

The State of Sustainable Supply Chains: Building Responsible and Resilient Supply Chains

August 17, 2016



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Agenda

- 1. Welcome and Introduction**
- 2. The State of Sustainable Supply Chains**
- 3. Approach and Governance to Create Sustainable Supply Chains
– The Case of LafargeHolcim**
- 4. Leadership, Addressing Challenges and Next Steps**
- 5. Q&A Session**
- 6. Closing Remarks**



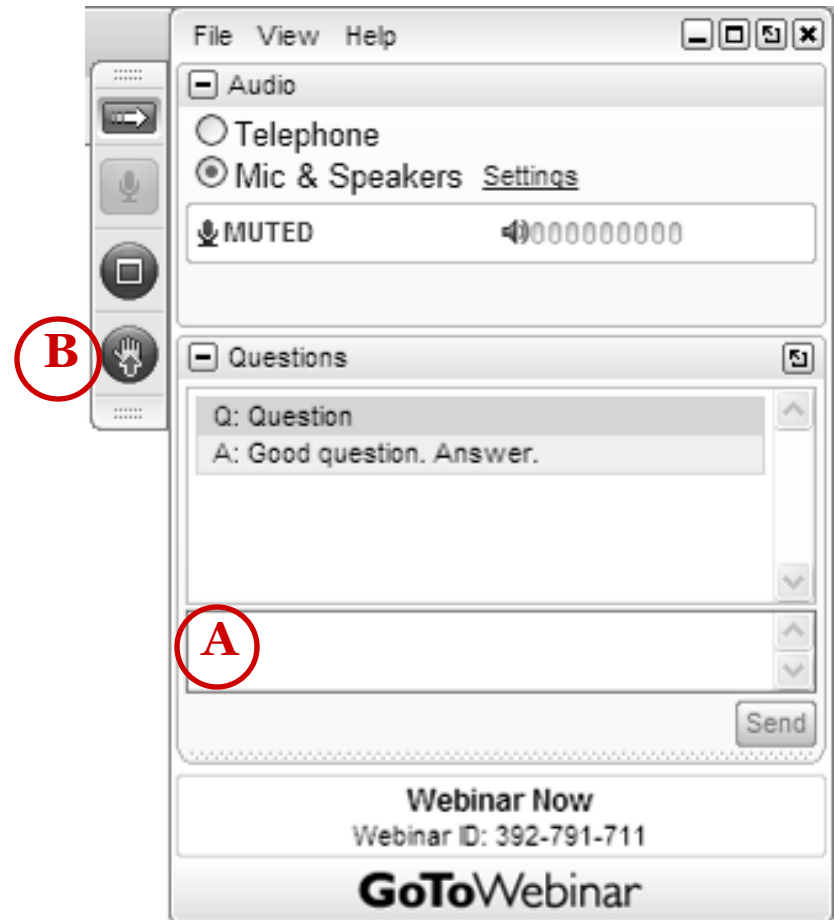
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Questions

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Example: *Question for John Doe: What are land rights?*



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Today's Presenters



UN Global Compact
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The State of Sustainable Supply Chains

The state of sustainable supply chains:

Building responsible and resilient supply chains

Findings results overview

17 August 2016



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8,000+

Business participants

4,000+

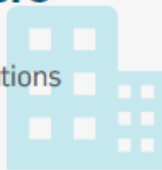
Non-business participants

28,000+

Disclosure reports submitted

Stakeholders

Business
Industry Associations
Investors
Civil Society
Labour
Academia
Government



Global Network

Europe
Latin America
North America
Asia & Oceania
Africa
MENA

160+

Countries

85+

Local Networks



Platforms & Programmes

- Human Rights & Labour
- Women's Empowerment Principles
- Children's Rights and Business Principles
- Child Labour Platform
- Caring for Climate
- CEO Water Mandate
- Food + Agriculture Business Principles
- Anti-Corruption
- Business for Peace
- Business for the Rule of Law
- Business and Education
- Supply Chain Sustainability
- Global Compact LEAD



Business Partnership Hubs

- Water
- Climate and Energy
- Social Enterprise
- Anti-Corruption Collective Action
- UN-Business Partnership



Sister Initiatives

- Global Compact Cities Programme
- Principles for Responsible Investment (PRI)
- Principles for Responsible Management Education (PRME)
- Sustainable Stock Exchanges (SSE)



Spotlight Series



A Spotlight on Sustainable Supply Chain & Procurement

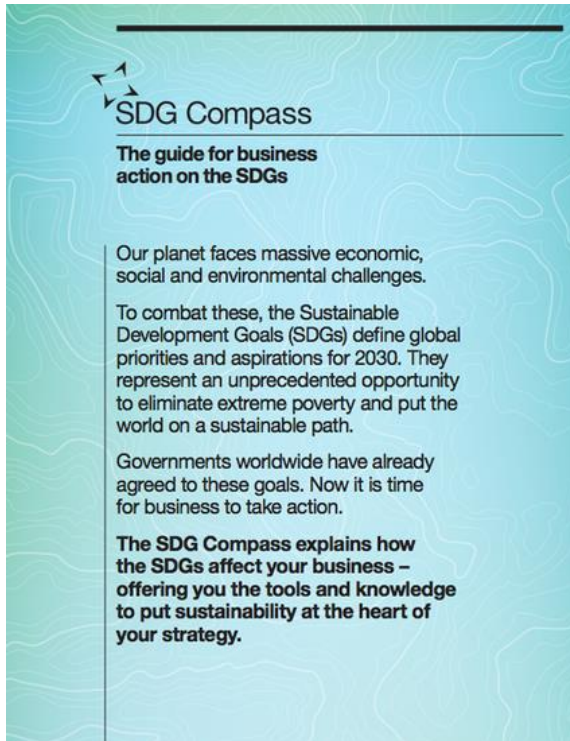
Visit at:

www.unglobalcompact.org/take-action/leadership/integrate-sustainability/roadmap/supply-chain



