



How to Build Corporate Social Responsibility in Your Supply Chain

May 28, 2020



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community of Practice

25K+



How to Build Corporate Social Responsibility in Supply Chains Through Employee-Owned/ Benefit Corporations

Presenters



Brian Lesinski,
EMS-LA, CPEA
*Senior Vice President &
Director Corporate Social
Responsibility (CSR)*

Peter Ney
*Executive Vice President &
Treasurer*



EA Engineering, Science, and Technology, Inc., PBC

- Founded in 1973
- Headquartered in Hunt Valley, Maryland
- 25 offices; 560 employees
- Full-service environmental, engineering, consulting, and technology firm
- ~\$170M annual revenue
- Top 200 *ENR* Environmental Firm (10+ years)



- 100% employee-owned, public benefit corporation (PBC)
- Recognized CSR Program
 - *EcoVadis* 2019 Best Performer – NORTH AMERICA, Small and Medium Business Enterprise

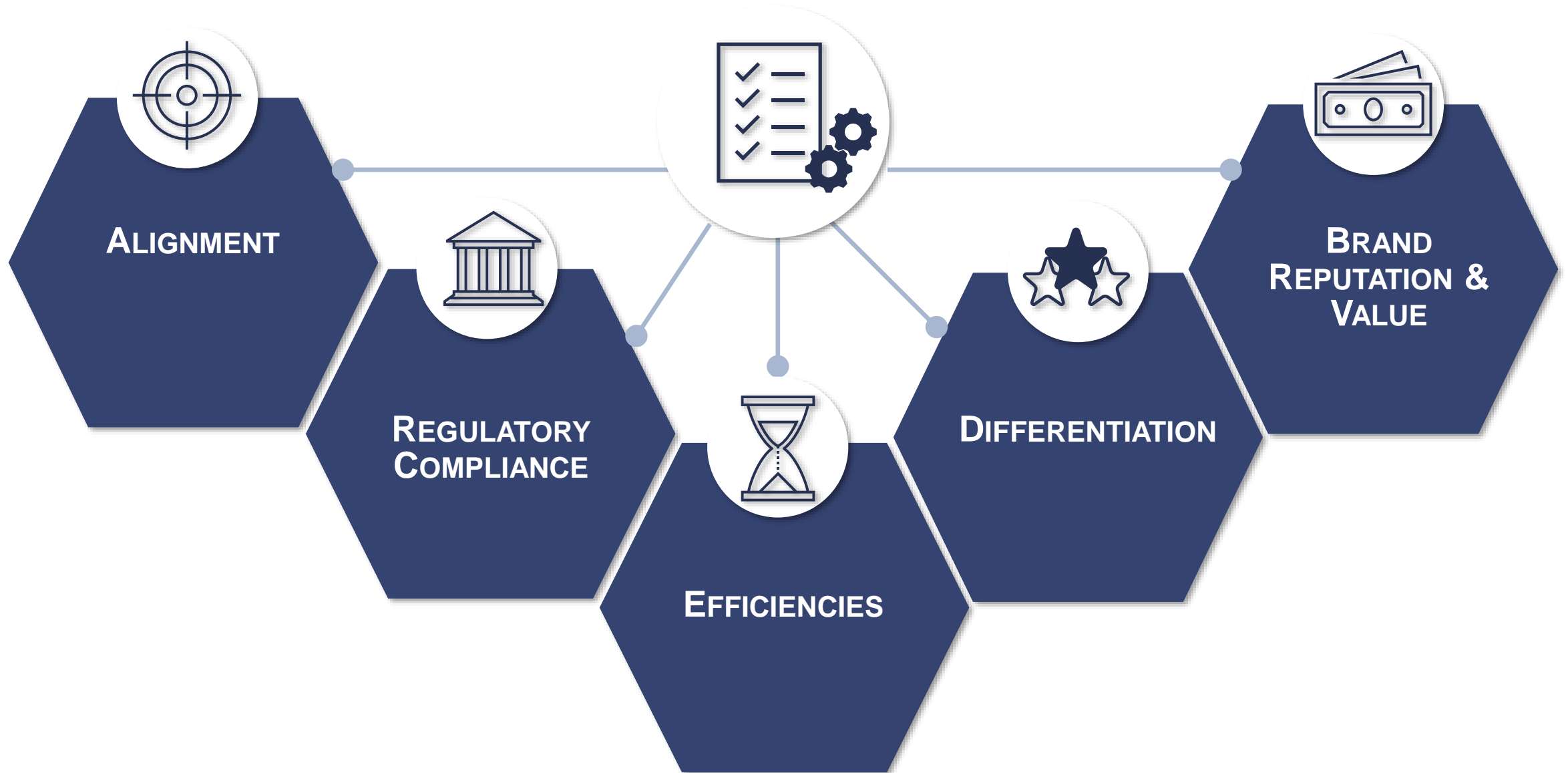


Outline

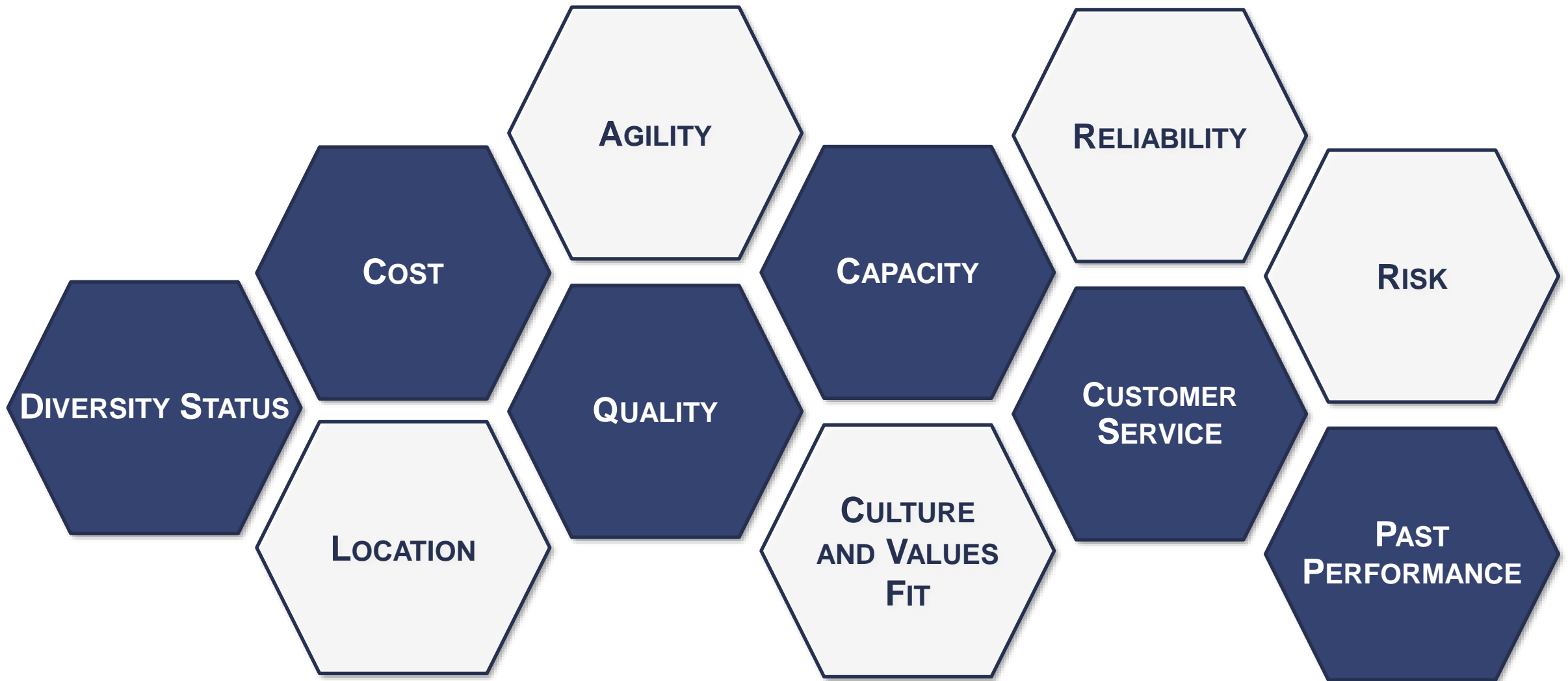
- EA Overview
- Supply Chain Disclosures and Opportunities
- Employee Ownership and ESOPs
- Benefit Corporation Primer
- Lessons Learned



Why Select Mission-Aligned Suppliers?



Supplier Evaluation Factors



What Are NAEM Organizations Doing?

