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Produced in conjunction with the Duke University Nicholas School of the Environment*

Challenges and Opportunities in Supply Chain Environmental Sustainability Disclosure

Navigating the Request-Response Process Between Stakeholders and Suppliers

Introduction

Environmental sustainability has become an important topic for organizations of all types in recent years. There has been a push not only to evaluate the sustainability performance within an organization's own operations, but also to evaluate the impacts of the organization's supply chain. This push has resulted in a proliferation of sustainability supply chain surveys and organizations have had to dedicate an increasing amount of time to respond to them. However, according to a Carbon Disclosure Project (CDP) survey, 38 percent of suppliers, whose purchasing companies participate in the CDP Supply Chain program, disclosed what they were doing so to address their climate change impacts. Twenty-seven percent of those suppliers who disclosed stated that they were making an effort to lower carbon emissions and energy use, amounting to about 10 percent of the total suppliers who received the CDP survey. On the other hand, 69 percent of their purchasing companies indicated they that addressed their carbon emissions and energy use. While the scope of the survey focused on climate-related efforts, such activity typically takes place within a broader environmental sustainability strategy of an organization. This points to a large gap between the sustainability measures taken by large corporations with global supply chains and those of the thousands of suppliers that make up those logistics networks.

While the significance of supply chain disclosure has caused large companies with global supply networks to take the lead in requesting and providing relevant information on environmental performance, the process is seen as cumbersome and inefficient, constituting a point of frustration for sustainability and supply chain professionals. A 2012 GreenBiz "survey of surveys" found that companies have become increasingly exasperated at the amount of surveys they receive from independent groups (such as nongovernmental organizations (NGOs)) and customers, with little to no indication of how the information will be used.ⁱ Sustainability professionals working in corporations are finding themselves with a difficult situation: they must respond to their customers and want NGOs to accurately report on their sustainability performance, but the methodologies of the information requests are inconsistent,

ⁱ <http://www.greenbiz.com/blog/2012/09/30/sustainability-survey-frequency-assessment>

even though much of the information requested is similar across surveys. The consensus among those who responded to the GreenBiz survey: “There are too many surveys, they need to be standardized, and there’s a frustrating lack of transparency in the different methodologies.”

The Association of Climate Change Officers (ACCO) has convened a working group of sustainability professionals and engaged a student team from the Nicholas School of the Environment at Duke University to identify opportunities to streamline and harmonize the sustainability supply chain surveying process, with the hope that reducing the amount of time organizations spend on responding to surveys will, in turn, allow them to spend more time on internal sustainability measures and implementation efforts. This project focuses on identifying opportunities related to the request and disclosure of supplier data related to environmental topics; social and governance topics are outside of the scope of this project.

Analysis

Methodology

This recommendation was developed from insights gained from 15 interviews with sustainability professionals on the current challenges and opportunities they confront in the supply chain disclosure process, and a thorough analysis of 31 environmental supply chain surveys. The survey analysis identified commonalities and differences regarding question topics, question nature, and question format. The analysis also looked at the stated purpose of the surveys and whether they were created by individual companies versus industry groups and NGOs.

Results

Interviews

From the interviews, we found that individuals tasked with responding to surveys expressed a desire for some level of standardization that would reduce the burden of responding to survey requests, while individuals tasked with issuing surveys tend to want the flexibility to focus on the areas and topics that are material to their organizations. Furthermore, it was clear through interviews with individuals responsible for making decisions on the survey data that organizations are at various stages in their ability to act on the results. Some organizations are collecting data in an attempt to start dialogues with their suppliers, while others have incorporated sustainability metrics into their supplier evaluation and selection processes. From the interviews, we gained some context regarding some of the common drivers in this area, the challenges, and finally, opportunities for improvement.

Forces Driving Organizations to Issue Sustainability Surveys

- **Evaluating suppliers' sustainability** – Eleven out of 15 interviewees stated that sustainability had become a consideration for selecting qualified suppliers. Even if it was not a strict criterion to rule out suppliers, many interviewed companies indicated they would not just consider cost when choosing suppliers, but would be more willing to do business with socially and environmentally responsible companies.
- **Environmental impact reduction opportunities** – Six out of the 15 sustainability professionals interviewed cited reduction opportunities. Surveys could be utilized to identify GHG emission or other environmental impact reduction opportunities in the supply chain, especially for those companies who begin to manage their Scope 3 emissions or those who would like to establish leadership in the climate change and sustainability areas.
- **Risk management** – Five out of the 15 sustainability professionals interviewed cited risk management as a key force driving sustainability surveys. For example, from a climate viewpoint, the CDP supply chain program could help identify vulnerability of a commodity, including scarcities, continuing impacts from natural disasters or climate changes, and price volatilities.