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Supporting the SDGs



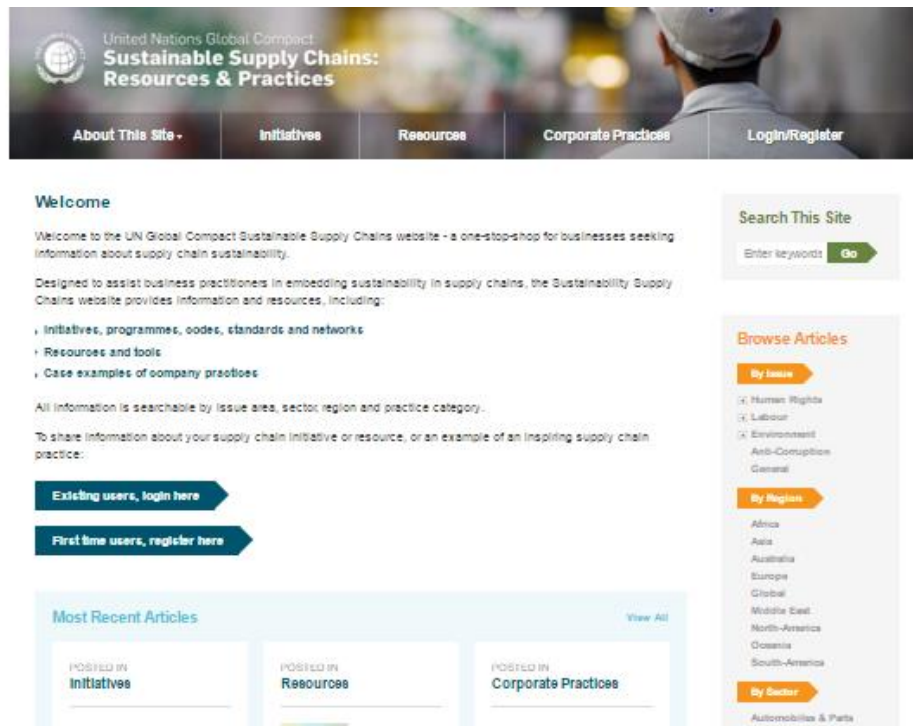
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The Supply Chain Sustainability Website



supply-chain.unglobalcompact.org

- Easily search and find information on embedding sustainability issues (human rights, labour, environment, anti-corruption) into supply chains
- Access:
 - Initiatives, programmes, codes, standards and networks
 - Resources and tools
 - Case examples of company practices
- Share information on supply chain initiatives and resources

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The state of sustainable supply chains:

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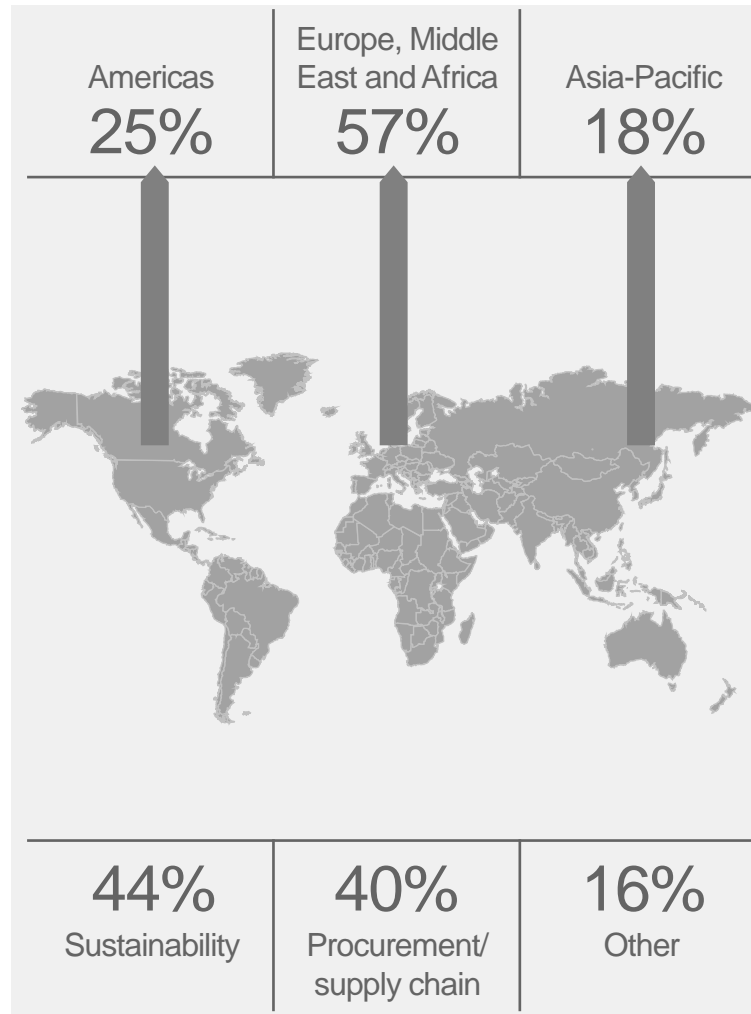
The views expressed by panelists are not necessarily those of Ernst & Young LLP.



Background to the study

We collaborated with the United Nations Global Compact (UN Global Compact) on a study to explore how companies are embedding sustainability in their supply chains.

The report echoes the voices of more than 100 sustainability, supply chain and procurement executives from 70 companies from Europe, Asia-Pacific and North America.



Represented industry sectors

- ▶ Automotive and transport
- ▶ Chemicals
- ▶ Consumer products and retail
- ▶ Financial services
- ▶ Government and public sector
- ▶ Life sciences and health
- ▶ Mining and metals
- ▶ Oil and gas
- ▶ Power and utilities
- ▶ Real estate, hospitality and construction
- ▶ Technology
- ▶ Telecommunications

