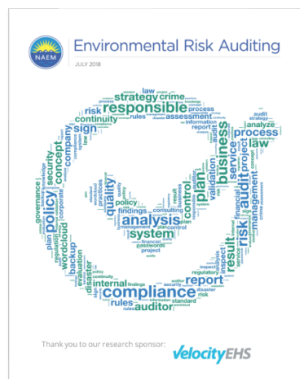
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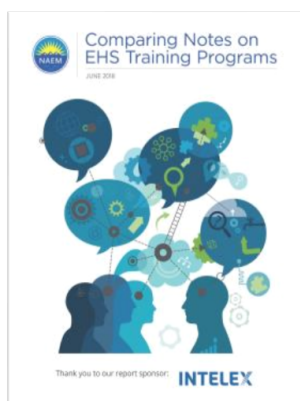
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