Thank you for joining us

Thank you for logging into ERM's *ESG Up and Down the Supply Chain* webinar. We will begin the webinar at 1pm EST. All lines have been muted but the chat feature will be active during the call. The call will be recorded and sent out to all registrants. We look forward to our discussion today!

ERM Webinar: ESG Up and Down the Supply Chain

Part of ERM's 2018 Sustainability Means Business Webinar Series

November 15, 2018

The business of sustainability

Welcome

- This presentation will be recorded and all who registered will receive a follow-up email containing a link to the presentation within a week.
- Participants can ask questions throughout the presentation using the WebEx chat function and they will be answered during the last 10 minutes of the webinar in the order that they were received.
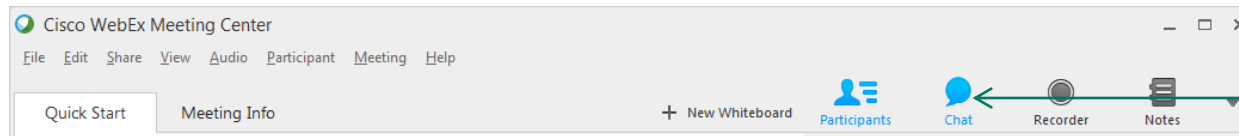
Click on chat

> Send your question to "Everyone" so that those answering the questions will be able to see them.

WebEx Chat box
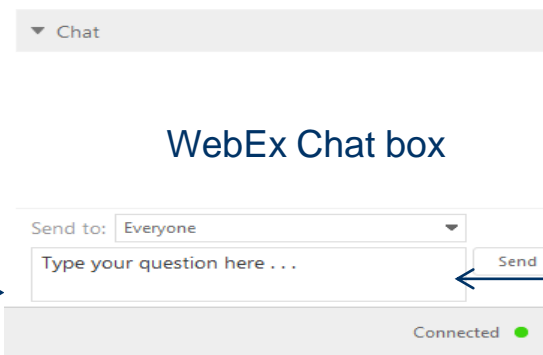
Select "Everyone"

Type your question and send

SUSTAINABILITY MEANS BUSINESS

Megatrends

| Climate change | Digital transformation | Population growth | Emerging middle classes |

2018 ERM Webinar Series

Climate-related Financial Disclosures (March) → **Valuing Corporate Impacts on the Environment and Society (May)** → **Maximizing the Value of Assurance (July)** → **Disclosure Trends (Sept)** → **ESG Up and Down the Supply Chain (today)**

Today's Speakers

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Presentation Overview

01 Supply Chain Maturity Model

02 Full Material Disclosure

03 Social Issues in the Supply Chain

04 Downstream Supplier Assurance (Reverse Logistics)

05 Q&A

Supply Chain Maturity Model

Presented by Mike Wallace

Supply Chain Maturity Models - Academic

Academic studies tend to weave together traditional supply chain management practices with capability maturity models and then layer on sustainability.

01

Maturity Models in Supply Chain Sustainability: A systematic Literature Review (January 2017)
- "a conceptual framework made up of parts that describe the development of a particular area of interest over time"
- "a structured collection of elements that describe the characteristics of effective processes at different stages of development."

02

Critical success factors for the implementation of a Sustainable Supply Chain
- Sustainability Governance
- Sustainability Standards & Regulations
- Stakeholder Focus
- Human Resources Management
- Customer Management
- Environmental Initiatives
- Supplier Management
- Financial Results
- Innovation

Table 7. Critical success factors in the implementation of an SSC.

SSC Critical Success	Maturity Model Elements	References
Sustainability governance	Embed and develop sustainability capabilities	[71]
	Sustainability reporting Sustainability benchmarking Sustainability risk analysis	[45,65]
	Corporate image	[69]
	Performance management	[64]
	Corporate sustainability policy Overall sustainability strategy	[67,68]
Sustainability standards and regulations	Understand and adopt global standards	[71]
	Government policy and regulation	[68]

Supply Chain Maturity Models - Academic

Academic studies tend to weave together traditional supply chain management practices with capability maturity models and then layer on sustainability.