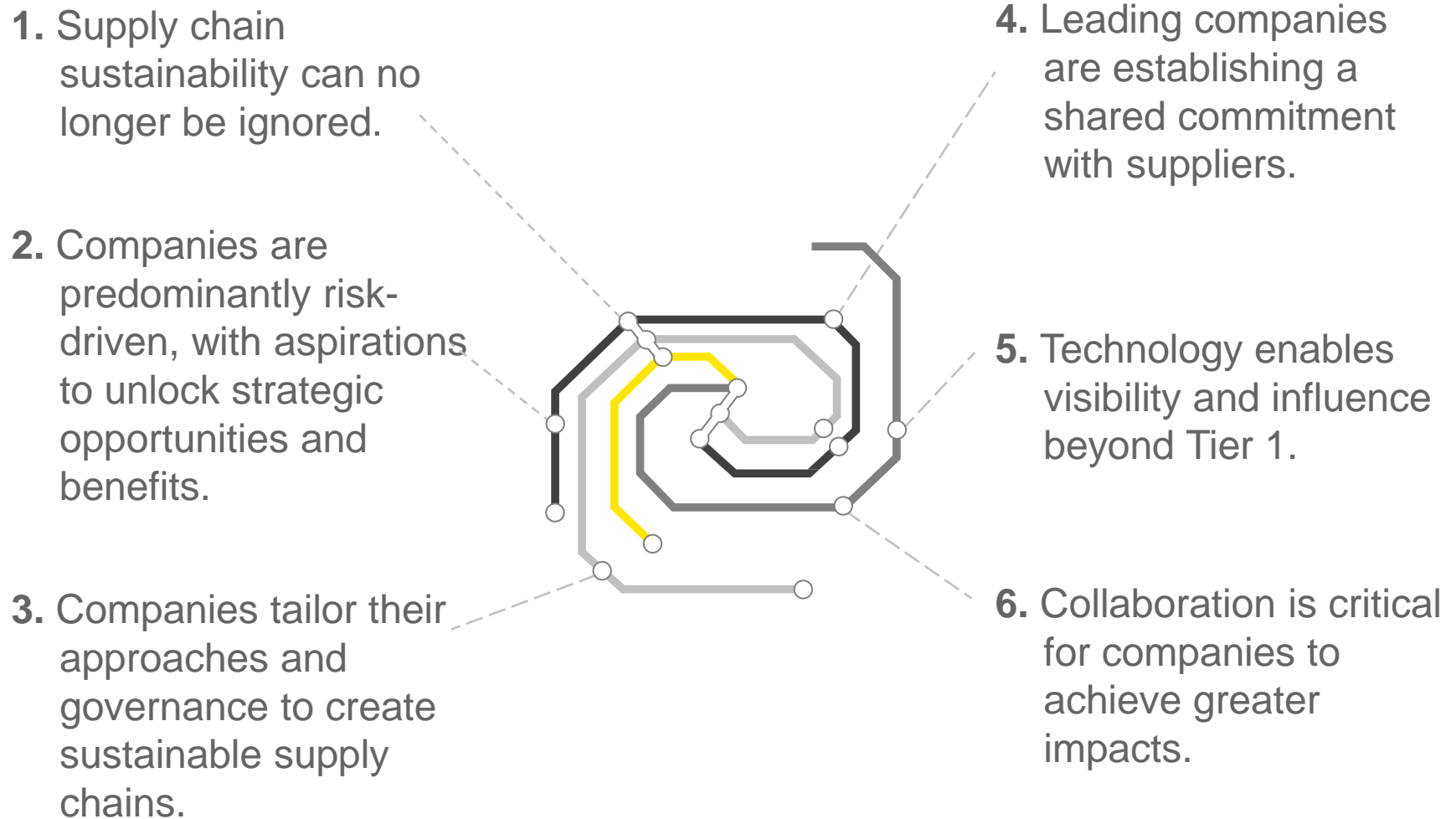
Global perspective on supply chain sustainability

Despite the difference in these companies' governance structures, approaches and sophistication in dealing with supply chain challenges, common themes emerged, including:

- **Shared commitment:** Companies are investing in supplier engagement, capacity building and incentives to promote continuous improvement and common business goals.
- **Collaboration:** Collaboration across functions with peers, nonprofit organizations and academia is critical for addressing the complexity of supply chain challenges.
- **Technology as a transparency enabler:** Increased transparency in supply chain management is becoming the norm; however, the task of understanding supplier practices and performance beyond Tier 1 suppliers is a challenge. Technology solutions and innovations enable companies to increase transparency deeper into their supply chains.



State of sustainable supply chains: Findings snapshot



Finding 1: Supply chain sustainability can no longer be ignored

- ▶ Sustainability in the supply chain has become critical.
- ▶ Companies are developing processes to establish expectations for their suppliers, monitoring their performance and disclosing the results.
- ▶ Embedding sustainability in companies' supply chains is more challenging than in direct operations.

How do companies approach sustainability in their supply chains?

- ▶ Align with company culture, code of conduct, sustainability strategy and materiality
- ▶ Comply with regulations and voluntary commitments (e.g., certification schemes)
- ▶ Apply guidance from international frameworks and standards
- ▶ Collaborate with industry initiatives and associations, not-for-profit organizations, suppliers and customers
- ▶ Disclose their efforts using reporting mechanisms



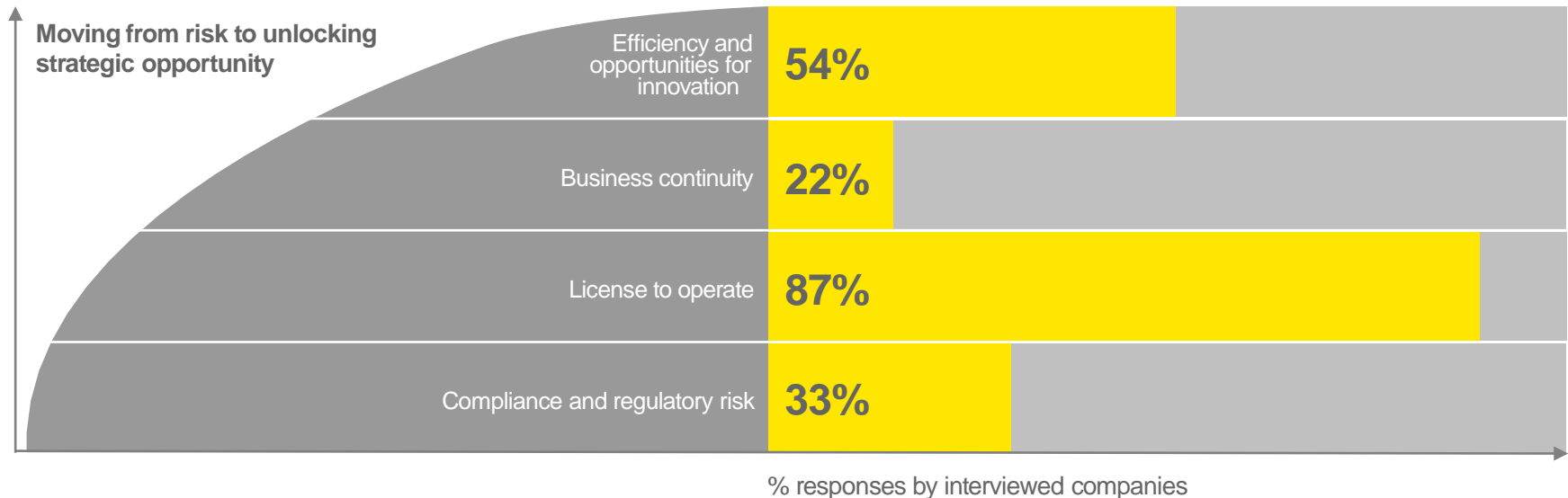
How to create a resilient and responsible supply chain



Finding 2: Companies are predominantly risk-driven with aspirations to unlock strategic opportunities and benefits

Almost half of the companies aspire to unlock strategic benefits through embedding sustainability – opportunities for cost reduction, manufacturing of sustainable products and enhancing the corporate brand.

