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# TO THE POINT™



Timely News, Insights & Perspectives on Corporate Sustainability, Responsibility & Citizenship

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## CDP'S GLOBAL SUPPLY CHAIN PROGRAM: Making a Difference For Member Companies, Their Global Supply Chain Partners — and Key Investors

### Issue 3.4

### **"The New World Order" and Your Company's Global Supply Chain Responsibility**

Today, we often speak of "globalization" and "global sourcing" and so on without much thought about how we got here — it is encouraging to see what a growing number of companies are doing to "more responsibly manage" their global sourcing and supply chain activities. It was not always this way, of course.



The signal that doing business in the U.S.A. was becoming very different — with a true paradigm shift getting underway — came in a State of the Union speech to the Congress. **President George H.W. Bush** proclaimed a "**New World Order**" in January 1991.

While describing why the U.S. military was in the Middle East defending the nation of **Kuwait**, he said: "What is at stake is more than one small country; it is a big idea: **a new world order**, where diverse nations are drawn together in common cause to achieve the universal aspirations of mankind — peace and security, freedom, and the rule of law. Such is a world worthy of our struggle and worthy of our children's future."

The phrase really resonated with American policymakers, including those responsible for the trade policies of this, the world's leading economy.

And so, the business leaders of the U.S.A. and the dealmakers on Wall Street eagerly embraced the concept— and the trade policies of the United States changed dramatically over the ensuing years, in turn changing fundamental corporate strategies.

In the year 1991 and beyond, with the 50-year "Cold War" mostly over, there were significant peace benefits to be had. Large U.S. business enterprises moved volumes of their U.S.-based manufacturing and sourcing offshore to distant factories and assembly plants with much lower operating costs.

As part of the dramatic changes underway, the U.S.A. over time became a huge market for consumer and industrial products coming out of those factories as well.

**The World Trade Organization (WTO)** was born, evolving out of the decades of meetings of the "**GATT**" (America's favored approach to trade



negotiations, the **General Agreement on Tariffs and Trade**).

## **Dramatic changes followed in the way that U.S. companies conducted their business...**

For example, **Wal-Mart Stores** quickly set the pace in retail, and by ripple effect in U.S. manufacturing (then the home of many of its suppliers).

Wal-Mart moved from its traditional theme of “Made in America” branding and sourcing (and the title of the autobiography of founder **Sam Walton’s** book) to become the largest distributor of China-made and Asia-made consumer merchandise in the U.S.A.

### **What has this got to do with your firm in 2017? Think: Global Supply Chain and your firm’s ESG footprint! Which the CDP folks are keeping a close watch on.**

Wal-Mart became a Founding Member of the new **CDP Supply Chain Program** in 2009. By 2017, some 100 member organizations are now engaging with their global suppliers through CDP.

These 100 members requested information from 9,770 suppliers. Purchasing clout: the members leveraged their more than US\$3 trillion in purchasing power to persuade and encourage their respective suppliers to respond to CDP survey information.

On the investor side, more than 800 of the world’s largest institutional investors — with US\$95 trillion in assets — utilize this data from the CDP platform. Investors are focused on the large enterprises’ carbon footprints and these large-cap companies in turn increasingly consider their supply chain partners to be part of their overall environmental footprint.

### **As CDP explains: “The supply chain is the new frontier in environmental responsibility - an area rich in opportunity that remains unexplored, where a number of pathfinders are starting to show others the value that can be found (in the supply chain).”**

Wal-Mart as a very prominent early adopter, therefore, is identified as a Founding Member of the burgeoning CDP supply chain program. Key: At the time, Wal-Mart was being asked by investors to respond to investor requests by going through the CDP disclosure process. After the company completed the CDP climate change questionnaire, Wal-Mart managers discovered that approximately 5% of the trucks in the USA were going in and out of a Wal-Mart location and that mobile refrigeration emissions were key contributors to their large direct-emissions footprint.

Working to respond to the CDP questionnaire helped the company’s managers identify that logistics and refrigeration were two significant areas of opportunity to reduce direct-emissions.



But they wondered how much larger their *indirect*-emissions were. It was a result of this lack of data that Wal-Mart suggested that CDP send the same questionnaire to the company's many suppliers

**What gets measured /gets managed, and so in this way important ideas were advanced to CDP help organize the supply chain universe's emissions "contributions."**

Science-based targets are a key element of the CDP program for assessing challenges and managing of opportunities that come out of the CDP-led measuring effort.

Science-based targets provide companies with a clearly-defined pathway to future-proof growth by specifying how much and how quickly they need to reduce their greenhouse gas emissions to keep global temperature increase below the 2-degrees Celsius goal of the **Paris COP 21 Agreement**.

The is a collaboration between **CDP**, **World Resources Institute** (WRI), the **World Wide Fund for Nature** (WWF), and the **United Nations Global Compact** (UNGC) and is one of the "We Mean Business Coalition" commitments.