01

Sustainability Supply Chain Maturity Model (July 2017)
". . . An attempt to assess the supply chain in relation to sustainable development aims at providing managers the knowledge to take future decisions and pointing directions of further business purposes. The proposed maturity model's main goal is to assist organizations in self assessing their existing strategy and finding possible gaps to be filled in accordance with the mode of sustainability…"
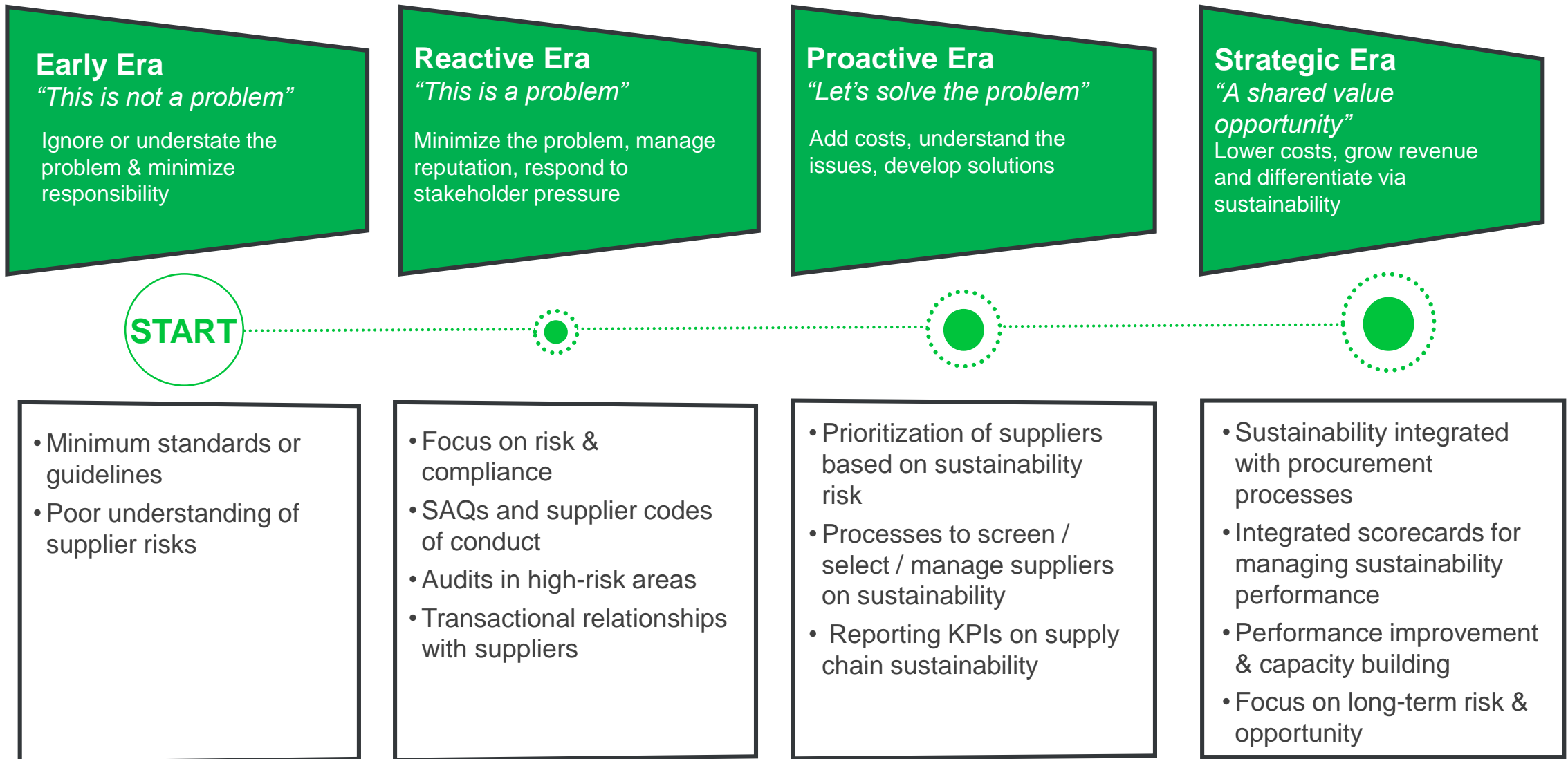
02

Levels of Maturity
- Un-aware & non-compliant
- Ad hoc & Basic Compliance
- Defined and Compliant
- Linked & Exceeds Compliance
- Integrated & Proactive
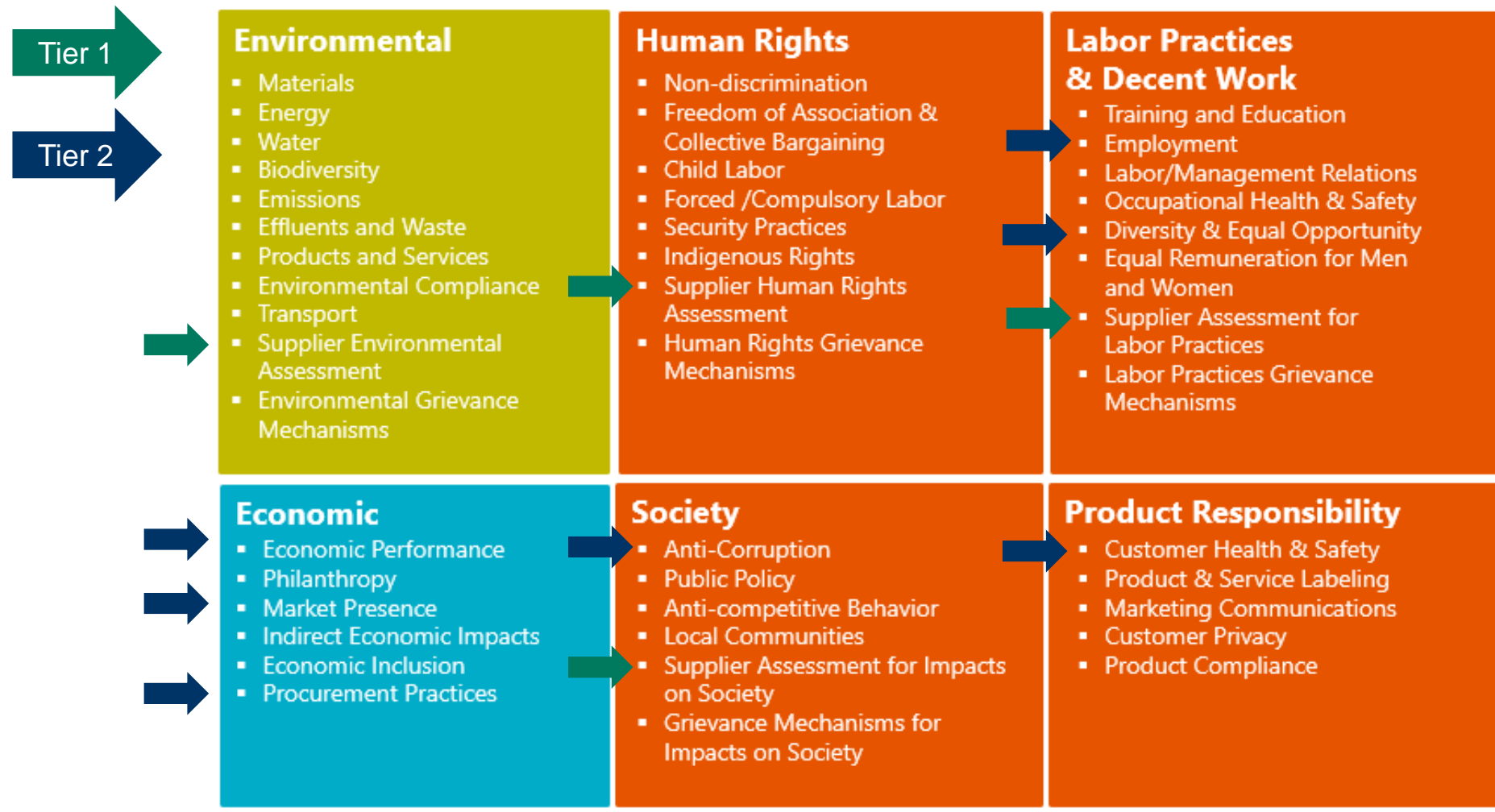- Extended & Sustainability Leadership

