

# Supply Chain Reporting: Into the Mainstream

▲ BY RITCHIE PRIDDY

*WHILE MANY PEOPLE CONTEND THAT CLIMATE CHANGE MANDATES AND INITIATIVES ARE GOING THE WAY OF THE DINOSAUR AS CLIMATE CHANGE NEGOTIATIONS CONTINUE TO STALL, THERE IS GROWING EVIDENCE THAT SUGGESTS THE OPPOSITE IS ACTUALLY OCCURRING. AND THE LEADING CAUSE IS NOT GOVERNMENT MANDATES, BUT RATHER VOLUNTARY MEASURES FROM THE PRIVATE SECTOR, SUCH AS SUPPLY CHAIN REPORTING.*

Of course, some governments have moved forward with initiatives—and even mandates—but most must be approved by legislatures who are increasingly reluctant to pass on costs to voters. Other governments bypass the legislatures altogether, such as when U.S. President Barack Obama signed Executive Order 13514 in 2009, requiring all federal agencies to annually report their energy usage and greenhouse gas (GHG) emissions.

As part of that order, a 2010 General Services Administration (GSA) feasibility report concluded that federal agencies should use suppliers' GHG emissions reporting status as an evaluation factor in contract awards. While the plan has not been finalized, the message is clear. If you want to do business with the federal government, the largest purchaser of goods and services in the U.S., you will have to measure and disclose your GHG emissions.

But, the federal government is only adopting what has been taking place in private industry for several years now, but on a voluntary basis. Indeed, the government

action will actually serve to speed up the adoption of formal and informal sustainability programs, which most often lead to supply chain reporting. A by-product of such reporting will be a boom to the energy efficiency industry, as efficiency tends to be the most cost-effective way to lower emissions.

## **PUSHING RISKS DOWNSTREAM**

In simplest terms, supply chain reporting is pushing climate change related risks downstream, forcing suppliers to spend the money and take the actions necessary to clean up their operations. With the number of companies reporting their emissions growing rapidly, some analysts believe that such reporting is emerging from a pioneering phase and is becoming a mainstream action. It is only logical that supply chain reporting requirements increase.

Ceres, a non-profit organization that works with some 550 institutional investors representing over \$71 trillion in assets under management, found that up to 60 percent of a manufacturing company's carbon footprint is in its supply chain. For retailers, that figure is closer to 80 percent. [Source: <http://www.ceres.org/issues/supply-chain>]

That is why such retailers as Walmart have taken the lead and are requiring that their suppliers disclose their energy use, emissions and sustainability actions. With its 100,000 global suppliers, Walmart has already had a significant impact on suppliers in China, which does not fall under any international treaty for climate change. In its 2011 Global Responsibility Report, Walmart reported that nearly 120 Chinese suppliers have "demonstrated greater than 20 percent improvement in efficiency." In other words, Walmart's supply chain reporting requirement has a greater impact on climate change mitigation than any international treaty, simply because if a supplier does not comply, it could be de-listed. [Source: <http://walmartstores.com/sites/responsibilityreport/2011/>]

It has been repeatedly shown that a sustainable company is more efficient, has a cleaner supply chain, and, if done properly, will be more profitable. As a result, many believe supply chain reporting to be the most important piece of the sustainability puzzle, and that peer pressure alone will continue to drive its adoption.

Many organizations believe that requiring their suppliers to report emissions and energy usage helps drive innovation and promotes learning, which helps companies grow their business and increase their organization's value. Reporting also provides a level of transparency that is increasingly being demanded by savvy investors.

Sustainability plans almost always include an energy reduction component with measurable goals. For instance, a 20 percent reduction in energy use may be the primary method of meeting an overall corporate CO<sub>2</sub> (the most plentiful GHG) reduction goal. Lower energy use leads to lower CO<sub>2</sub> emissions—something most companies will want to publicize.

#### EXAMINING THE REPORTING LANDSCAPE

According to the 2011 KPMG corporate responsibility report, more than 3,400 companies worldwide, including the 250 largest companies, annually report their sustainability efforts. Considering that there are no global standards required by any regulatory organization, and that few companies use third-parties to verify their sustainability claims, the number of organizations publicly reporting is truly surprising. KPMG found that almost 70 percent of the largest 100 publicly traded companies produce such reports, compared to just 36 percent of family-owned enterprises and 45 percent of companies owned by professional investors such as private equity firms. [Source: <http://www.kpmg.com/PT/pt/IssuesAndInsights/Documents/corporate-responsibility2011.pdf>]

The report found that companies with revenues of more than US\$50 billion were twice as likely as those with revenues under US\$1 billion to report on their CR activities. As a result, KPMG believes that any large company not already reporting runs the risk of being viewed as less transparent than their peers. It also points out that sustainability reporting provides a significant opportunity for smaller businesses to leverage their reporting as a competitive differentiator.

But, without a standardized methodology of reporting, or even a clear understanding of what is expected to be reported, there are significant challenges for organizations to prepare a report that they can be sure of unquestioned acceptance.

When management consultant Peter Drucker stated that “if you can't measure it, you can't manage it,” he could have been referring to actual energy and emissions reductions. Accurate measurement and verification (M&V) has long been the Achilles' heel of efficiency. Without a good benchmark obtained through initial energy audits and on-going measurement, effective M&V is impossible.

Ceres' core mission is to promote the disclosure of sustainability performance. In 1997, it helped create the Global Reporting Initiative (GRI), which is the most widely used international standard for corporate sustainability reporting. It requires detailed disclosures, and measures how companies stack up against others in a variety of areas, financial and non-financial. It verifies M&V methodologies and the international and national standards your company subscribes to, among other things. (For a list of criteria see <http://database.globalreporting.org>)

The typical International Standards Organization (ISO) surrounding sustainability include ISO 9001 (Quality Management); ISO 14001 (Environmental Management); ISO 26000 (Social Responsibility); and ISO 50001 (Energy Management), the latest, and perhaps the most important.

In its 2011 Supply Chain Report, the Carbon Disclosure Project (CDP) found that its 57 international members of the Supply Chain consortium were actively engaged with nearly 1,000 participating suppliers around the world. It also found that the number of companies (including non-members) adopting formal sustainability programs, including supply chain reporting, was increasing rapidly, along with the quality of the data being collected. [Source: <https://www.cdproject.net/CDPResults/CDP-2011-Supply-Chain-Report.pdf>]

Perhaps the most important finding from that report is the growing number of companies who are willing to deselect suppliers for failing to meet carbon management criteria.

Many large companies assist their suppliers in meeting their sustainability goals, which often coincide with their own. These companies are finding significant benefits to working with more efficient suppliers such as cost reductions, higher quality goods, more reliable and efficient transportation and others. These companies also tend to be more competitive, both domestically and internationally.

Before your company adopts a formal sustainability plan, it is important to understand that environmental (including energy) performance is only one leg of a three-legged stool. The other two are economic and social performance—and they cannot be separated. Supply chain worksheets are now requesting information that pertains to all three areas, and weaknesses in any one area may lead to supplier deselection—one more reason why a formal sustainability plan makes good business sense.