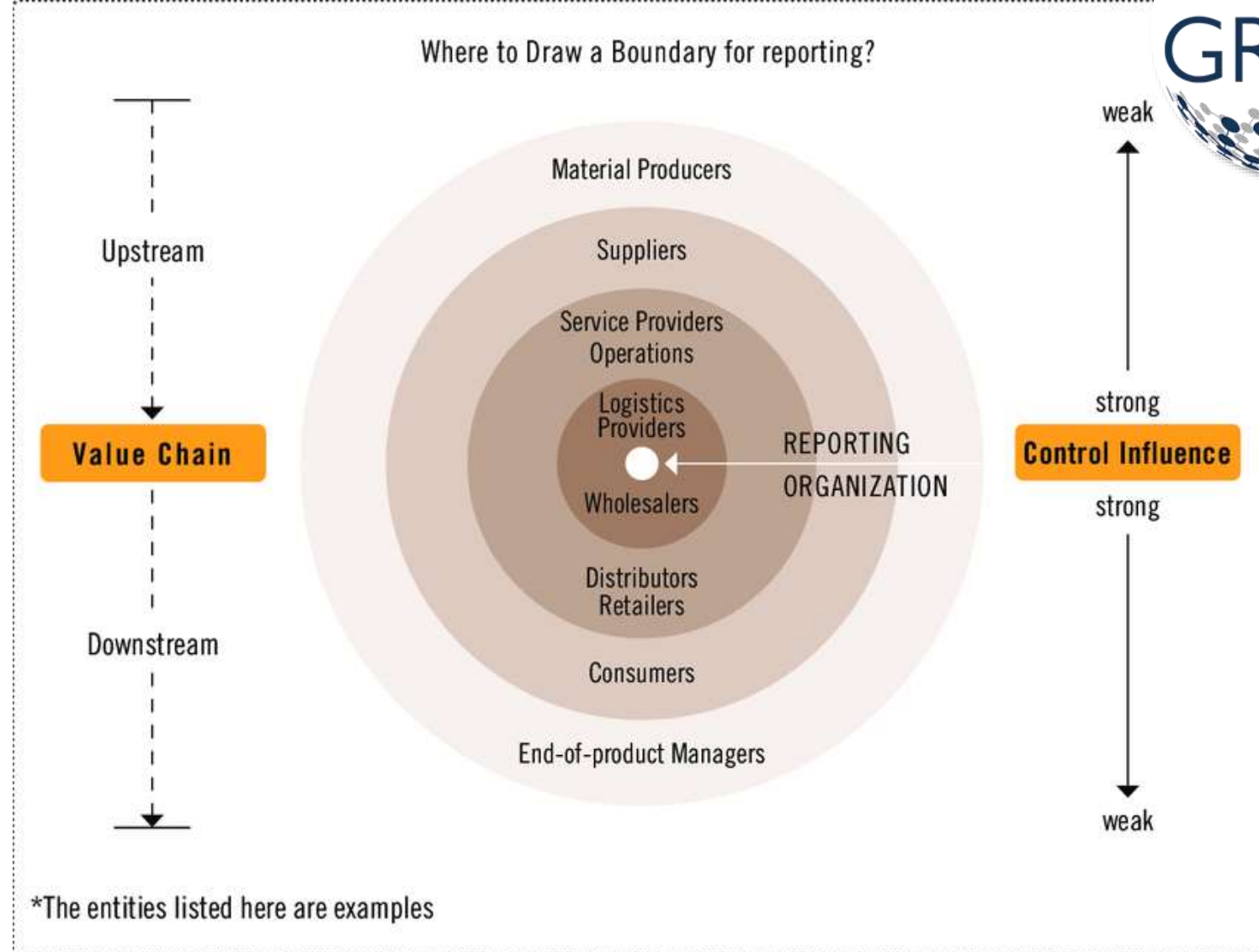
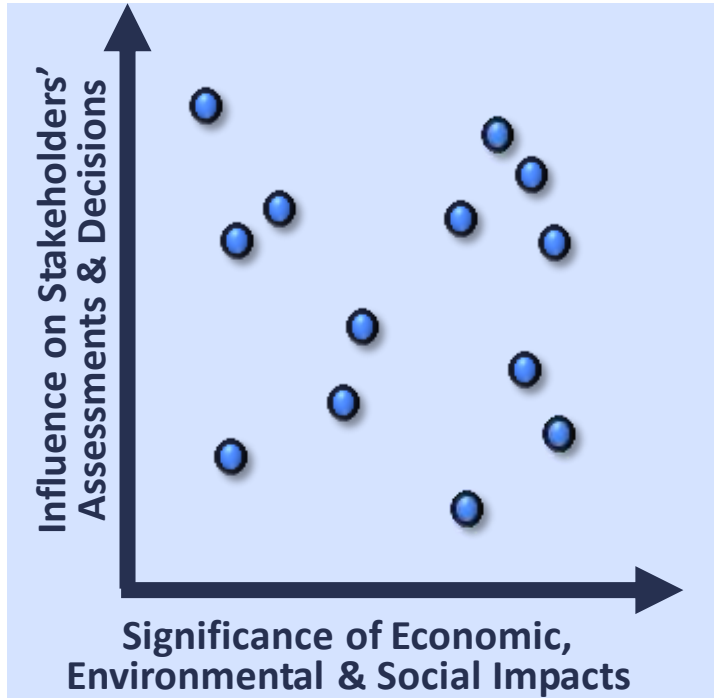


% of companies that are looking at the environmental impact within their supply chain or are planning to do so (n=79)

- Growing component of environmental, social, and governance (ESG) impact assessment and disclosure
- Most challenging aspect of sustainability reporting



Where Do We Look?