Table 1. Example of SSCM Maturity Model; (Reefke, Sundaram & Ahmed, 2010, p. 313)

Level of maturity	Description	Goals and Requirements
1. Un-aware & Non-compliant	SC are unaware and non-compliant to any regulations and undertake no sustainability efforts.	Raise sustainability awareness. Introduce sustainability initiatives.
2. Ad hoc & Basic Compliance	Sustainability measures are disconnected from strategic direction. Compliance on a basic level.	Align sustainability goals and efforts with defined processes. Establish consistency.
3. Defined & Compliance	Sustainability goals/standards have been defined and SC members are compliant with regulations.	Establish key indices to measure sustainability performance within SC.
4. Linked & Exceeds Compliance	SC is linked and includes a comprehensive sustainability performance measurement system.	Move from compliance level towards proactive sustainability efforts.
5. Integrated & Proactive	Sustainability has become a fully integrated concept and SC has moved towards proactive measures.	Make strategic concepts available to others and move towards leadership role
6. Extended & Sustainability Leadership	Processes are systematically managed through continuous improvement. Full SC collaboration embracing sustainability leadership role.	Keep optimizing processes and ensure future leadership role.

Supply Chain Maturity Model - Industry

ecovadis

Early Era
"This is not a problem"

Ignore or understate the problem & minimize responsibility

Reactive Era
"This is a problem"

Minimize the problem, manage reputation, respond to stakeholder pressure

Proactive Era
"Let's solve the problem"

Add costs, understand the issues, develop solutions

Strategic Era
"A shared value opportunity"

Lower costs, grow revenue and differentiate via sustainability

START

- Minimum standards or guidelines
- Poor understanding of supplier risks

- Focus on risk & compliance
- SAQs and supplier codes of conduct
- Audits in high-risk areas
- Transactional relationships with suppliers

- Prioritization of suppliers based on sustainability risk
- Processes to screen / select / manage suppliers on sustainability
- Reporting KPIs on supply chain sustainability

- Sustainability integrated with procurement processes
- Integrated scorecards for managing sustainability performance
- Performance improvement & capacity building
- Focus on long-term risk & opportunity

ESG Disclosure Expectations (1997 – 2018)

Tier 1

Tier 2

Environmental
- Materials
- Energy
- Water
- Biodiversity
- Emissions
- Effluents and Waste
- Products and Services
- Environmental Compliance
- Transport
- Supplier Environmental Assessment
- Environmental Grievance Mechanisms

Human Rights
- Non-discrimination
- Freedom of Association & Collective Bargaining
- Child Labor
- Forced /Compulsory Labor
- Security Practices
- Indigenous Rights
- Supplier Human Rights Assessment
- Human Rights Grievance Mechanisms

Labor Practices & Decent Work
- Training and Education
- Employment
- Labor/Management Relations
- Occupational Health & Safety
- Diversity & Equal Opportunity
- Equal Remuneration for Men and Women
- Supplier Assessment for Labor Practices
- Labor Practices Grievance Mechanisms

Economic
- Economic Performance
- Philanthropy
- Market Presence
- Indirect Economic Impacts
- Economic Inclusion
- Procurement Practices

Society
- Anti-Corruption
- Public Policy
- Anti-competitive Behavior
- Local Communities
- Supplier Assessment for Impacts on Society
- Grievance Mechanisms for Impacts on Society

Product Responsibility
- Customer Health & Safety
- Product & Service Labeling
- Marketing Communications
- Customer Privacy
- Product Compliance

Sustainable Supply Chain - Maturation

2009   2011   2013   2015   2017   2019

2009
Walmart – The Sustainability Consortium
& Global Sustainability Index

2013
Intel – Supplier training on GRI

2013
Sustainable Purchasing Leadership Council
(SPLC) – Institutional Procurement

2014-2016
Committee on Supplier Ratings (COSR)
– Rating / Ranking Suppliers (ESG)

2011-2018
EcoVadis (2007), Together for Sustainability
(2011), SPLC / COSR (2017)

General Mills — Making Food People Love

Materiality*

This table summarizes the issues that are most material to our global responsibility strategy, including several priority issues ranked highest by our stakeholders. This is based on a materiality assessment conducted in 2013 and updated in 2015. These assessments evaluated the impact each issue has on General Mills as well as the importance to external stakeholders for our company to address each one. This report also includes information about several other issues that we believe have recently increased in importance, such as soil health, pollinators and biodiversity, and organic farming. We plan to update this assessment as needed to reflect our business and our stakeholders' evolving expectations. We include information about our approach to and progress on these issues throughout the report and in the Global Reporting Initiative (GRI) index.

