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IBM's Requirements for Procurement Processes

- Presented at a National Academies Workshop on Fostering Sustainability Considerations into Public & Private Sector Procurement Tools and Capabilities

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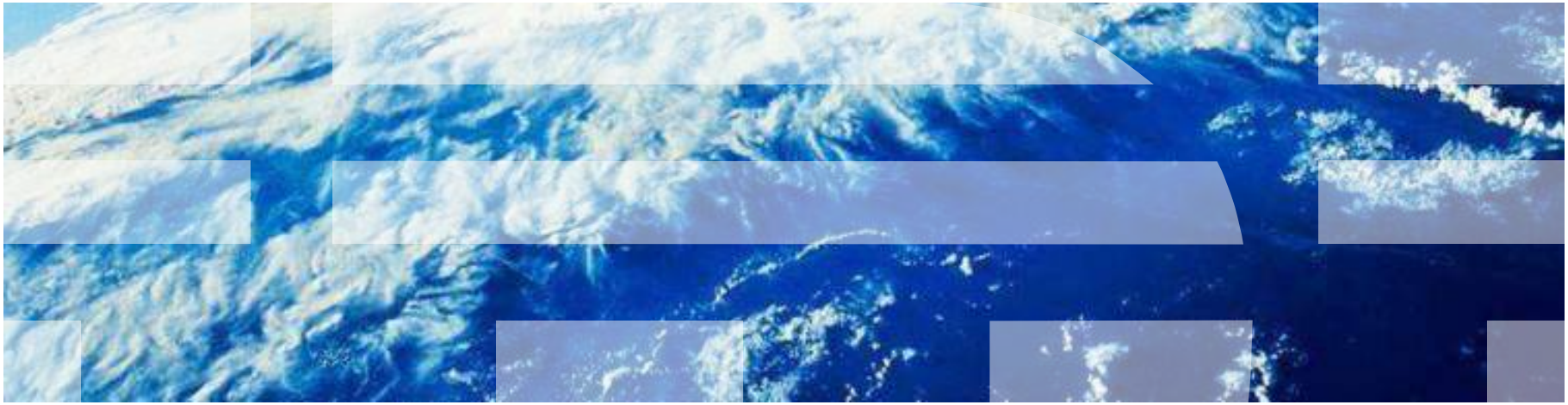
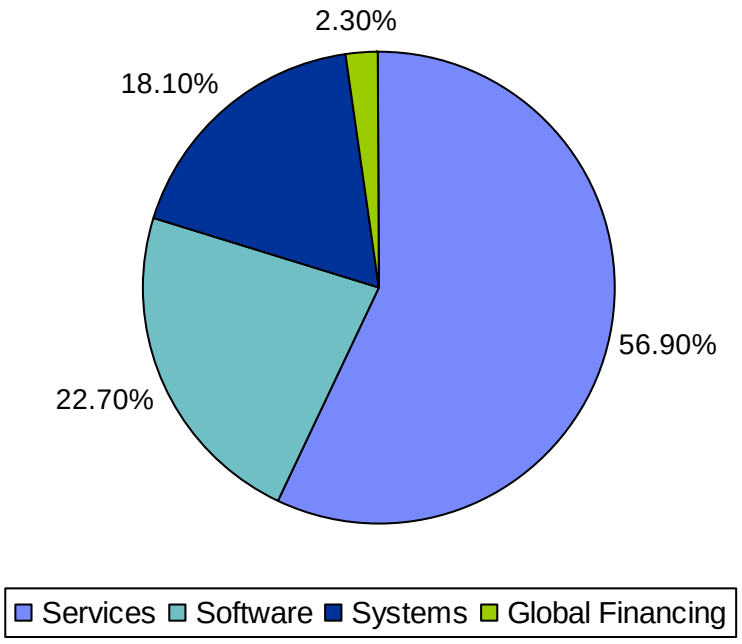


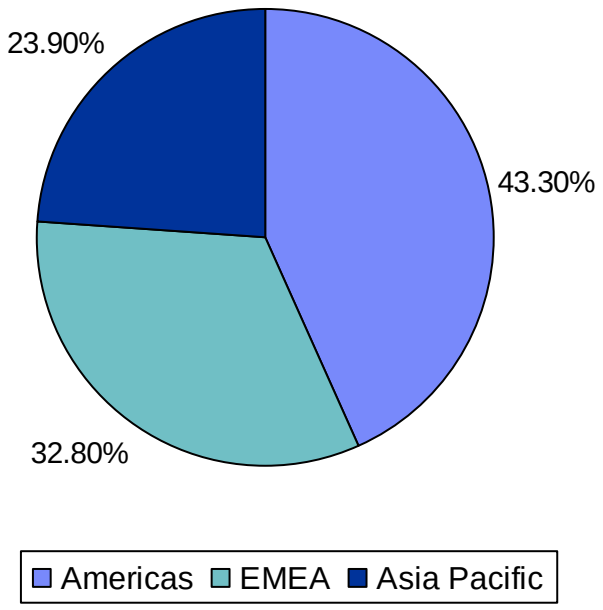
IBM Profile

- **IBM's businesses: services, software, systems & technology**
- **Serving clients in over 170 countries**
- **2010 revenue: $99.87 billion**
- **Number of employees: 426,751 (year-end 2010)**