POLLING QUESTION 1

DOES YOUR CSR BOUNDARY DETERMINATION INCLUDE/ADDRESS SUPPLIERS?

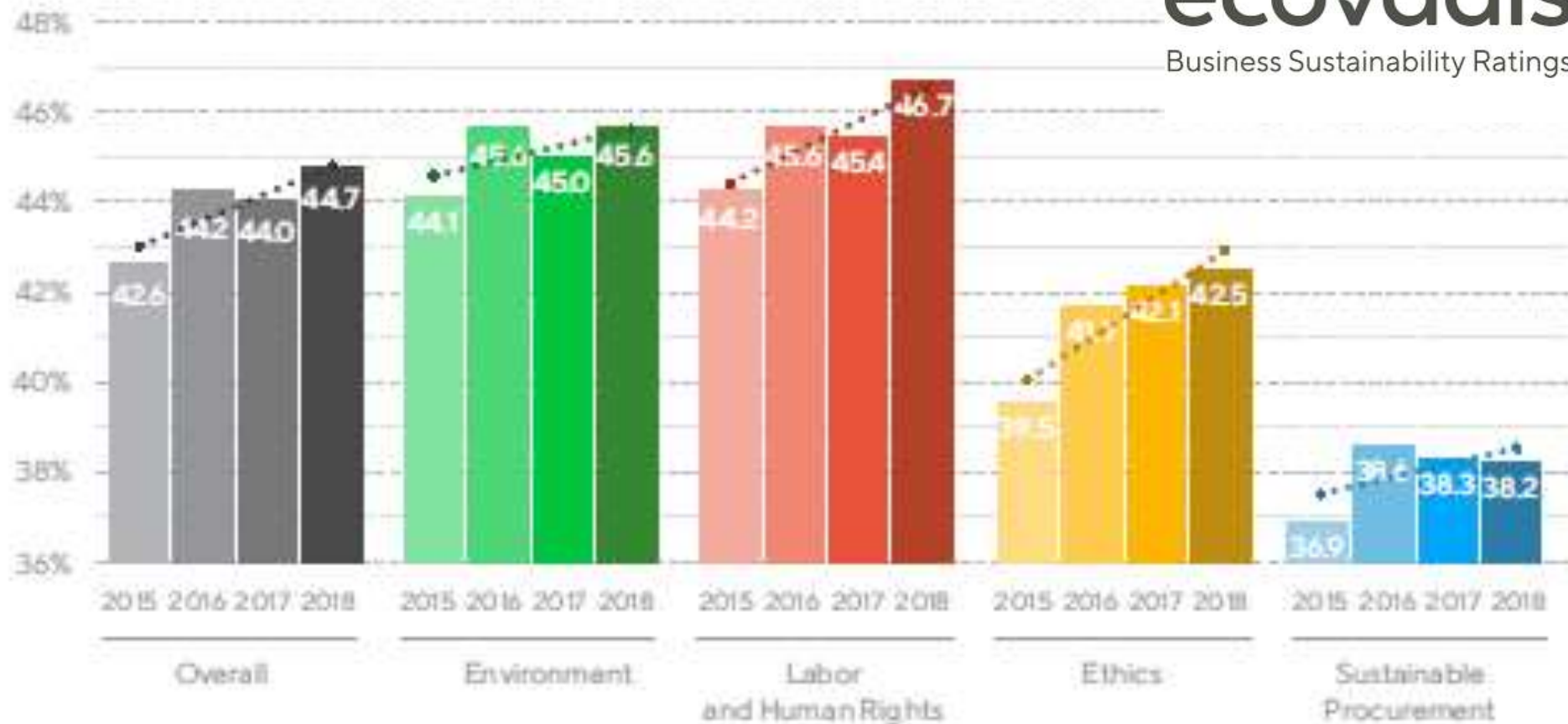
- ☐ N/A – We do not currently complete CSR reporting
- ☐ We conduct CSR reporting, but we do not dive into details related to the supplier boundary
- ☐ We conduct CSR reporting and fully assess supplier boundary
- ☐ Don't know

What's the Global Supplier Perspective?