Challenges Currently Facing Organizations

- **Data management** – Some interviewees worried that the amount of data from supply chain surveying would grow exponentially.
- **Data quality and question design** – Sometimes suppliers do not answer questions in the way issuing company expected them to respond. Therefore, checking data can turn into a back-and-forth process, but even so, it can be difficult for a purchasing company to ensure that a reply is relevant. Some interviewees also expressed frustration over open-ended or descriptive questions, which were time-consuming for survey responders to answer and for issuing companies to review.
- **Maximizing values of survey responses** – Although most of the interviewees acknowledged some value in integrating the supplier information into risk management or supplier engagement, many are only beginning the process to integrate this survey process into purchasing decisions.
- **Supplier engagement** – According to some interviewees, it was difficult to make suppliers understand that, rather than facing only negative consequences for not addressing their environmental performance, they also can receive some positive returns to actively engage in this process.

Opportunities for Harmonization

- **Standardization** – Standardization was one approach many interviewees emphasized. One interviewee suggested that the ultimate goal for standardization would make sustainability reporting similar to financial reporting, so that the type of questions or the way they are being asked would be consistent across differing surveys.
- **Dominating platform(s)** – Some interviews pointed out that public availability and a centralized reporting platform is not a new concept within sustainability disclosure. There are many efforts already, such as CDP, Global Reporting Initiative (GRI), Sustainability Accounting Standards Board, and Dow Jones Sustainability Indexes, which could be looked at as models for a supply chain survey platform.
- **Better technology** – Technology provides another opportunity for harmonization. For example, the GRI is promoting the adoption of a technology called eXtensible Business Reporting Language (XBRL), which enables the development of standard taxonomies and tagging of business data on electronic documents. This technology can replace the need for people to manually read reports to extract specific data.
- **Industrial sector level harmonization** – According to our interview results, many industries had formed associations to centralize sustainability efforts. In these cases, the association develops an aggregate survey, and market players in that industry send it out to their suppliers.

Survey Analysis

The analysis of the collected surveys highlighted differences in topic coverage not only between industries, but also among companies in the same industry. As a result, we conclude that it would be difficult to encourage all organizations to use a single common survey or set of questions. However, our analysis found that the yes/no question format and its variants are the most common question format, comprising at least 60 percent of the questions asked across all survey purposes. This highlights an opportunity to focus on standardizing the wording and format of the questions that are being asked. These results were categorized according to our research questions.

What are the Most Common Topics and Subtopics Asked Across All of the Surveys?

Just two topic categories make up the majority of all environmental topics that surveys address, but looking at more specific subtopics reveals greater variation in the environmental issues surveys cover. As shown in Figure 1, of the ten topics covered in the surveys, “Emissions, Effluents, and Waste” and “Overall” covered 30 percent and 24 percent of topics across all surveys, respectively. Another 40 percent was made up of four topics: “Products and Services” (12%), “Supply Chain” (9%), “Energy” (8%), “Water” (6%) and “Materials” (5%). Together with “Emissions, Effluents, and Waste” and “Overall”, these six topics covered 94 percent of all questions asked by the survey sample.

