IBM

Sector: Information Technology

Years Engaging Supply Chain: since 1972[1]

Percent of Supply Chain Engaged Currently: 100 percent

Demonstrating Environmental Stewardship as a Key Driver for Outreach to Suppliers: Founded in 1911 and one of the largest global tech companies,[2] IBM has been a pioneer in corporate responsibility for over four decades, publishing its first Corporate Environmental Policy in 1971 and subsequent annual corporate environmental performance reports since 1990. IBM's Corporate Responsibility Executive Steering Committee upholds the company's vision for innovation and personal responsibility by leading and directing corporate responsibility efforts. In 2016, IBM met its 2020 goal of purchasing 20 percent[3] of its electricity from renewable sources and its 2020 goal of reducing operational CO_2 emissions by 35 percent from a 2005 base year. In 2017, the Clean Energy Ministerial awarded IBM the Energy Management Insight Award for achieving cost and emission reductions through certifying its energy management program to the ISO 50001 standard for energy management systems. In 2018, IBM received a Climate Leadership Award in the Goal Achievement category, issued jointly by the Center for Climate and Energy Solutions and The Climate Registry. IBM received six Climate Leadership Awards in the award program's seven-year history.

> **Key Lessons Learned:**
> - Gain executive-level support for environmental goals.
> - Integrating environmental management into corporate culture is key to sustaining sustainability.
> - Collaborate on learning opportunities to minimize operational impact to supply chain.
> - Share knowledge with suppliers to build their capabilities for effective management of their social and environmental responsibilities.

In 2004, IBM helped found the Electronic Industry Citizenship Coalition, now called the Responsible Business Alliance, to extend the commitments of individual companies to environmental and social responsibility leadership across the electronics industry's suppliers by establishing an industry-wide Code of Conduct. Further, in 2010, IBM expanded its supply chain environmental management program to require all suppliers with whom IBM has a direct relationship to establish a management system that addresses their social and environmental responsibilities and to cascade these requirements to their suppliers. Suppliers are required to measure their environmental performance, establish goals, and publicly disclose their performance against those goals. IBM believes each company, including each of its suppliers, must build capabilities and take responsibility toward improving energy efficiency and reducing their greenhouse gas (GHG) emissions. IBM also believes companies that measure their environmental performance are better able to identify areas that need improvement and execute upon them, and public disclosure provides a powerful incentive for driving continual improvement.

Setting Sustainability Expectations for Suppliers: IBM engages with approximately 12,000 suppliers in nearly 100 countries. IBM believes all enterprises, including its suppliers, must possess the requisite capabilities to succeed in managing their social and environmental responsibilities, and therefore issues social and environmental management requirements to suppliers with whom IBM has a commercial relationship. IBM expects suppliers to

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[1] IBM. *IBM and the Environment Report* (2017). Source: https://www.ibm.com/ibm/environment/annual/IBMEnvReport_2017.pdf

[2] Forbes. *The World's Largest Tech Companies* (2017). Source: https://www.forbes.com/pictures/heie45hil/5-ibm/#4826c782cc8b

[3] This number does not include the amount of renewable electricity that came to IBM in the grid mix that is part of its routine purchases. Combining IBM's contracted renewable electricity purchases and renewable electricity in the grid mix, 40.6 percent of IBM's global electricity supply in 2016 was generated from renewable sources.

comply with applicable legal requirements wherever they do business and encourages them to demonstrate leadership in corporate responsibility. IBM uses the RBA's Supplier Code of Conduct[4] in its supplier selection process. The Code of Conduct addresses topics including Environment, Health and Safety, Labor and Employment, and Ethics and Human Rights. Suppliers are required to sign a legal document agreeing to comply with the RBA Code of Conduct. Suppliers also agree that they will advise IBM if they cannot comply with any of its provisions. In addition, suppliers shall provide documentation, upon request, verifying their compliance with the RBA Code of Conduct. IBM may authorize a third party to conduct on-site audits of its suppliers. To date IBM has conducted approximately 2,000 audits across 34 growth market countries. Suppliers undergo an initial audit and, if not compliant, are given 6 months to carry out corrective actions such that upon a re-audit they are expected to be compliant. Noncompliance may lead to a business being removed.

Providing Assistance to Suppliers: Based on suppliers' unique needs and challenges in complying with IBM's requirements, IBM provides them with tools to integrate sustainability into daily business practices. Today, the RBA's membership has grown to 125 companies with combined annual revenue of over $4.75 trillion, directly employing more than 6 million people. In addition to RBA members, thousands of companies that are Tier 1 suppliers to those members are required to implement the RBA Code of Conduct. The RBA code touches more than 3.5 million people from more than 120 countries. RBA's reach with application of its Code of Conduct has expanded to include companies and suppliers in other industry sectors, including companies in the automotive, toy sectors, and beyond. IBM also participated in an early RBA effort that developed a user friendly and effective framework to help companies in the electronics industry's supply chain calculate their GHG emissions, thereby reducing reporting burdens and enabling efficient sharing of information with client companies.

IBM has found that, at times, smaller suppliers, especially those in emerging markets—which comprise up to one-third of IBM's spend—lack the resources necessary to meet IBM's environmental requirements. To address this capacity challenge, IBM works closely with such suppliers toward building their capabilities and allows them more time to develop processes to comply with IBM's requirements. When onboarding new suppliers, IBM leverages the RBA's learning academy courses and educational models. IBM also uses the RBA's Validated Audit Process[5] to determine supplier compliance prior to having on-site third-party audits conducted. IBM co-leads RBA's Indirect Spend Workgroup, which educates other RBA members on how to communicate the requirements of, and ensure supplier compliance with, the Code of Conduct despite diverse supplier sizes ranging from global firms to local businesses. IBM is perpetually learning how to better educate its internal staff and its suppliers to meet leading practices in corporate responsibility.

Helping Suppliers Stay Competitive: IBM believes that sound social and environmental management can help suppliers maintain a competitive edge. IBM wants to help suppliers appreciate that meeting its requirements can contribute to more efficient and sustainable operations and aid in decreasing operational costs and improving margins. Suppliers are also better positioned to meet disclosure expectations of their clients, employees, and shareholders who are increasingly demanding corporate transparency and responsibility.

Resources: EPA's Center for Corporate Climate Leadership's Supply Chain Guidance: epa.gov/climateleadership/center-corporate-climate-leadership-supply-chain-guidance.

> **"Sometimes smaller suppliers feel that this [environmental management] is an extra cost, and we help them appreciate that this is entry into doing business in the twenty-first century, and actually a way of making their operations run even more efficient."**
> *- Louis R. Ferretti, Project Executive, Product Environmental Compliance & Supply Chain Social Responsibility*

[4] http://www.responsiblebusiness.org/media/docs/RBACodeofConduct6.0_English.pdf
[5] EICC/RBA. Validated Audit Process (2017). Source: http://www.responsiblebusiness.org/media/docs/EICC-VAP-Audit%20Operations%20Manual%20v5%201%201%20Auditee%20Preparation%20.pdf