Sustainability Performance: Assessment Themes*

ecovadis

Business Sustainability Ratings



* Unweighted data

Common Supplier Assessment Methods

- **Statement of Qualifications and Requests for Proposals**
- **Vendor Portal Questionnaires**
- **Scorecards**
- **Interviews**
- **Site Visits**
- **Reporting (e.g., GRI, CSR, Benefit Corporation Statements)**
- **Third-party certifications (e.g., ISO)**
- **Third-party supplier evaluation (e.g., EcoVadis)**

Examples We Have Seen From Clients

- **Major US Energy Company**
 - Business Classification (e.g., small or disadvantaged, etc.)
 - Environmental Violations and Non-Compliance
 - List of CSR Programs Maintained by the Company
 - List of Recent Environmental Awards
- **Pacific Northwest Port Authority**
 - Social Equity Commitments
 - Employment Practices
 - Commitment to Environmental Sustainability Practices
 - Workforce Demographics
 - Commitment to Community Involvement and Benefits




POLLING QUESTION 2

WHAT LEVEL OF SUPPLIER DIALOGUE/QUALIFICATION DOES YOUR ORGANIZATION USE?

CHECK ALL THAT APPLY

- ☐ Statement of Qualifications and Requests for Proposals
- ☐ Vendor Portal Questionnaires
- ☐ Scorecards
- ☐ Interviews
- ☐ Site Visits
- ☐ Reporting (e.g., CDP, SASB, GRI, Benefit Corporation Statement)
- ☐ Third-party certifications (e.g., ISO)
- ☐ Third-party supplier evaluation (e.g., EcoVadis)

Methods to Integrate ESG into Supplier Decision-Making?

- 
- **Positive and negative screens**
 - **Set clear expectations on compliance with the law**
 - **Assessment of supplier practices and tracking compliance**
 - **Manage stakeholder expectations through reporting**

GRI Reporting 308-1



2. Topic-specific disclosures

Disclosure 308-1

New suppliers that were screened using environmental criteria

Reporting requirements

Disclosure
308-1

The reporting organization shall report the following information:

- a. Percentage of new suppliers that were screened using environmental criteria.

GRI defines **Supplier Screening** as a formal or documented process that applies a set of performance criteria as one of the factors in determining whether to proceed in a relationship with a supplier

GRI 308-2



Disclosure 308-2

Disclosure 308-2

Negative environmental impacts in the supply chain and actions taken

Reporting requirements

The reporting organization shall report the following information:

- a. Number of suppliers assessed for environmental impacts.
- b. Number of suppliers identified as having significant actual and potential negative environmental impacts.
- c. Significant actual and potential negative environmental impacts identified in the supply chain.
- d. Percentage of suppliers identified as having significant actual and potential negative environmental impacts with which improvements were agreed upon as a result of assessment.
- e. Percentage of suppliers identified as having significant actual and potential negative environmental impacts with which relationships were terminated as a result of assessment, and why.

Reporting recommendations

- 2.1 When compiling the information specified in Disclosure 308-2, the reporting organization should, where it provides appropriate context on significant impacts, provide a breakdown of the information by:
 - 2.1.1 the location of the supplier;
 - 2.1.2 the significant actual and potential negative environmental impact.

Closing Thoughts on CSR Supply Chain

- Organizations must make decisions on where they draw their supplier reporting boundary
- Supply chain assessment is rising on percentage basis, but at various levels of maturity
- CSR reporting frameworks include disclosures on environmental and social impact supplier screening and impact
- Supply chain assessment services such as EcoVadis can provide a measurement of an organizations CSR management system
- Organizations use a number of means and methods to evaluate suppliers

A PRIMER: EMPLOYEE OWNERSHIP AND BENEFIT CORPORATION STATUS

Employee Ownership through an ESOP

■ What is an ESOP?

- A Retirement Plan, like a 401k, except:
 - Invests primarily in company stock
 - Contributions from the Company, not employee
 - An employee benefit that is driven by company success



■ Numerous studies show ESOPs produce:

- Improved financial performance
- Reduced wealth and income disparity
- Greater job security and stability
- Better work/life balance
- Retirement savings

What is a Benefit Corporation?