CIRCLES NOTE VALUE CHAIN PHASES FOR WHICH EACH ISSUE IS RELEVANT

	Issue	Description	Agriculture	Transforming	Packaging Supply Chain	Producing	Shipping	Selling	Consuming
PRIORITY ISSUES	Climate change	Advance strategies to reduce GHG emissions and help mitigate the effects of climate change in agricultural and food production systems	●	●	●	●	●	●	●
	Commodity availability	Maintain reliable access to key commodities and inputs through sustainable sourcing	●	●	●				
	Corporate governance and ethics	Operate with integrity and with the highest standards in oversight, ethics and compliance	●	●	●	●	●	●	●
	Diverse consumer needs	Meet changing consumer needs and diversify our product offerings based on geography, culture, values and economic means	●	●	●	●	●	●	●
	Food safety	Set and maintain high standards for food safety and quality	●	●	●	●	●	●	●
	Health and nutrition wellness	Improve the health profile of products and engage in public discussions on healthy and nutritious lifestyles		●		●		●	●
	Transparency	Communicate openly with key stakeholders on material issues, including through brands	●	●	●	●	●	●	●
	Water stewardship	Manage water resources strategically throughout the value chain	●	●	●	●			
	Animal welfare	Ensure the ethical treatment of animals raised by suppliers	●						
	Biodiversity	Conserve biodiversity through sustainable sourcing practices	●						
	Biotechnology	Meet consumer demand for increased information on genetically modified organisms	●					●	●

Disclosure & Reporting - Maturation

STRONG.
SUSTAINABLE.
SOUTHWIRE.

2017 SUSTAINABILITY REPORT

ABOUT OUR COMPANY ABOUT THIS REPORT GROWING GREEN LIVING WELL GIVING BACK DOING RIGHT BUILDING WORTH SOUTHWIRE HIGHLIGHTS REPORT DOWNLOADS

Relative Priority of Sustainability Topics

Supplier Environmental Assessment

GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Sustainable Supply Chain & Procurement Practices
	103-2 The management approach and its components	Sustainable Supply Chain & Procurement Practices
	103-3 Evaluation of the management approach	Sustainable Supply Chain & Procurement Practices
308-2	Negative environmental impacts in the supply chain and actions taken	Sustainable Supply Chain & Procurement Practices

Supplier Social Assessment

GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	Sustainable Supply Chain & Procurement Practices
	103-2 The management approach and its components	Sustainable Supply Chain & Procurement Practices
	103-3 Evaluation of the management approach	Sustainable Supply Chain & Procurement Practices
414-2	Negative social impacts in the supply chain and actions taken	Sustainable Supply Chain & Procurement Practices

ESG R&R Ecosystem - Maturation

Reverse Engineering the Market's Interests

DJSI was initially launched in 1999 (GRI in 1997).

Based on its Corporate Sustainability Assessment (CSA), an annual ESG analysis of approximately 4,500 listed companies, RobecoSAM has compiled one of the world's most comprehensive databases of financially material sustainability information.

Through a process of continuous improvement, RobecoSAM is constantly learning about the most advanced methods for sustainability and ESG integration.

Companies can privately report information to RobecoSAM, but greater weighting is given to public disclosures.

The CSA has a range of ESG questions pertaining to supply chain management, supplier engagement and procurement policies and oversight.

DJSI 2018 Sample Questions – Supply Chain Mgt.

Process & Infrastructure

We have audited our suppliers' and/or business partners' information security management systems. Please indicate if this was done by your internal audit department or an independent third party: _____

Coverage of Corporate Requirements/Guidelines

Is your company's environmental management policy publicly available? If so, please indicate which of the following options are covered by your policy and indicate and provide supporting evidence of where this is clearly stated in the public domain.

Options: Suppliers, service providers and contractors

Management Incentives

Do you provide incentives for the management of climate change issues, including the attainment of targets?

Options: Incentivized KPIs – Purchasing; Supply Chain Engagement

Human Rights – Commitment

Do you have a publicly available, company-specific policy in place for your commitment to respect human rights in accordance with the UN Guiding Principles on Business and Human Rights or other internationally accepted standards?