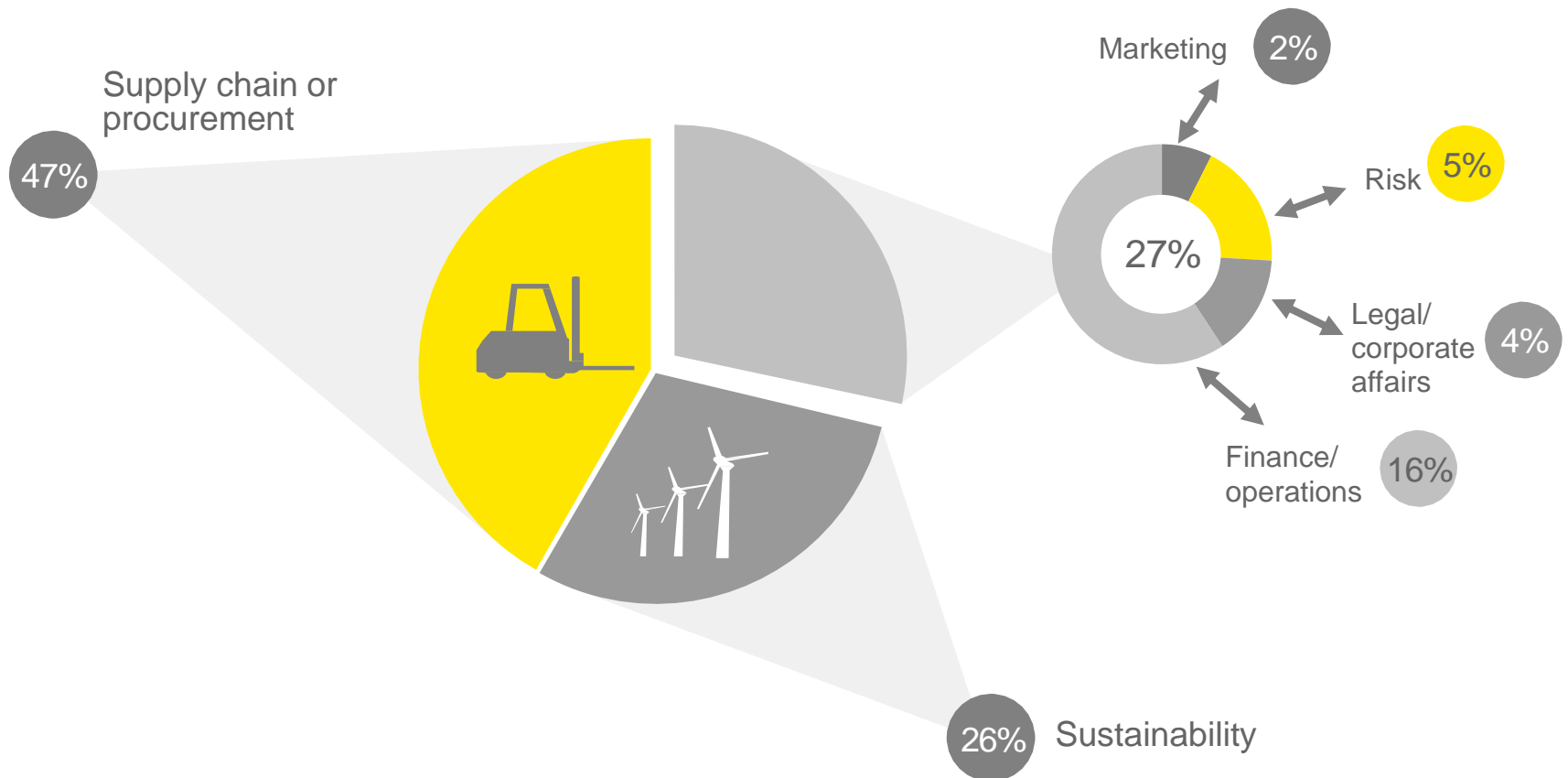
Drivers for building sustainability into supply chains



Finding 3: Companies tailor their approaches and governance to create sustainable supply chains

Ownership of sustainability in the supply chain

Accountability for supply chain sustainability resides within a range of different functions:



Companies apply different organizational models for integrating sustainability in the supply chain

Three-quarters of companies describe a cross-functional approach to managing sustainability.

Siloed	Hybrid	Integrated
<ul style="list-style-type: none">Supply chain sustainability responsibility is segregated from core supply chain management.Sustainability criteria are developed and managed separately.In some cases, limited dialogue among functions occurs, but this is not formalized and often occurs on an ad hoc basis.	<ul style="list-style-type: none">Sustainability function collaborates with procurement or supply chain to provide input in supply chain management process.Typically, sustainability function will establish strategy, governance and process.In many cases, a cross-functional working group will facilitate the collaboration.	<ul style="list-style-type: none">Sustainability is embedded in procurement, category management and sourcing processes.Sustainability is weighted and considered, along with traditional supply chain factors (price, quality).Programmatic integration of sustainability issues goes across business units (training, measurement, standards).
24%	39%	37%

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Sustainable Procurement at LafargeHolcim

Approach and governance to create sustainable supply chain

Presentation for UNGC Webinar

August 2016



LafargeHolcim

LafargeHolcim at a glance

The new group at a glance



Core values to guide us every day

Health and Safety is our overarching value and embedded in everything we do.