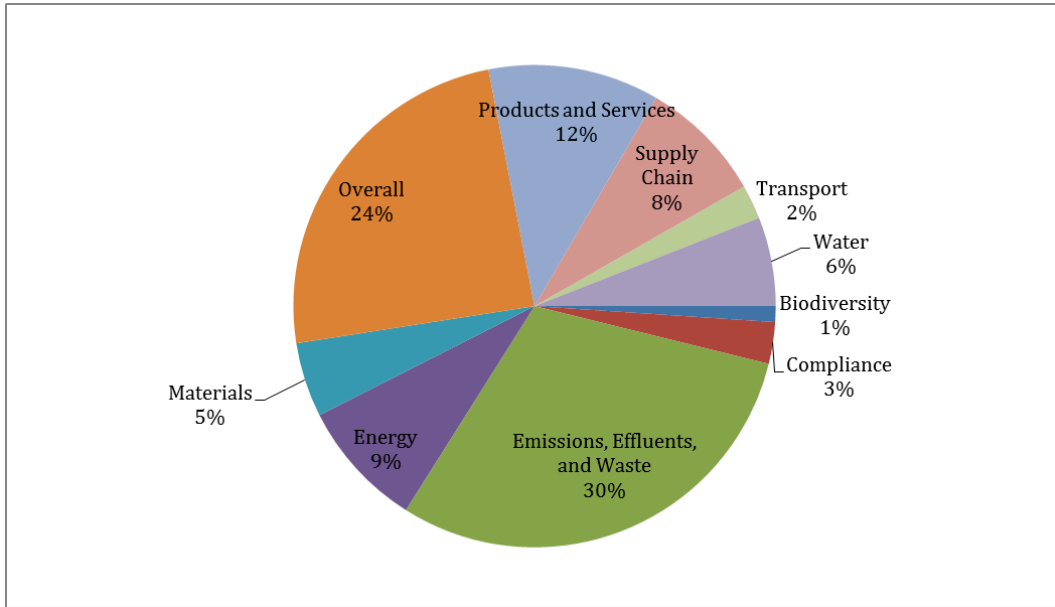


Figure 1. Topic Coverage – All Surveys

Each topic broke down into multiple subtopics, greatly diversifying the number of sustainability subjects the surveys address. Figure 2 below shows that within “Emissions, Effluents, and Waste”, the most frequent subtopics were “GHG Emissions” (28%), “Waste” (25%), “GHG Emissions Reduction” (16%) and “Hazardous Waste” (8%), together accounting for 77 percent of the topic’s questions. Questions directly addressing water discharge only accounted for 6 percent of the questions under this category, with “Water Discharge Impact” and “Water Discharge Volume” each representing 3 percent.

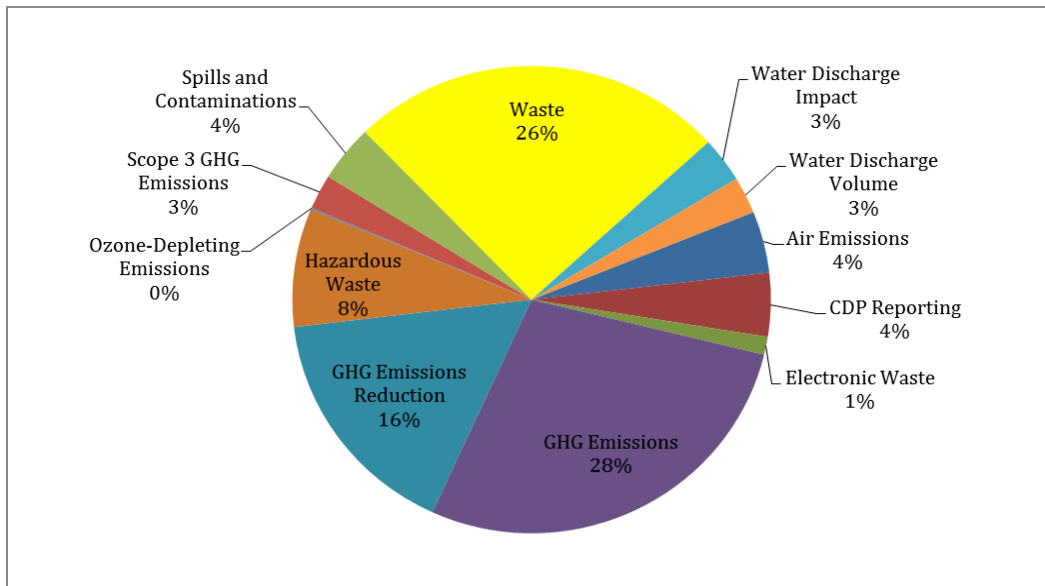


Figure 2. Subtopic Coverage Under Emissions, Effluents and Waste Subtopics Across All Surveys

Within an Industry, are there Differences Between the Questions Being Asked by Individual Companies and their Industry-Specific Aggregate Surveys?