2010 Revenue Segmentation by Business

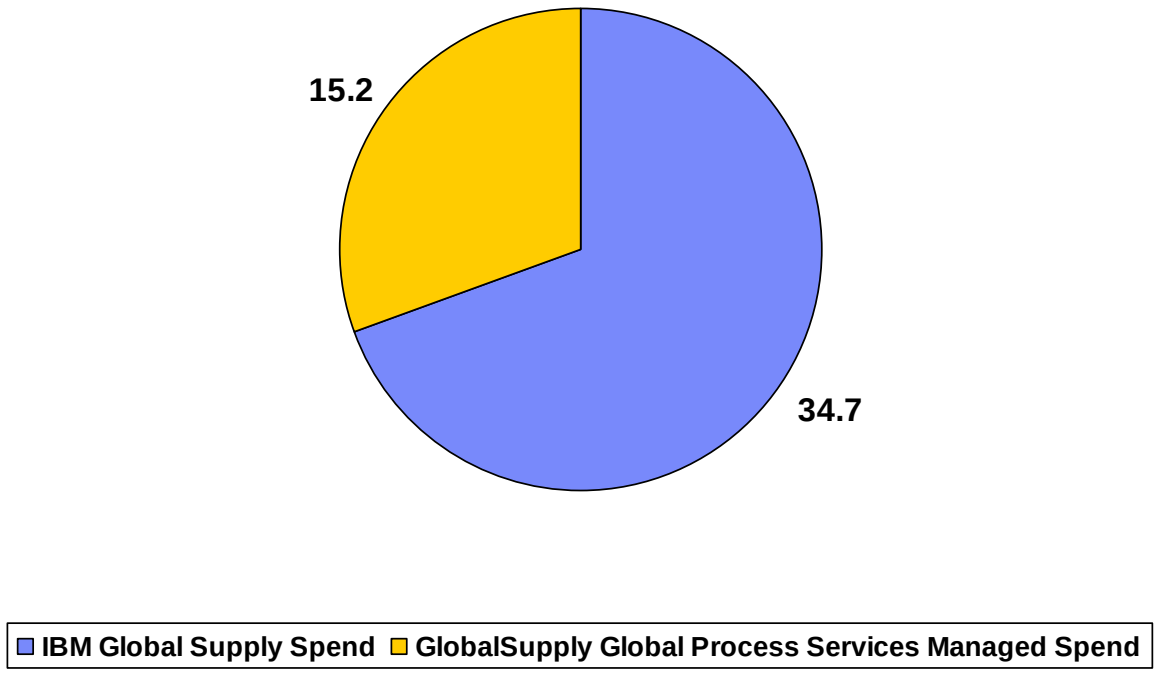


2010 Revenue Segmentation by Geography



IBM Procurement Spend and Suppliers

- **Total 2010 Global Supply Spend = $49.9 Billion**



- **27,000 first tier suppliers in nearly 100 countries**

Longstanding Commitment to Corporate Responsibility

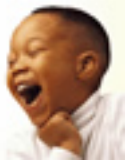
- **Being a good corporate citizen was one of the IBM Principles established in 1969, excerpt from that principle:**
  - "We accept our responsibilities as a corporate citizen in community, national and world affairs; we serve our interests best when we serve the public interest.... We want to be at the forefront on those companies which are working to make our world a better place."

Thomas J. Watson, Jr.
IBM CEO (1956-1971)

- **It is a business imperative, embedded in our strategy and operations.**

- **Corporate Responsibility is integrated across IBM's business:**

Governance And Financial Accountability



Corporate Community Relations

Environmental Affairs and Product Safety

Employee Well-Being

Global Human Resources

Supply Chain Management

Governmental Programs

Philosophy re: Supply Chain Management

- **IBM considers its suppliers to be strategic partners in the company's success**
- **IBM is committed to doing business with responsible suppliers**
- **IBM recognizes its sizeable purchasing power is a unique resource**
  - Must manage responsibly
  - Provides an ability to influence supply chain performance
- **IBM's focus is driving demonstrable results**
  - Informed by metrics and information that are deterministic and actionable
  - Through improvements in supply chain capabilities for social and environmental management