Options: Requirements for our suppliers

Full Material Disclosure

Presented by David Weaver

Full Material Disclosure (FMD) 101

Determine every homogenous material in a complex product

Many suppliers and even more materials for a single product
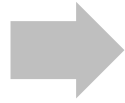
Regulatory drivers and customer demands

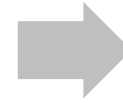Data gathering and management challenges

The Process

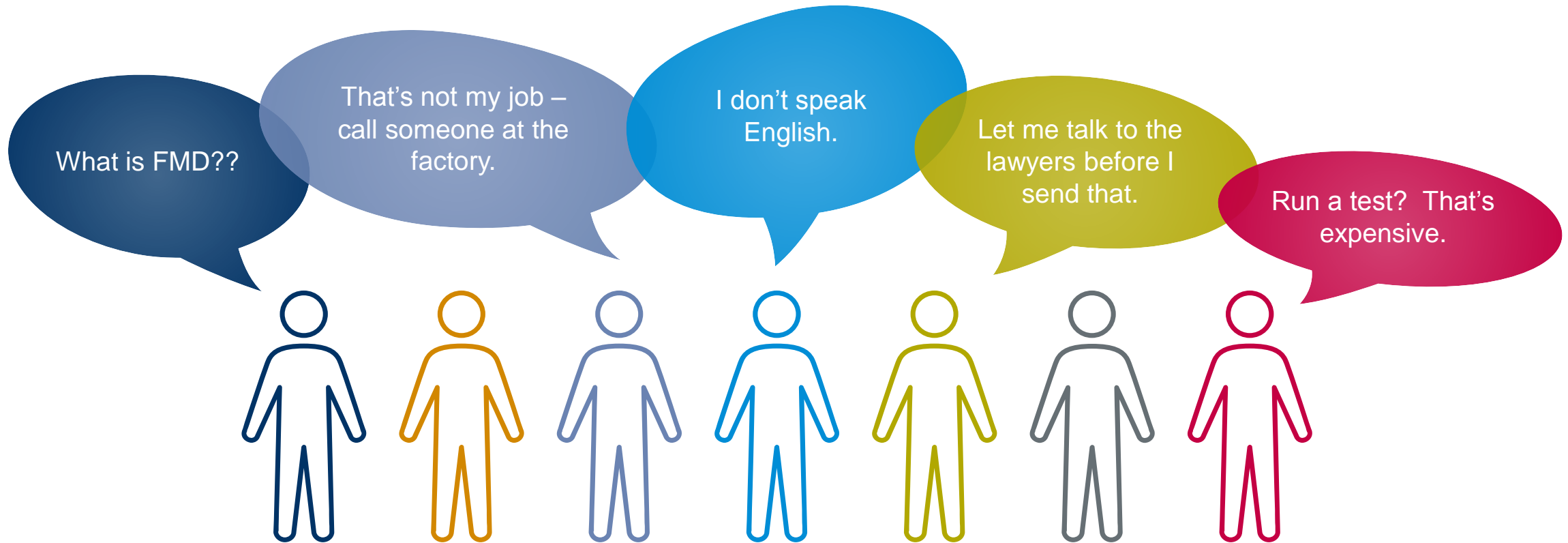Suppliers
understand
your system

Gather data
from suppliers

Analyze and
check data

Compile data
for your
customers

Challenges

Supplier Engagement Programs

Ask Yourself

✓ Who are the stakeholders?

✓ What can we do differently?

✓ Where are we struggling?

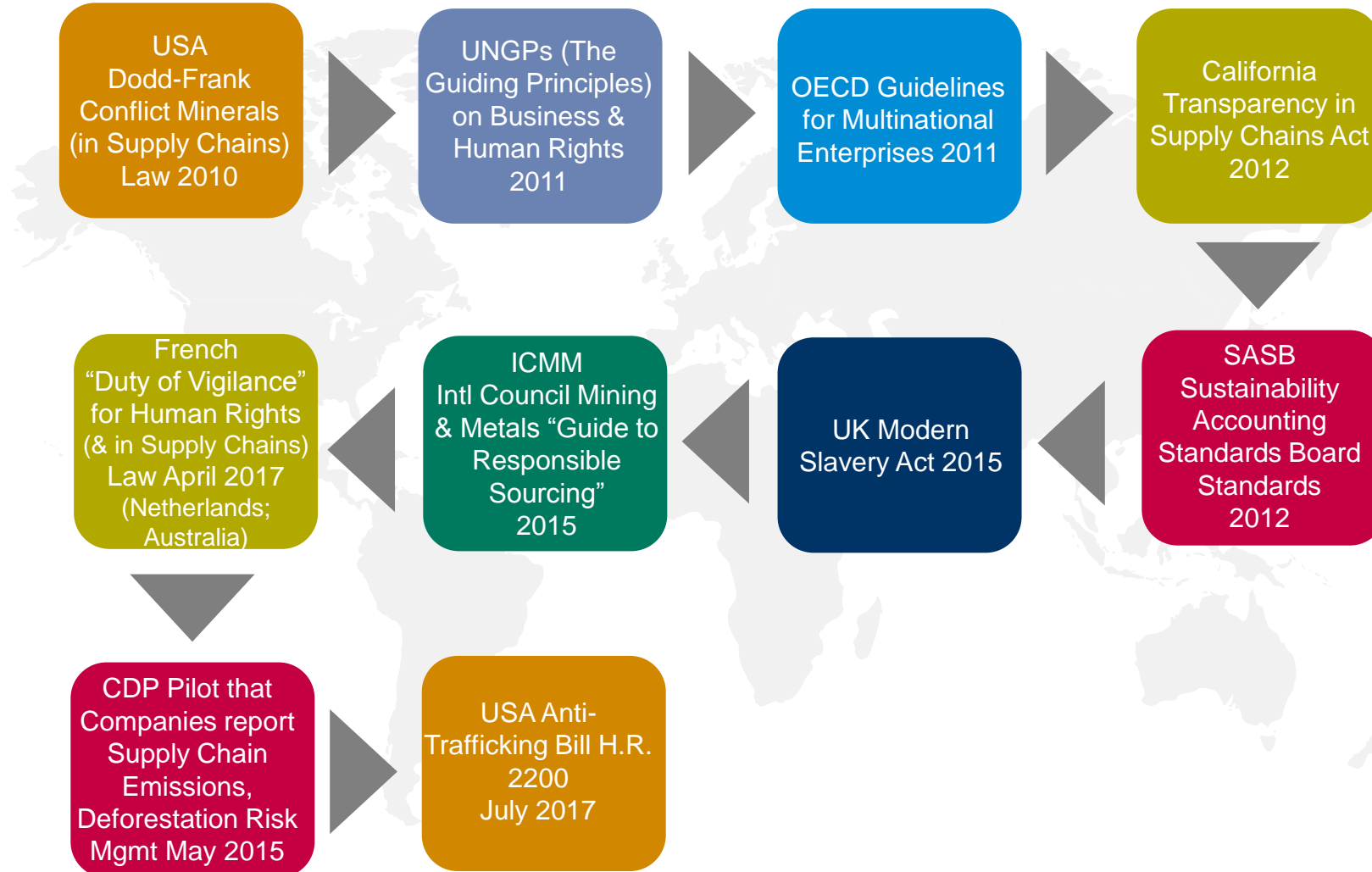✓ When do we need updated data?