In the particular industries studied, the relevant aggregate surveys did not align very closely with the topics and subtopics individual companies address in those industries. For this, the analysis explored the telecommunications and pharmaceutical industries. We focused on these sectors in particular because we obtained at least three surveys from these industries. The total sample of surveys included three companies in the telecommunications industry, which used the Electronics Industry Citizenship Coalition (EICC) survey across the sector. The Pharmaceutical Supply Chain Initiative (PSCI) survey was commonly used to measure environmental performance among sector companies. Comparing the telecom company surveys with the EICC survey and the pharmaceutical company surveys with that of the PSCI provides a glimpse at the degree of survey harmonization within certain industries. Tables 1 and 2 below show the topic coverage across surveys in each industry.

Table 1. Comparison of Surveys in Telecommunication Industry

Topics	Electronics Industry Citizenship Coalition	Company A	Company B	Company C	All Surveys
Biodiversity	0%	0%	0%	0%	1%
Compliance	3%	0%	0%	4%	3%
Emissions, Effluents, and Waste	52%	23%	52%	26%	30%
Energy	3%	17%	14%	4%	9%
Materials	2%	2%	0%	17%	5%
Overall	25%	22%	19%	17%	24%
Products and Services	9%	13%	0%	4%	11%
Supply Chain	5%	13%	5%	9%	8%
Transport	1%	5%	0%	9%	2%
Water	1%	5%	10%	9%	6%

Table 2. Comparison of Surveys in Pharmaceutical Industry

Topics	Pharmaceutical Supply Chain Initiative	Company X	Company Y	Company Z	All Surveys
Biodiversity	0%	0%	7%	0%	1%
Compliance	4%	3%	0%	5%	3%
Emissions, Effluents, and Waste	38%	18%	27%	38%	30%
Energy	4%	9%	27%	27%	9%
Materials	0%	15%	0%	0%	5%
Overall	46%	15%	0%	19%	24%
Products and Services	0%	24%	7%	0%	11%
Supply Chain	4%	0%	27%	0%	8%
Transport	0%	3%	0%	0%	2%
Water	4%	12%	7%	11%	6%

Are there Differences in Questions Being Asked Between Industries?

There were some similarities between industries in the questions being asked at the topic level, with “Emissions, Effluents, and Waste” and “Overall” topic categories making up the highest percentage of questions. However, at the subtopic level, there was much more variation between industries in the questions being asked. To compare across different industries, we used the industry-specific aggregate surveys to represent the overall industry disclosure practices. Analyzing the industry-specific aggregate surveys revealed that each industry placed priorities on different topics in their surveys (as shown in Table 3).

Table 3. Comparison of Aggregate Surveys Across Industries

Topics	Electric Utility Industry Sustainable Supply Chain Alliance	Electronics Industry Citizenship Coalition	Pharmaceutical Supply Chain Initiative	Practice Green Health	Sustainable Apparel Coalition
Biodiversity	0%	0%	0%	0%	0%
Compliance	6%	3%	4%	0%	1%
Emissions, Effluents, and Waste	29%	52%	38%	0%	56%
Energy	11%	3%	4%	0%	13%
Materials	3%	2%	0%	23%	0%
Overall	23%	25%	46%	0%	17%
Products and Services	9%	9%	0%	77%	0%
Supply Chain	9%	5%	4%	0%	2%
Transport	0%	1%	0%	0%	0%
Water	11%	1%	4%	0%	11%

How do Companies Intend to Use the Survey Responses?

Almost half of all survey questions were intended to rate or score the supplier, while starting a dialogue with suppliers was a much higher priority to aggregate surveys than to company-specific surveys. The purpose of 47 percent of total questions was to rate/score the supplier, followed by 18 percent of all questions asked to audit/track the supplier, and 18 percent unspecified (as shown in Figure 3). Unspecified was designated when the survey did not clearly specify the purpose of the survey.

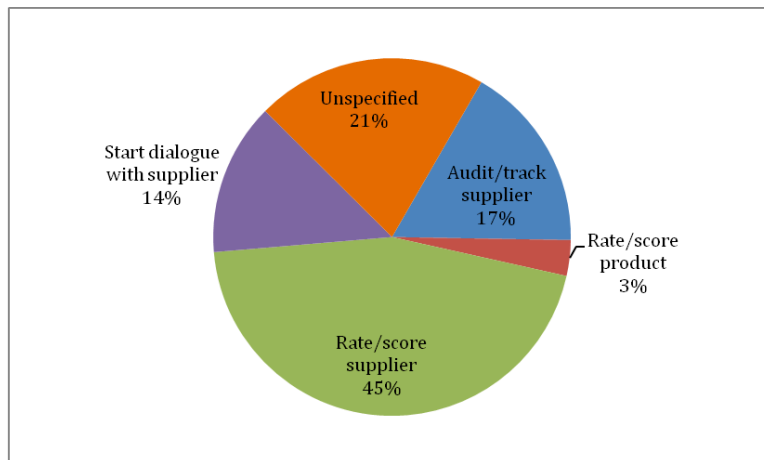


Figure 3. Percentages of Different Questionnaires Purposes

How Does the Purpose of the Survey Correspond or Relate to the Way the Questions are Being Asked?