Currently, more than 310 companies have made a commitment to implement a science-based target, of which 74 firms have approved specific science-based targets.

**The CDP Global Supply Chain Program is managed by George Hodge, CDP's Director-Supply Chain Program in North America (since Fall 2015). He shared important aspects of the process with us in September – and we are sharing the info with you.**

Today, he explains, the CDP Supply Chain program is a very important resource for both large companies and for their investors. Consider that currently more than 5,000 suppliers disclose their information to 100-plus organizations requesting such information; these organizations represent almost US\$3 trillion in purchasing power!

And, as determined from information provided to CDP in 2016, these suppliers reported that their emissions reduction initiatives resulted in savings of US\$12.4 billion. Moreover, during this same period, suppliers also reported a reduction of 434 million metric tonnes of CO2 emissions, an amount equivalent to the annual CO2 emissions of France.

## The Approach

Companies decide which of their strategic suppliers will be asked to provide data; the list is shared with CDP. The supplier selection could be based on various criteria (such as customer spend, or sole source supply). The request goes out from CDP, on behalf of the supply chain member companies, and responses to CDP become an integral part of a universal database that member companies (the prime customers) can access.

More than 40 percent of the participating supply chain member companies are in North America; the rest, in Asia, Europe,



and other regions.

CDP Supply Chain member companies engage with suppliers for a variety of reasons, Primary among these is the need for companies to collect data related to the amount of Greenhouse Gasses (GHG) emissions that are being produced by their suppliers.

GHG emissions in the supply chain — also referred to as Scope 3 emissions — comprise the largest portion of a company's overall carbon footprint. Studies have shown that there are an average of four (4x) times as much emissions generated by a company's suppliers than by the company itself. And in certain industry sectors, the ratio can be as much as 7-to-1.

CDP Supply Chain member companies understand that investors and other stakeholders consider this data to be crucial to understanding a company's performance.

As a result, investors who have access to all publicly-reported data from suppliers are increasingly interested in understanding how companies are measuring and managing environmental risk, both with regards to a company's own emissions (Scopes 1 and 2) and the emissions (Scope 3) generated in their supply chains.

### **Keep in Mind:**

**Given the ratio of the company to supply chain emissions, investors are more focused than ever on Scope 3 emissions data.**

Investors consider environmental risks to be material risks that companies need to measure, manage and mitigate. They consider environmental risks when making valuation and investment decisions, which is why they have access to publicly reported information from suppliers.

The supplier data that feeds into the overall CDP system is very important; today, about a quarter of ALL global emissions data is captured in the CDP database; in turn, this provides significant insights to both company managements and boards and to investors.

Corporate members' supply chain information is constantly growing in both volume and breadth and depth of information and is overlapping in many sectors/industries, thereby creating a rich and deepening reservoir of information valuable to the corporate member as well as to the investors utilizing CDP data sets.

**Leading CDP Supply Chain program members ask an average of 300 of their strategic suppliers to disclose information to CDP. George Hodge expects that in the case of certain leading member companies this number will climb to 1,000 suppliers by the year 2020. Many more small-cap and mid-cap suppliers will become part of the process.**

The "state-of-play" can be seen in the annual global supply chain report from CDP. The theme for 2017: **Missing Link: Harnessing the Power of Purchasing For a Sustainable Future**. You can access this report at:



<https://www.cdp.net/en/research/global-reports/global-supply-chain-report-2017>

## Take Away for Your Company

Perceptions about your company's supply chain management are increasingly of importance to capital market players and to some of the companies that your company may be a supplier to.

The go-to platform for environmental data and information for the corporate sector and the investment community is the CDP Supply Chain Program.

CDP data powers ESG research; data products; indices; investing benchmarks; corporate ratings & rankings; and more. Endpoints for your company data and for supplier data including Bloomberg, TruCost, MSCI, Thomson Reuters, RobecoSAM/DJSI, CSR Hub, Sustainalytics...and others.

## Where Do You / Could You Rank?

Note that CDP's first-time **Supplier Engagement Rating** named just 29 companies — from a base of 3,300 companies (that were assessed) — as recognized leaders in working with their suppliers to reduce emissions and lower climate-related risks (as represented within their respective supply chains).

These are:

Akzo Nobel – Bic BNY Mellon – Braskem SA – Bridgestone – BT Group – Coca-Cola European Partners – Creative Group of Industries – Deutsche Telekom – EMC – Fiat-Chrysler – General Mills – General Motors – Hewlett Packard – Kawasaki Kisen Kaisha – Komatsu – KPMG UK – Mitsubishi Electric – Nestle – Panasonic – Royal Philips – Sky plc – Sony – Stora Enso Oyj – ThyssenKrupp AG – Toshiba – Yokohama Rubber – 3M.

There is more information for you at CDP:

<https://www.cdp.net/en/supply-chain>