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

August 17, 2016
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
**Technical Difficulties**: If you have technical issues, please let us know by typing a message in the Questions pane (A). You can raise your hand (B) if we do not respond.

**Q&A**: We will be taking questions on content at the end, but you can send them to us throughout the webinar by using the Questions pane (A). Please specify to whom the question should be directed.

**Example**: *Question for John Doe: What are land rights?*
Today’s Presenters

UN Global Compact
Anita Househam

Ernst & Young LLP
Veli Ivanova

LafargeHolcim
Jim Rushworth

Ernst & Young LLP
Lauren Rogge
The state of sustainable supply chains:
Building responsible and resilient supply chains

Findings results overview
17 August 2016
UNITED NATIONS GLOBAL COMPACT

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

Making Global Goals Local Business Through Core Corporate Functions

A Spotlight on Sustainable Supply Chain & Procurement

Visit at:
www.unglobalcompact.org/take-action/leadership/integrate-sustainability/roadmap/supply-chain
Supporting the SDGs

Visit The SDG Compass: www.sdgcompass.org

Explore our library: www.unglobalcompact.org/library
The Supply Chain Sustainability Website

- 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

supply-chain.unglobalcompact.org
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
The state of sustainable supply chains:
Building responsible and resilient supply chains

Findings results overview
17 August 2016
Disclaimer

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

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.

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>25%</td>
</tr>
<tr>
<td>Europe, Middle East and Africa</td>
<td>57%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>18%</td>
</tr>
</tbody>
</table>

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

- **Sustainability**: 44%
- **Procurement/supply chain**: 40%
- **Other**: 16%
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.
1. Supply chain sustainability can no longer be ignored.

2. Companies are predominantly risk-driven, with aspirations to unlock strategic opportunities and benefits.

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

4. Leading companies are establishing a shared commitment with suppliers.

5. Technology enables visibility and influence beyond Tier 1.

6. Collaboration is critical for companies to achieve greater impacts.

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

A utilities company impacted by water intrusion due to routine flooding now works with meteorologists to understand expected weather patterns. The company builds this into resiliency planning, mapping the assets vulnerable to water intrusion to determine which assets should be replaced or retrofitted to protect against water intrusion.

For companies with high brand recognition – such as those in consumer products and retail – and a heavy dependence on a large number of suppliers or a frequently changing supplier base, there is a strong focus on responsibility and engaging suppliers to improve social and environmental impacts while meeting compliance objectives.
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

- Efficiency and opportunities for innovation: 54%
- Business continuity: 22%
- License to operate: 87%
- Compliance and regulatory risk: 33%

% responses by interviewed companies
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.

<table>
<thead>
<tr>
<th>Siloed</th>
<th>Hybrid</th>
<th>Integrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Supply chain sustainability responsibility is segregated from core supply chain management.</td>
<td>▪ Sustainability function collaborates with procurement or supply chain to provide input in supply chain management process.</td>
<td>▪ Sustainability is embedded in procurement, category management and sourcing processes.</td>
</tr>
<tr>
<td>▪ Sustainability criteria are developed and managed separately.</td>
<td>▪ Typically, sustainability function will establish strategy, governance and process.</td>
<td>▪ Sustainability is weighted and considered, along with traditional supply chain factors (price, quality).</td>
</tr>
<tr>
<td>▪ In some cases, limited dialogue among functions occurs, but this is not formalized and often occurs on an ad hoc basis.</td>
<td>▪ In many cases, a cross-functional working group will facilitate the collaboration.</td>
<td>▪ Programmatic integration of sustainability issues goes across business units (training, measurement, standards).</td>
</tr>
</tbody>
</table>

24%  39%  37%
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
Sustainable Procurement at LafargeHolcim

Approach and governance to create sustainable supply chain

Presentation for UNGC Webinar
August 2016
LafargeHolcim at a glance

The new group at a glance

- **90** countries
- **2,500** operations
- **32.6** billion CHF net sales
- **115,000** employees

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 environmental 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**
  - Unlock value from market positions in mature markets
  - Realize growth by addressing customer and end-user trends (e.g., green products)
  - 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 need/ opportunity basis, support diversification 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/seed existing or future cement and aggregates businesses within a three-step integration framework

- **Other construction materials**
  - Offer a differentiating value proposition to address customer needs through value-added products, services and solutions
  - Support/seed existing or future cement and aggregates businesses

Well-balanced geographical portfolio

- **North America**
  - 11,785
  - 5,623
  - 3,863

- **Europe**
  - 24,657
  - 8,051
  - 5,772

- **Asia Pacific**
  - 44,107
  - 10,048
  - 5,772

- **Latin America**
  - 12,039
  - 21,570
  - 5,772

- **Africa & Middle East**
  - 5,772
  - 10,048
  - 5,772

- Employees per region
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 prioritizing 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