Customers

Build an organization and culture that is centered on markets and customers

Results

Passion to achieve goals and deliver with rigorous execution, with zero harm to people

Integrity

Create an environment where compliance is a central focus and commitment

Sustainability

Demonstrate leadership in environment stewardship and role-modeling responsibility to future generations

People, Openness and Inclusion

Truly care for and respect every individual



Our business is based on four strategic pillars

Cement

Extract value from market positions in mature markets

Realize growth by addressing customer and end-user needs / pain points

Differentiate through customer excellence, innovation and sustainability



Aggregates

In mature markets, create value through establishing critical mass in selected attractive markets

In growth markets, create value through establishing critical mass in very large urban centers

On a local needs/opportunity basis, support differentiation and sustainability to enhance overall value to customers



Ready-mix concrete

Offer a differentiating value proposition to address customer needs through value-added products, services and solutions

Support/hedge existing or future cement and aggregates businesses under a clear vertical integration framework



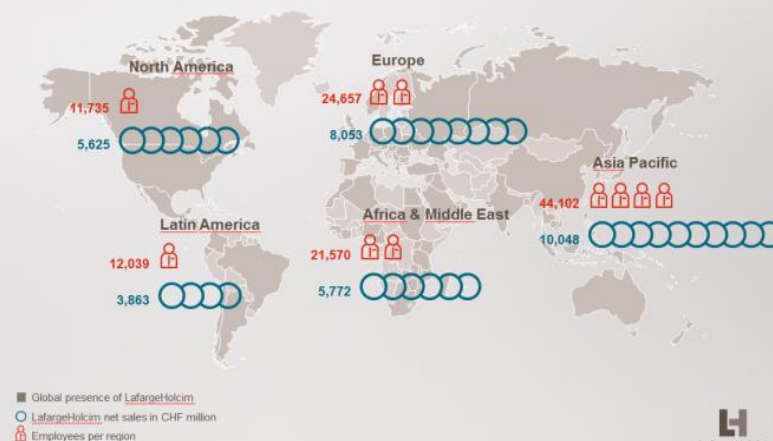
Other construction materials

Offer a differentiating value proposition to address customer needs through value-added products, services and solutions

Need to support existing or future cement and aggregates businesses



Well-balanced geographical portfolio

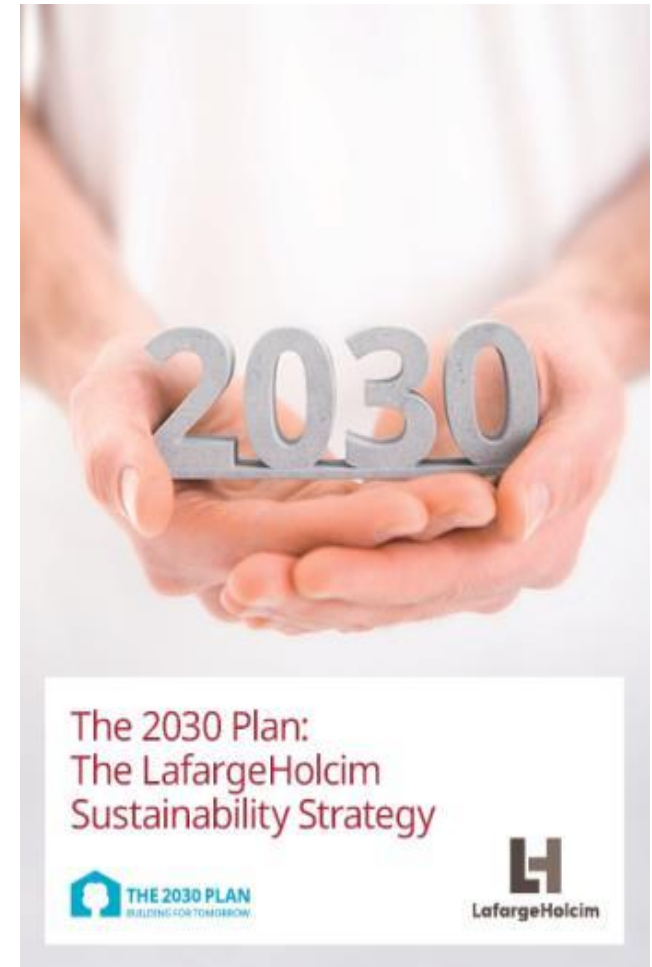


Steps followed to build the LH Sustainable Procurement approach and governance model

- Understanding challenges and opportunities in our supply chain:
 - External Benchmark to understand best practices from other sectors
 - Collection / consultation of internal good practices in place
 - Gathered good practices within the cement sector (WBCSD CSI)
- “Materiality review” with external stakeholders, including key suppliers
- Integration of sustainable procurement in the company strategy and the procurement process: “The 2030 Plan” with actionable targets
- Establish cross-functional team with joint responsibility for success and clear roles and responsibilities, governed by a Group Steering Committee
- Definition of Group guidelines:
 - Sustainable Procurement Policy (*establish a governance model for the group*)
 - Supplier Code of Conduct (*set expectations and terms of engagement with suppliers*)
 - Sustainable Procurement Process (*define implementation steps, roles and responsibilities*)

The 2030 Plan – Ambition and Targets for sustainable Procurement (SP)

- Our Sustainability Strategy - The 2030 Plan - **sets a vision.**
- SP Ambition: promote and deploy responsible and sustainable business practices throughout our value chain.
- SP Target: **Deploy our Sustainable Procurement Initiative in all countries where we operate**
- By 2020: 80% of high-risk active suppliers assessed, with consequence management
- By 2030
 - 100% of high-risk active suppliers assessed, with consequence management PLUS
 - Top sub-suppliers with high risk identified and assessed



Implementing a Sustainable Procurement Process with Dialogue for improvements & Consequences

1. **Communicate the Sustainable Procurement Policy** *to all employees*
2. **Communicate the Supplier Code of Conduct** *to all suppliers and start implementing contractual Terms & Conditions accordingly*
3. **Identify potential High risk suppliers** *by prioritizing¹ the supplier base*
4. **Assess risks (Self-Assessment) and investigate breaches (Fact-finding / Audits)**
 - Process harmonized by deploying a Group Assessment Tool and Audit Protocol
5. **Mitigate risks with support of all departments** *Supplier development/replacement*
 - Pre-qualified: approved supplier
 - Pre-qualified “with observations”: supplier conditionally approved *shall include a remediation plan agreed with the supplier and periodically tracked by LH*
 - Rejected: STOP business *(process to block suppliers and consequence management)*
6. **Track performance:** *Annual Sustainable Procurement Scorecard reported by all countries*