✓ Why are we doing this?

✓ How are we going to address multiple suppliers for a single product?

Social Issues in the Supply Chain

Presented by Mark Hoff

Human Rights and the Supply Chain

USA
Dodd-Frank
Conflict Minerals
(in Supply Chains)
Law 2010

UNGPs (The Guiding Principles) on Business & Human Rights 2011

OECD Guidelines for Multinational Enterprises 2011

California Transparency in Supply Chains Act 2012

French "Duty of Vigilance" for Human Rights (& in Supply Chains) Law April 2017 (Netherlands; Australia)

ICMM Intl Council Mining & Metals "Guide to Responsible Sourcing" 2015

UK Modern Slavery Act 2015

SASB Sustainability Accounting Standards Board Standards 2012

CDP Pilot that Companies report Supply Chain Emissions, Deforestation Risk Mgmt May 2015

USA Anti-Trafficking Bill H.R. 2200 July 2017

The UNGP Guidelines say "Business Should seek to prevent or mitigate adverse impacts directly linked to their operations…by business relationships (in value chains), even if they did not contribute to impacts

The OECD Guidelines "encourage business to…, based on (human rights & environmental) risk assessment, prioritize suppliers for due diligence."
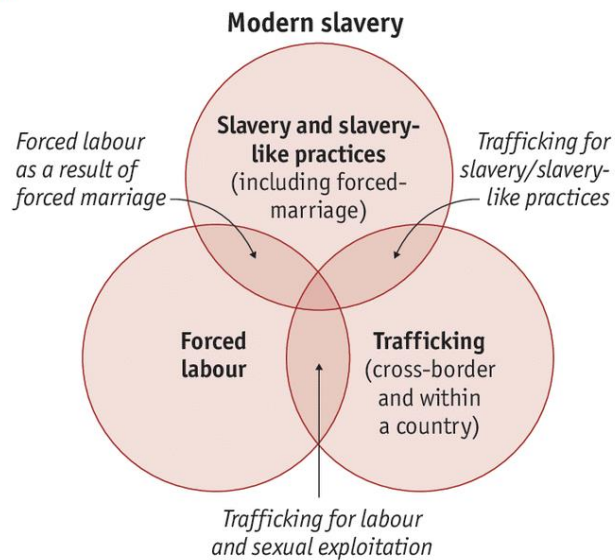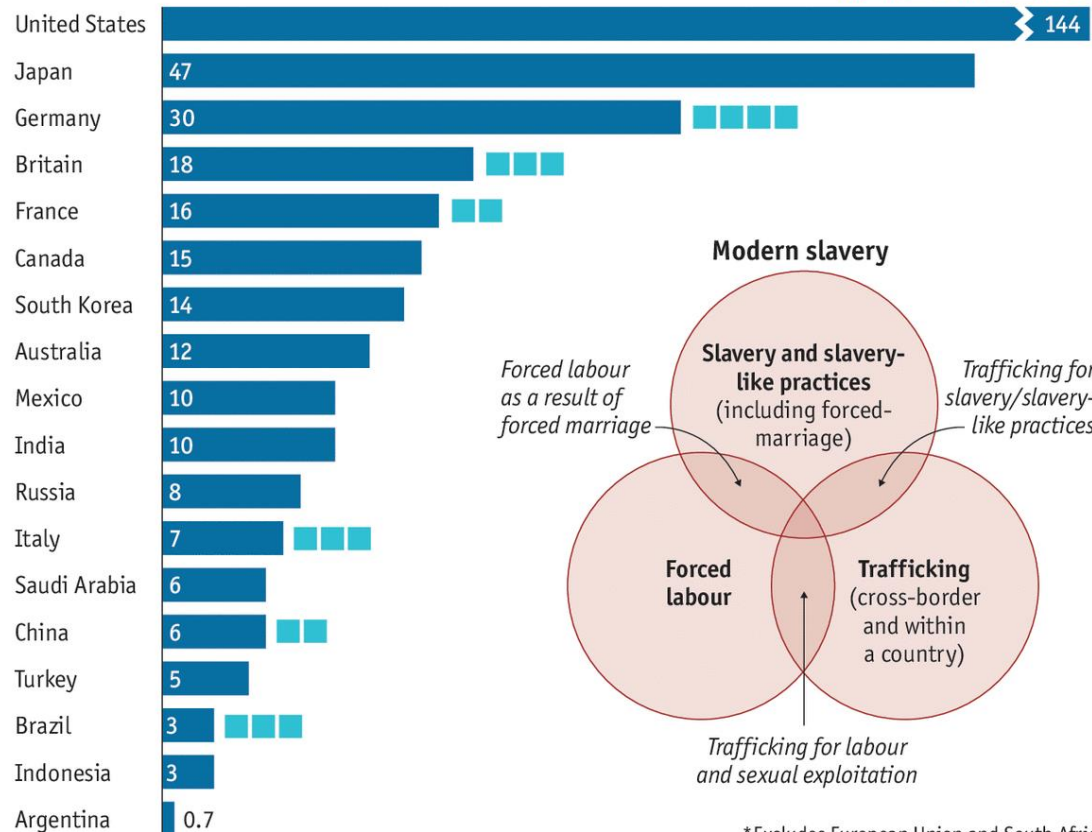
Alarming Statistics