The yes/no question format and its variants are the most common question format across all survey purposes. The purpose of the survey was also compared to the format of the question to determine a possible relationship. We hypothesized that if the purpose of the survey was to rate or score a supplier or product, that the majority of the questions would be those that were easy to assign a score, such as yes/no. The analysis showed this to be true, with 50 percent of the questions with a purpose to rate or score the product, and 25 percent of the questions with a purpose to rate or score the supplier corresponding to the yes/no question format. Somewhat contrary to this conclusion, 70 percent of the questions with a purpose to start a dialogue with the supplier corresponded to the yes/no question format as well (Figure 4). These results show that there is potential for standardization around the question format.

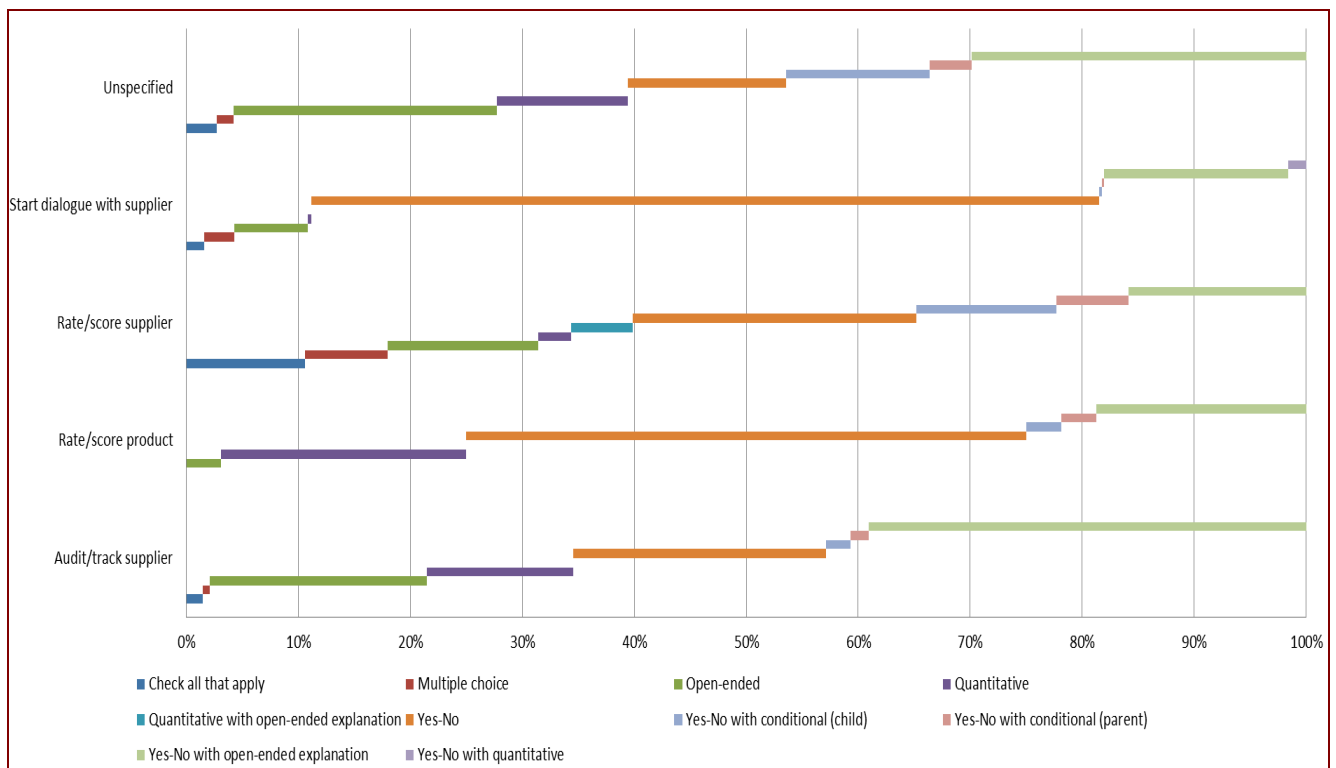


Figure 4. Question Formats by Survey Purposes

Recommendations

Through this project, we have identified several on-going efforts by various organizations to develop and encourage the wide-spread use of survey templates and platforms. However, these efforts focus on creating a standard set of questions that organizations should ask their suppliers. As an alternative approach, we recommend that a web-based repository of environmental sustainability questions be created where survey issuers could pick and choose the questions they want to send to their suppliers, and suppliers could respond to each question that they receive from their customers and have the responses saved in the repository, as illustrated in Figure 5.

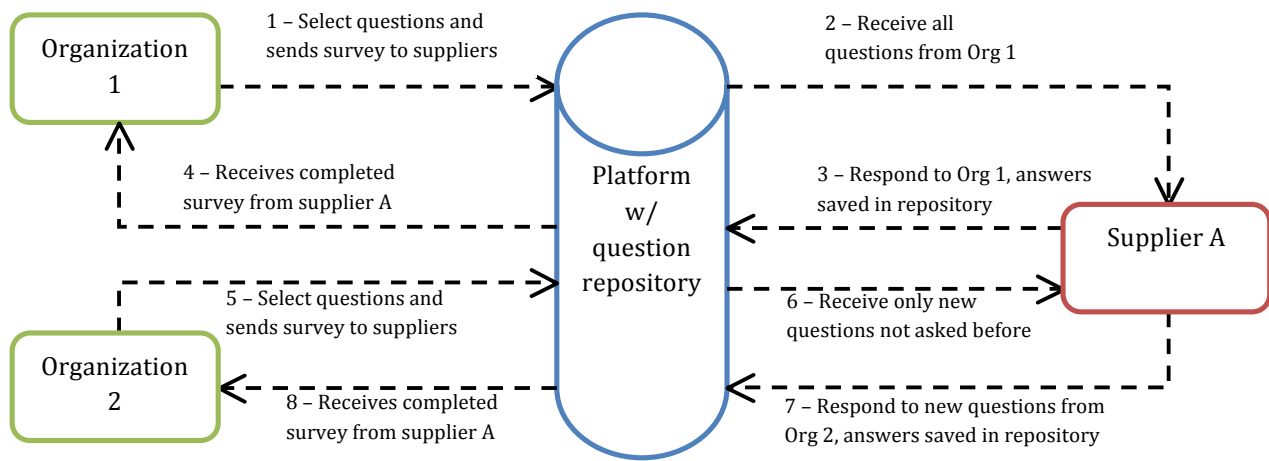


Figure 5. Process Flow of Platform Model

As suppliers receive surveys from their customers, questions they have already responded to in a prior customer survey will be automatically filled with their saved response and they would only have to enter responses to questions if they are receiving that question for the first time, if there are changes to their business