LafargeHolcim

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Finding 4: Leading companies are establishing a shared commitment with suppliers

Basic	Improving	Established	Mature	Leading
<ul style="list-style-type: none"> Minimum standards or guidelines Poor understanding of supplier risks 	<ul style="list-style-type: none"> Focus on risk and compliance Assess against supplier code of conduct or contractual terms and conditions Focus on audit approach for high-risk areas Transactional relationships with suppliers 	<ul style="list-style-type: none"> Understand the significant issues to prioritize suppliers based on risk Optional or mandatory processes in place to screen, select and manage suppliers based on sustainability criteria Focus on short-term risks Include site visits of suppliers in monitoring Reporting key performance indicators (KPIs) on sustainable supply chains 	<ul style="list-style-type: none"> Sustainability requirements globally aligned, adopting the highest standard Apply leading standards and certification programs Monitoring and visibility beyond Tier 1 Process to screen, select and manage suppliers based on sustainability criteria – integrated with other processes Suppliers segregated based on performance, impacting spend allocation Conduct training KPIs for measuring supply chain sustainability performance – integrated scorecard Work with suppliers to identify areas for improvement Engaged with government to develop regulation Rely on suppliers to cascade requirements onto suppliers 	<ul style="list-style-type: none"> Sustainability part of the company's culture and DNA Suppliers considered an extension of the business Engaged more in asking and less in telling Make sustainability part of the upstream design or purchasing decisions Work with suppliers to build capacity and embed a culture of sustainability Selecting suppliers based on sustainability criteria (even where cost is higher) Focus on long-term risk and opportunity Prominent lead in industry initiatives and working groups Ahead of emerging regulation Transparency about performance – reporting metrics beyond number of audits to include outcomes


Leading companies represented by the following sectors:




Automotive




Chemicals



Mining and metals



Telecommunications



Life sciences

Leaders adopt differentiating practices

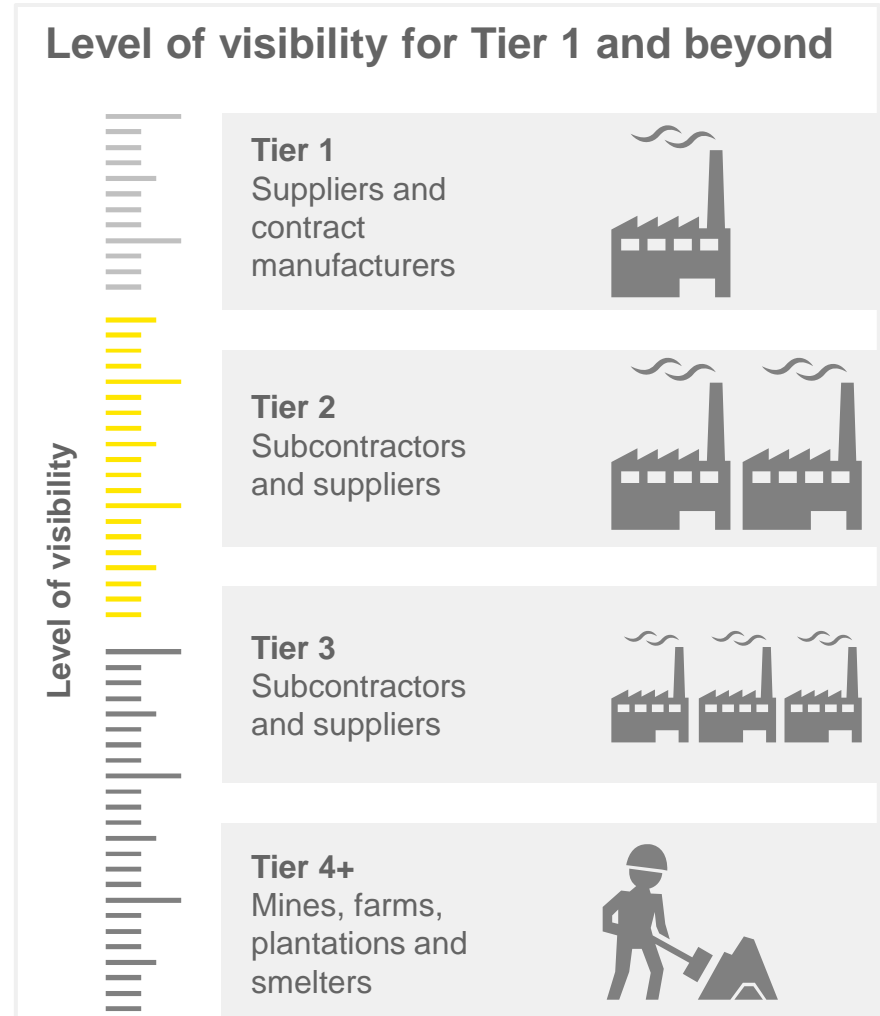
Value driver	Differentiating practices of leaders
Understanding issues and establishing expectations	<ul style="list-style-type: none"> ▶ Working with supply chain partners to establish expectations ▶ Keeping the supplier code as a living document
Screening, onboarding and auditing suppliers	<ul style="list-style-type: none"> ▶ Embedding sustainability criteria and zero-tolerance standards into the sourcing process ▶ Eventually phasing out suppliers that fail to meet expectations
Addressing buying and procurement practices	<ul style="list-style-type: none"> ▶ Integrating scorecards with broader supplier performance ▶ Addressing buying practices of procurement managers
Engaging in capacity building	<ul style="list-style-type: none"> ▶ Tailoring questions to different supplier sectors ▶ Facilitating knowledge exchange with suppliers, so that we learn from our suppliers and our suppliers learn from us
Using incentives	<ul style="list-style-type: none"> ▶ Incentivizing high-performing suppliers with better terms or discounts, contractual lengths, increased volumes and less frequent audits
Reporting and tracking	<ul style="list-style-type: none"> ▶ Utilizing leading technology to track and trace issues along the supply chain
Having a diverse and inclusive supply chain	<ul style="list-style-type: none"> ▶ Leveraging supplier engagement with local and diverse suppliers