- Part of the “conscious capitalism” movement – Corporate Social Responsibility
- Two types:
 - Public Benefit Corporation (PBC): A type of for-profit corporate entity, authorized by individual states
 - “B Corp”: Certification process offered by B-Lab



Certified B Corps

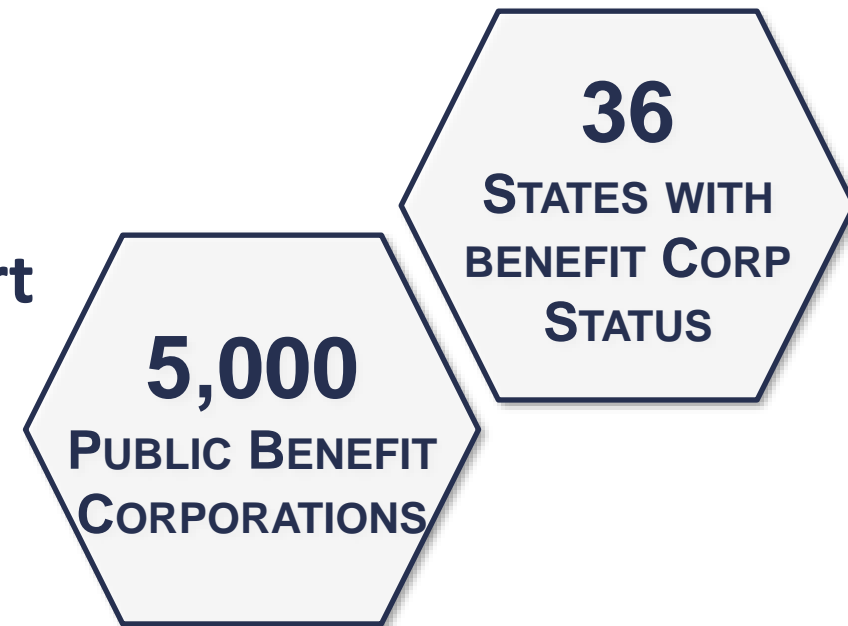


- **B Lab**
 - Non-profit that conducts certification process
 - Corporation must meet Social and Environmental Performance Standards
 - Process outlined on website: www.bcorporation.net
 - Complete “B Impact Assessment (BIA)”
 - Multi-step verification and transparency requirements evaluated
 - Subject to background check
 - Recertification Process Every 3 Years
 - 10% are selected for in-depth review during annual recertification evaluation



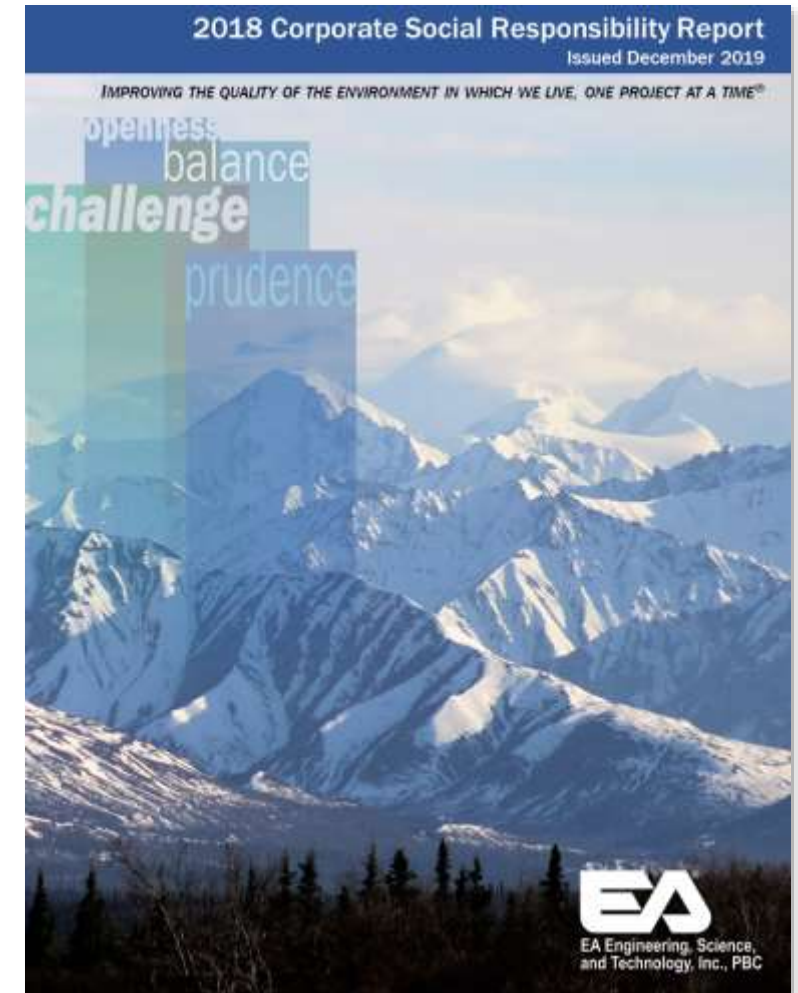
Public Benefit Corporations

- A legal structure for a for-profit company with a social purpose
- State corporate law provides for benefit corporation status
 - Varies state to state
 - Requires Board approval and shareholder approval
 - Requires the company to designate and report on specific public benefits
 - Requires annual or semi-annual reporting to stakeholders
- B Lab certification not required