practices, or if the question requires a customer-specific response (e.g. activity-based allocation). This type of repository system would standardize the wording and format of questions, allow survey issuers to maintain the flexibility to customize their surveys to focus on the topics that are most important to their organization, and reduce the burden for survey responders.

From an implementation perspective, we recommend that the development of this platform be broken down into two phases. The first phase should focus on creating and promoting the use of the questions repository itself, while the second phase would focus on creating a database to store survey responses, which would then enable the development of other value-added functionality, such as reporting, data analytics, and performance benchmarking.

Since initially presenting this proposed platform at the Climate Leadership Conference in February 2013, we have received thoughtful feedback from various sustainability professionals through multiple channels of communication. The feedback has centered around three main considerations for the project moving forward: the business model, the design of the questions repository, and the

technological aspects of the platform. ACCO and its partners will move forward with a working group that will address opportunities and challenges for greater consistency within the sustainability supply chain disclosure process.

About ACCO

The Association of Climate Change Officers (ACCO) is a 501(c)(3) non-profit membership organization that defines, develops and supports the functions, resources and communities necessary for effective organizational leadership in addressing climate-related risks and opportunities. An industry leader in producing education and training events for climate change and sustainability professionals, ACCO's members include a broad range of organizations and executives in industry, government, academia and non-profit organizations worldwide. For more information about ACCO, please visit www.ACCOonline.org.

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