How companies are addressing the challenges

Challenge	Practices of leaders
Demonstrating value to the business	<ul style="list-style-type: none"> ▶ Establish and communicate similar expectations to sub-tier suppliers
High cost and effort of implementing sustainability programs	<ul style="list-style-type: none"> ▶ Strong leadership or company values make it easier to include sustainability in the dialogue ▶ Tie employee performance to bonus pools
Improving knowledge of internal teams and resources	<ul style="list-style-type: none"> ▶ Dedicated headcount (at least one person) ▶ Apply technology solutions to address data inadequacy with easy-to-use, comprehensive and standardized access to information technology
Difficulty in integrating across the business	<ul style="list-style-type: none"> ▶ Adopt language that aligns to the business and is easily understood by non-sustainability professionals ▶ Empower procurement to deliver against sustainability goals and engage internally and externally on initiatives and achievements
Information and knowledge barriers	<ul style="list-style-type: none"> ▶ Participate in industry associations and shared platforms

Achieving transparency beyond Tier 1 is the most significant and widely reported challenge

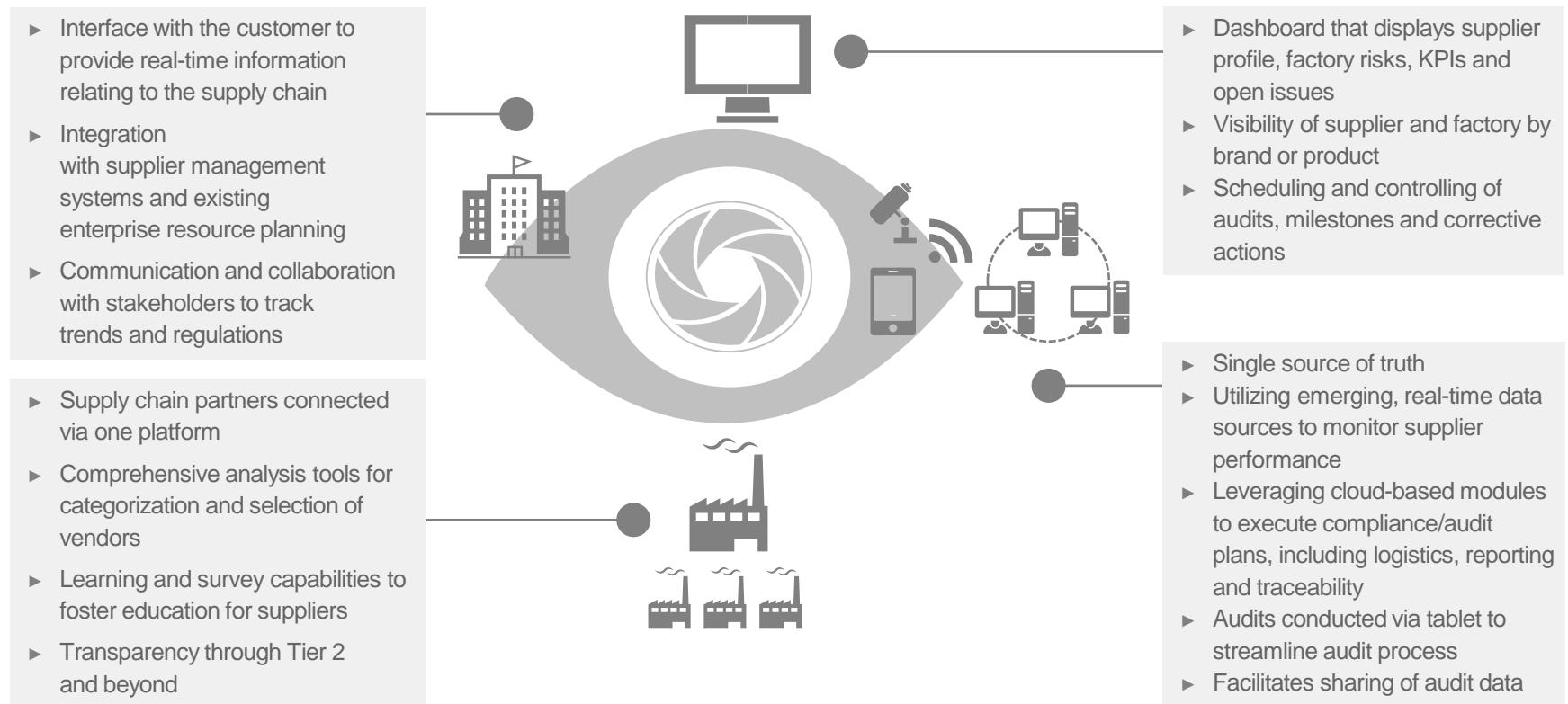
- Even within the Tier 1 landscape, companies have varying levels of visibility.
- Challenges increase significantly moving into Tier 2 and beyond.



Finding 5: Technology enables visibility and influence beyond Tier 1

Companies are leveraging technologies and collaborating to increase visibility and influence deeper in the supply chain.

How companies use technology to create sustainable supply chains



Finding 6: Collaboration is critical for companies to achieve greater impacts

International standards, standard setters and nongovernmental organizations (NGOs)

- ▶ Define values, goals and objectives for companies to meet
- ▶ Identify high-risk sectors and issues and propose solutions
- ▶ Bring credibility and common standards and influence governments to take action

Government

- ▶ Set vision and targets
- ▶ Set effective regulation, incentives and education
- ▶ Enforce laws and penalize offenders

Suppliers

- ▶ Develop preferred supplier relationships
- ▶ Drive supplier ownership of supply chain programs

Company

- ▶ Establish structure and processes for intercompany collaboration

Industry initiatives

- ▶ Establish industry-wide expectations and tools
- ▶ Focus on broad or specific issues common for sectors

Shared platforms

- ▶ Share market practices and supplier performance results (e.g., audit results)
- ▶ Participate in industry organizations that create common platforms



78%

of companies collaborate with NGOs, industry initiatives and governments, and refer to global frameworks in developing programs around sustainable supply chains.

The SDGs offer a framework for business investment, innovation and collaboration

The sustainable development goals (SDGs) call on companies everywhere to advance sustainable development through the investments they make, the solutions they develop and the business practices they adopt.