PBC Reporting and Accountability

- **Purpose:** Establish a corporate purpose to achieve a general public benefit
- **Accountability:** Board of Directors has fiduciary duty to shareholders to consider and promote public benefit for all stakeholders
- **Transparency:** Annual (or in some states biennial) report is required that covers achievement of public benefit; may require measurement against independent third-party standard



Alignment of Employee-Ownership and Benefit Corps

■ ESOPs

- Long-term investment view – the ultimate “patient capital”
- For-profit, but tend to focus more on building employee engagement and ownership culture
- Typically interested in community involvement and support

■ Benefit Corps

- For-profit companies
- Broader view of stakeholder benefits
- Outgrowth of Corporate Social Responsibility Movement – Environmental, Community, and Employee issues

Examples of B-Corps, PBCs, and/or ESOPs



Enviro-Stewards
Engineers & Scientists



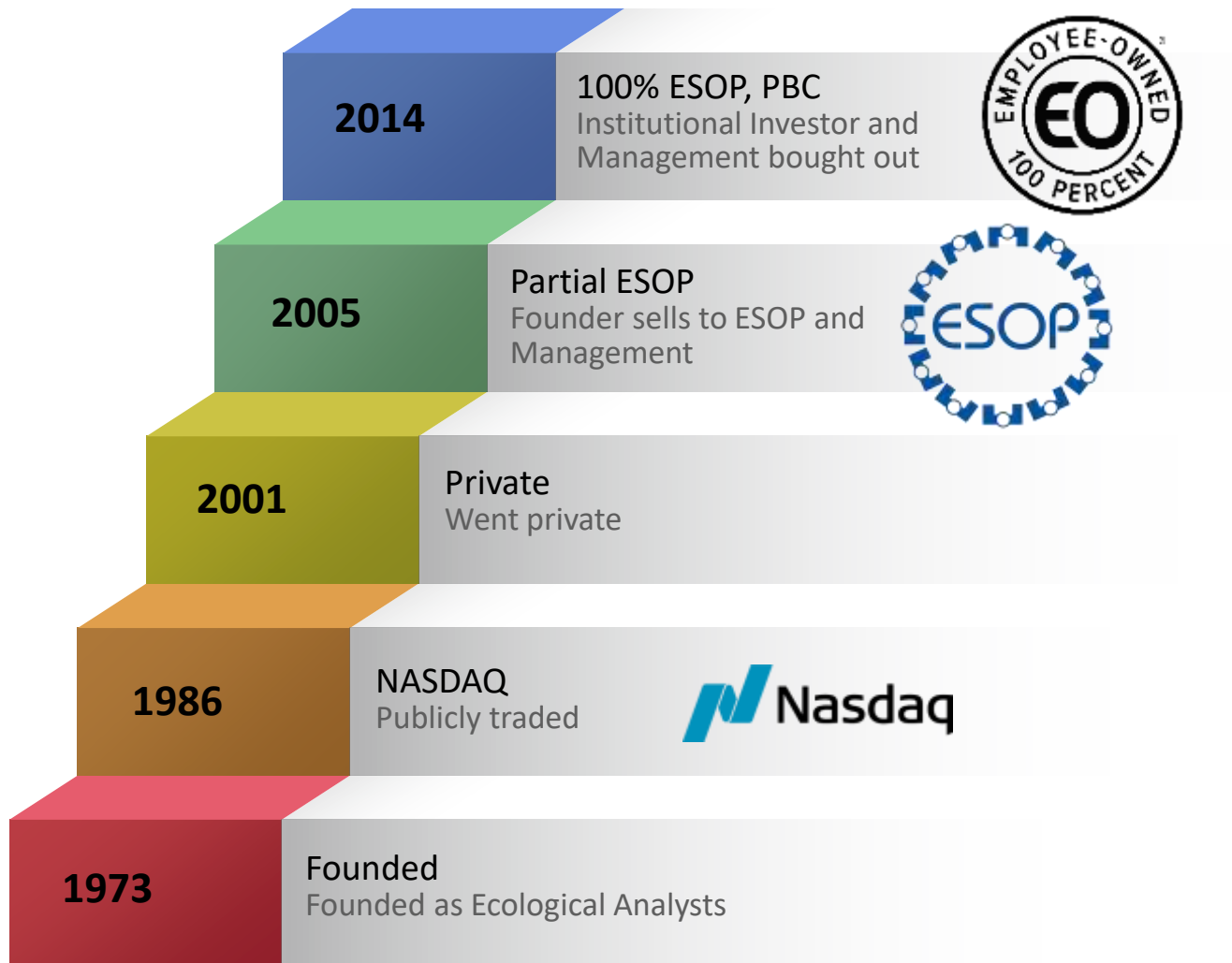
TBL CAPITAL
Serving People Planet & Profits