Chains of misery

G20 countries*, imports of the five most "at risk" goods†
2017, $bn

Number of government policies to prevent sourcing goods and services linked to modern slavery

US = 7 ▪▪▪▪▪▪▪

Country	$bn
United States	144
Japan	47
Germany	30
Britain	18
France	16
Canada	15
South Korea	14
Australia	12
Mexico	10
India	10
Russia	8
Italy	7
Saudi Arabia	6
China	6
Turkey	5
Brazil	3
Indonesia	3
Argentina	0.7

Source: Global Slavery Index 2018

Economist.com

Modern slavery

Forced labour as a result of forced marriage

Slavery and slavery-like practices (including forced-marriage)

Trafficking for slavery/slavery-like practices

Forced labour

Trafficking (cross-border and within a country)

Trafficking for labour and sexual exploitation

*Excludes European Union and South Africa
†Likely to have been produced by forced labour

Source: The Economist, July 2018

(https://www.economist.com/graphic-detail/2018/07/19/supply-chains-based-on-modern-slavery-may-reach-into-the-west)
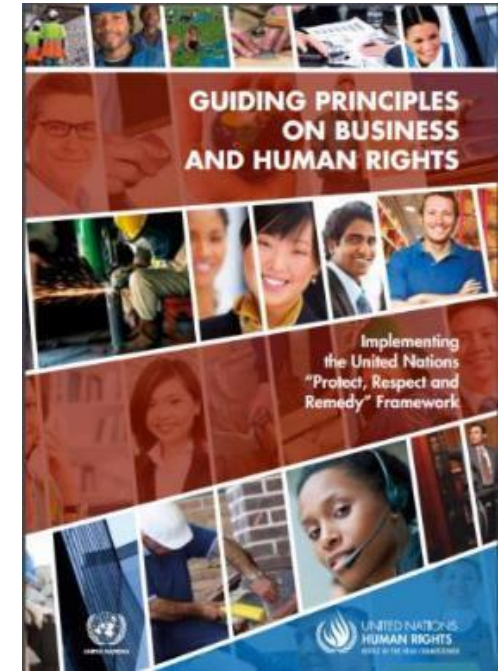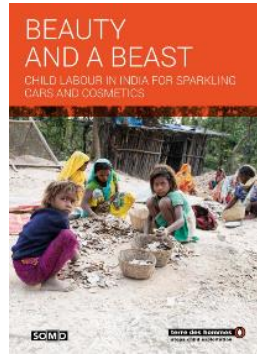
Challenges

Guidance

THE OECD GUIDELINES, UN GUIDING PRINCIPLES (AND NEW LAWS SUCH AS "TRANSPARENCY IN SUPPLY CHAINS" & INDUSTRY STANDARDS)

say business should:

01 **Policy** and have a public commitment to respect rights, embedded through an ongoing process of human rights due diligence (including understanding impacts on Supply Chain).

02 **Risk Assess** identify areas where risk of adverse human rights impacts is significant

03 **Integrate** findings into decision making and actions, take steps to cease or prevent contribution and use leverage to mitigate adverse rights impacts.

04 **Track** effectiveness to verify if impacts addressed by performance contracts and audits; grievance mechanisms; processes for remedy.

05 **Communicate** and report efforts internally and externally

GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS

Implementing the United Nations "Protect, Respect and Remedy" Framework

UNITED NATIONS HUMAN RIGHTS

Corporate responsibility to respect human rights
- Policy commitment
- Assess actual & potential impacts
- Integrate findings & take appropriate action
- Track and communicate performance
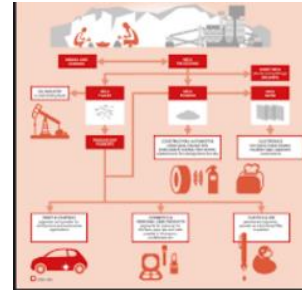- Remediate adverse impacts

Case Study

NGO report named ERM's client and other global corporations as complicit in child labor in procuring mica

Client had a supplier code of conduct, a human rights policy, and a procurement vetting process but had not mapped its supply chain

Client hired ERM to map its mica supply chain; develop a more robust suppler risk management program and develop corrective actions

After a two-year program, client received the Green Pillar Award from Ford based on their commitment to increasing transparency in the Ford product supply chain