- Thirty-seven percent (37%) of the interviewed companies have started to integrate the SDGs into their sustainability programs or plan to in the future.
- For these companies, the SDGs signify “global momentum” that provides a strategic framework external to their business to focus on.
- Many of the remaining companies are looking forward to greater guidance on how to measure their impact or understand their personal responsibility.



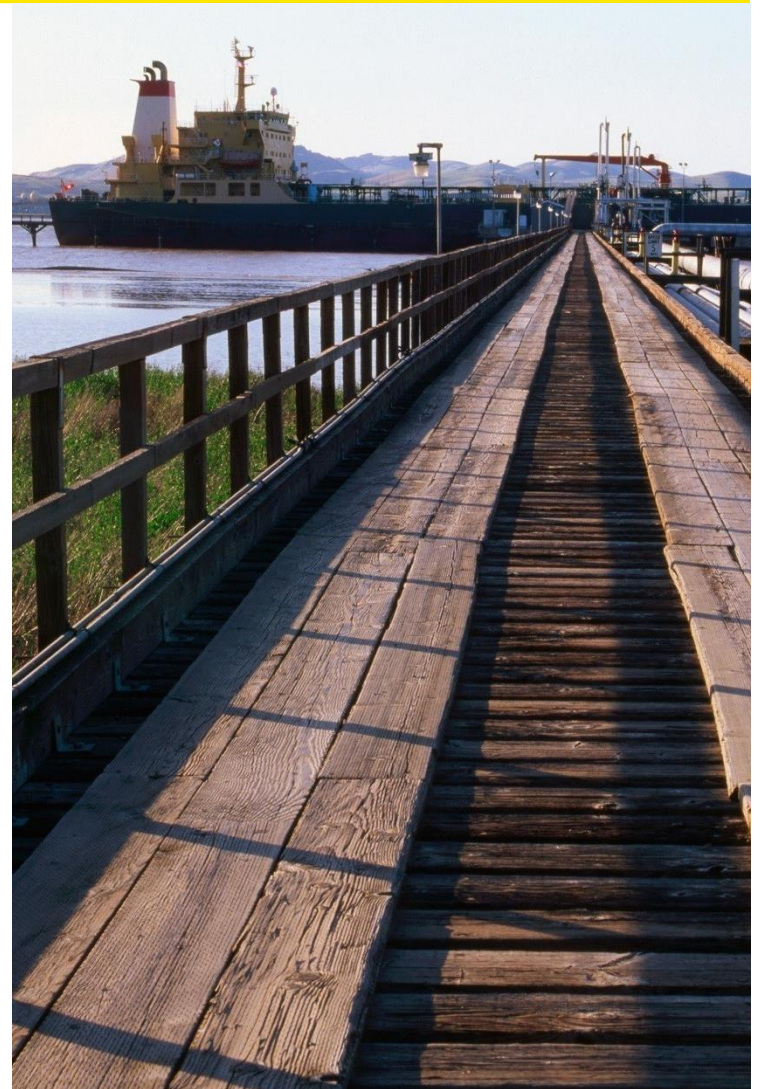
A European transportation and energy company created sustainability KPIs focused primarily on the human rights, diversity and poverty goals to measure and improve its social performance.



A global mining company uses the SDGs as a guiding framework to reach a consensus across business functions on the criteria for responsible and sustainable suppliers.

Next steps: What can companies do to further encourage sustainability in their supply chains?

- Assess materiality to focus on the most pressing value chain issues, taking into consideration the UN Global Compact principles
- Align resources, structures and processes focused on supply chain sustainability across the whole organization
- Train management and suppliers on market practices
- Invest in diverse and inclusive supply chains
- Stretch sustainability goals beyond direct operations across the tiers of the supply chain
- Deploy technology to increase accountability, transparency and traceability
- Create a shift toward supply chain sustainability by leveraging buying power and influence
- Disclose supply chain information beyond the sustainability reporting mechanisms



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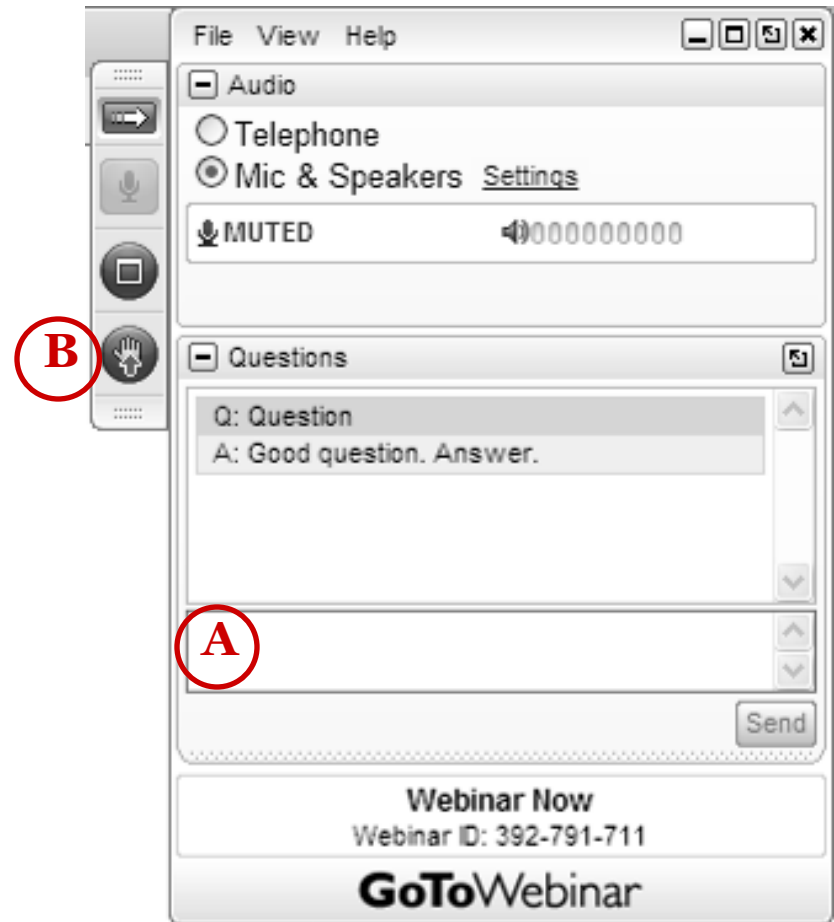
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Thank you!

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(www.unglobalcompact.org)**

If you have any additional questions, please contact:
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