1 SD High risk suppliers are identified by applying a prioritization methodology defined by the Group
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
**Finding 4: Leading companies are establishing a shared commitment with suppliers**

<table>
<thead>
<tr>
<th>Basic</th>
<th>Improving</th>
<th>Established</th>
<th>Mature</th>
<th>Leading</th>
</tr>
</thead>
</table>
| • Minimum standards or guidelines  
• Poor understanding of supplier risks | • 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 | • 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 | • 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 | • 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

<table>
<thead>
<tr>
<th>Value driver</th>
<th>Differentiating practices of leaders</th>
</tr>
</thead>
</table>
| Understanding issues and establishing expectations | ► Working with supply chain partners to establish expectations  
► Keeping the supplier code as a living document | 
| Screening, onboarding and auditing suppliers  | ► 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   | ► Integrating scorecards with broader supplier performance  
► Addressing buying practices of procurement managers | 
| Engaging in capacity building                | ► 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                              | ► Incentivizing high-performing suppliers with better terms or discounts, contractual lengths, increased volumes and less frequent audits | 
| Reporting and tracking                        | ► Utilizing leading technology to track and trace issues along the supply chain | 
| Having a diverse and inclusive supply chain   | ► Leveraging supplier engagement with local and diverse suppliers |
## How companies are addressing the challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Practices of leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demonstrating value to the business</strong></td>
<td>► Establish and communicate similar expectations to sub-tier suppliers</td>
</tr>
</tbody>
</table>
| **High cost and effort of implementing sustainability programs** | ► 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** | ► 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** | ► 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**         | ► 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.

<table>
<thead>
<tr>
<th>Level of visibility for Tier 1 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 Suppliers and contract manufacturers</td>
</tr>
<tr>
<td>Tier 2 Subcontractors and suppliers</td>
</tr>
<tr>
<td>Tier 3 Subcontractors and suppliers</td>
</tr>
<tr>
<td>Tier 4+ Mines, farms, plantations and smelters</td>
</tr>
</tbody>
</table>
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

- Interface with the customer to provide real-time information relating to the supply chain
- Integration with supplier management systems and existing enterprise resource planning
- Communication and collaboration with stakeholders to track trends and regulations
- Supply chain partners connected via one platform
- Comprehensive analysis tools for categorization and selection of vendors
- Learning and survey capabilities to foster education for suppliers
- Transparency through Tier 2 and beyond

- Dashboard that displays supplier profile, factory risks, KPIs and open issues
- Visibility of supplier and factory by brand or product
- Scheduling and controlling of audits, milestones and corrective actions
- Single source of truth
- Utilizing emerging, real-time data sources to monitor supplier performance
- Leveraging cloud-based modules to execute compliance/audit plans, including logistics, reporting and traceability
- Audits conducted via tablet to streamline audit process
- Facilitates sharing of audit data
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

Company

- Establish structure and processes for intercompany collaboration

Government

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

Industry initiatives

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

Suppliers

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

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
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
Technical Difficulties: If you have technical issues, please let us know by typing a message in the Questions pane (A). You can raise your hand (B) if we do not respond.

Q&A: We will be taking questions on content at the end, but you can send them to us throughout the webinar by using the Questions pane (A). Please specify to whom the question should be directed.

Example: Question for John Doe: What are land rights?
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. Addressing Sustainability Challenges and Next Steps
5. Q&A Session
6. Closing Remarks
Thank you!

Anita Househam  
UN Global Compact  
househam@unglobalcompact.org  
https://www.unglobalcompact.org

Veli Ivanova  
Ernst & Young LLP  
Veli.ivanova@ey.com  
http://www.ey.com

Jim Rushworth  
LafargeHolcim  
jimrushworth@lafargeholcim.com  
http://www.lafargeholcim.com

Lauren Rogge  
Ernst & Young LLP  
Lauren.rogge1@ey.com  
http://www.ey.com

Visit The Supply Chain Sustainability Website:  
supply-chain.unglobalcompact.org

Sign-up to the UN Global Compact’s Monthly Bulletin:  
http://unglobalcompact.org/NewsAndEvents/UNGC_bulletin/subscribe.html
Thank you for joining us today

Presentation slides and a recording of the webinar will be available on the UN Global Compact website.

(www.unglobalcompact.org)

If you have any additional questions, please contact:
Anita Househam: househam@unglobalcompact.org

Visit The Supply Chain Sustainability Website:
http://supply-chain.unglobalcompact.org

Sign-up to the UN Global Compact’s Monthly Bulletin:
http://unglobalcompact.org/NewsAndEvents/UNGC_bulletin/subscribe.html