Case Study – Social Supply Chain Mapping

Auto Maker
(USA)

Paint and Coatings
Company (USA)

Tier 1 Supplier
of Mica (China)

Mine Lease Holders
and Operators
(India, Brazil, Pakistan)

Processing Plant
Owners
(India)

Middlemen

Villages - Families
and Children

Corrective Actions:

1 — Chinese company worked with NGOs to develop training programs and education opportunities for children in India

2 — Client purchased only product sourced from Brazil and Pakistan while Chinese supplier bolstered its supply chain vetting program

3 — Chinese company began consistent engagement with mines and processing plants

Opportunities

▶ Social Supply Chain Screening and associated metrics can help you manage and mitigate risk

▶ Evaluating and improving social supply chain impacts can have positive impacts on human health and well-being

▶ Allows you to keep the message focused and rational

▶ Allows companies to consider social issues in design and innovation

▶ Sustainability can be a major focus of corporate and product public image, product differentiation and help mitigate social risks, including human rights

▶ Companies can also use screening to improve performance and reporting of their CSR impact (including towards the SDGs)

Downstream Supplier Assurance (Reverse Logistics)

Presented by Kavita Thakkar

What Happens to My Product at End of Life?
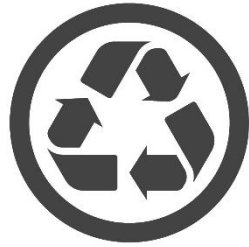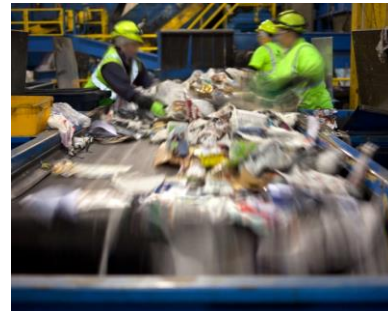
RECYCLE

TREATMENT

LANDFILL

The vendors who manage products AFTER consumer use are also part of your supply chain.

TRANSPORT

RECYCLERS

INCINERATION

LANDFILL

Common Risks with Downstream Supply Chain

Business

Operational

Reputational

Hidden risks beyond primary vendor

Shifting downstream map
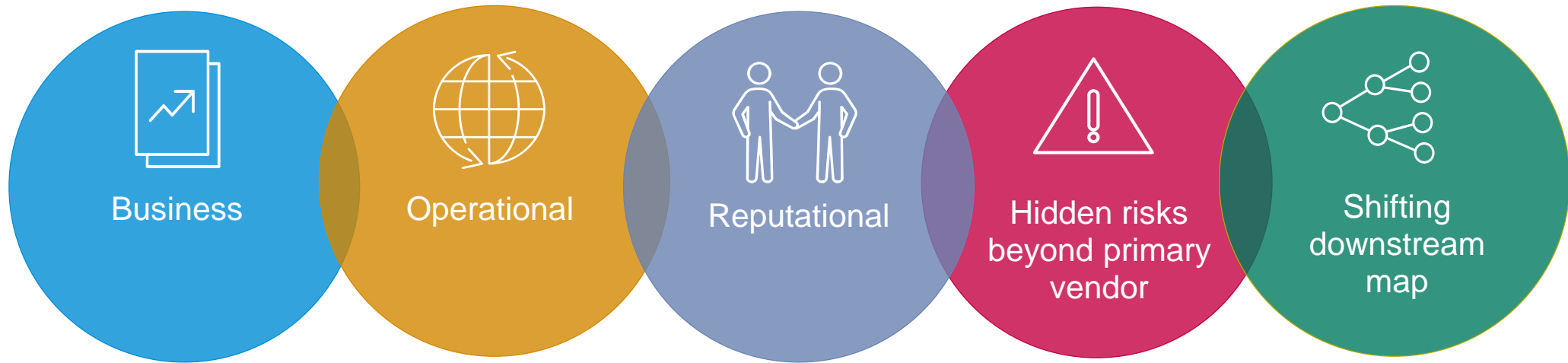
Recycler Industry Trends from the Tech Sector

Consolidation of Recycling Vendors

Heightened focus on data security (e.g. European Union GDPR)

Renewed focus on Compliance and Service

E-Waste Recycler Programs

Audit Program Trends

- Discrepancies in downstream vendor map
- Reactive response to routine audits
- Failure to notify of change in vendors
- Battery safety storage issues
- Shifting scope from compliance to Supplier Responsibility

Megatrends

Climate change	Digital transformation	Population growth	Emerging middle classes

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- Valuing Corporate Impacts on the Environment and Society (May)
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- ESG Up and Down the Supply Chain (today)

Questions

ERM Sustainability Report 2018

Better business. Helping our clients balance the tension between societal responsibilities and commercial demands.

Megatrends
We see our clients responding to the impacts from four key megatrends:

CLIMATE CHANGE

DIGITAL TRANSFORMATION

POPULATION GROWTH

EMERGING MIDDLE CLASS

FOR OUR Clients

Delivering impact through our work with clients

WITH THE ERM Foundation

Supporting global sustainable development for 20+ years

Improving performance within ERM and our supply chain

IN OUR Operations

ERM's contribution to the SDGs

We are creating a sustainable future with the world's leading organizations—in turn, contributing to the SDGs.

SUSTAINABLE DEVELOPMENT GOALS

Click here to view our online
Sustainability Report 2018
ERM Foundation Annual Review 2018

Thank you

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The business of sustainability

ERM