better  bean™
rethought beans™



EA's Journey to Employee-Ownership, Benefit Status



From EA's New Company Charter

“...the specific public benefits to be promoted by the Corporation are to (i) reduce human and ecological risks associated with environmental degradation and natural resources impairment, and (ii) improve air, water, soil, and sediment quality. The Corporation will achieve these specific public benefits by focusing exclusively on the delivery of professional environmental services; and by encouraging its employees to support the communities in which we live and the clients that we serve in an environmentally responsible manner.”

Lessons Learned

- Transitioning to “Benefit Corporation” is not an easy decision, but we are happy we did so
- Many employees involved in the design and implementation
- PBC/CSR Reports are an important tool to communicate EA’s commitment and accomplishments to our stakeholders
- Benefit Corporation status aligns with and reinforces the ownership culture attendant with ESOPs, creating a more successful firm

EA's PBC Story



EMPHASIS ON THE

PUBLIC GOOD

BY CALVIN HENNICK

As part of its transition to a public benefit corporation, EA Engineering, Science and Technology formalized its giving and volunteer programs

Five years ago, while EA Engineering, Science and Technology (EA) was in the process of becoming a 100 percent employee-owned firm, company leaders saw an opportunity for another change. In 2014, EA also became a public benefit corporation—a classification that cements the for-profit company's mission of environmental stewardship as a top priority.

"Because we are environmental consultants, we were already doing positive things for our clients," says Ian MacFarlane, president and CEO of EA. "For us, it was a no-brainer. As part of the change, EA formalized its corporate social responsibility (CSR) program, creating a centralized structure to support employee giving and volunteering efforts. EA's CSR program is now organized around three pillars: the environmental benefit from its everyday work with clients; community support through volunteerism; and paid volunteer time for employees; and charitable giving, with an ongoing effort to fund and awareness for Water For People.

According to MacFarlane, by becoming a public benefit corporation EA's CSR programs remain at the forefront of the company's work.

"It is no longer a side project. It is a larger commitment," he says. "Our discussions talk about CSR at every meeting. Before, it was more piecemeal. Change allowed us to set up a program across the company, with real consequences."



Where Can You Start?

Whether kept internally or shared publicly as part of your transparency and reporting, a method of improving performance over time is to create realistic yet aspirational targets for your supply chain. Example targets aligned with criteria discussed earlier in GRI 308-1 & 2 could include:

- # of ESOP/Benefit Corp. suppliers at the outset of the program, and then on an annual basis
- \$ spent with ESOP/Benefit Corp. suppliers at the outset of the program, and then on an annual basis
- Measuring the overall value of opportunities offered to ESOP/Benefit Corp. suppliers over a set time period or % of annual spend
- # of ESOP/Benefit Corp. suppliers included in the RFP/RFI stage of tenders offered, # of minority-owned/underrepresented suppliers who go through the full tender process and are shortlisted

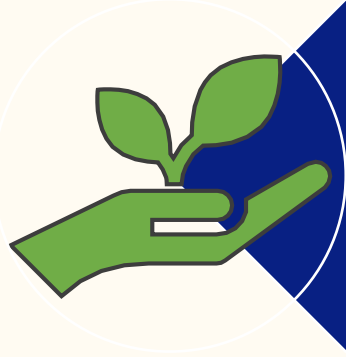
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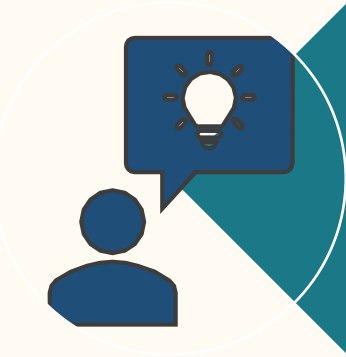
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Sustainability Impact



EHS&S Management Forum

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June 2



Emerging From a Long Winter: Things Your Business Needs to Know to Manage Risk in a Post-COVID-19 World

June 11



Effectively Incorporating Sustainability Into Your Business

July 9



A Climate Solution Where All Sides Win

FREE for NAEM members

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Thank you for Attending!



**A recording will be
available in 3-4 days.
You will receive an
email once it's posted
to our site.**



Have a safe & healthy day!