Requirements for Procurement Process -- Highlights

- 1972: Established a corporate directive requiring the environmental evaluation of suppliers of **hazardous waste** services
- 1980: Expanded environmental evaluations of suppliers to cover certain **production**-related suppliers
- 1991: Further expanded its environmental evaluations of suppliers, adding a requirement that its product recycling and **product disposal** suppliers be evaluated
- 1998: Explicitly encouraged its suppliers to align their own **environmental management systems** with ISO 14001 and to pursue registration under this international standard
- 2002: Expanded supplier evaluation requirements to include assessments of subcontractors that suppliers may use to handle **recycling and/or disposal operations in non-OECD countries**
- 2004: Issued IBM's **Supplier Conduct Principles** to articulate the company's overall supply chain social and environmental requirements
- 2010: Established new **supply chain management system** requirements for all IBM suppliers

Implementing Procurement Requirements

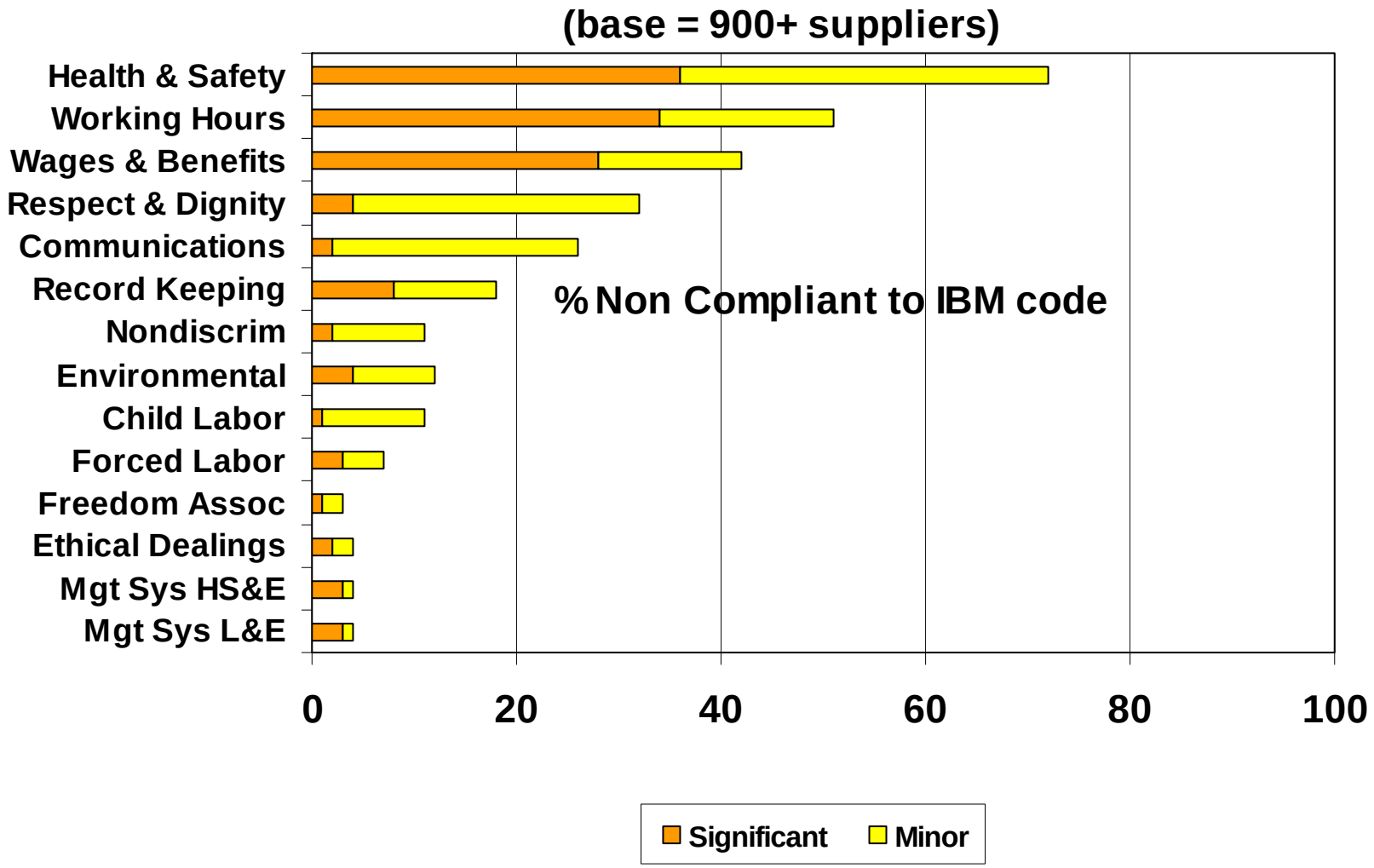
- **Management system, roles and responsibilities**
  - IBM's global environmental managements system defines environmental requirements
  - Requirements integrated into Procurement's business processes
- **Training**
  - IBM Procurement staff
  - Suppliers
- **Requirements communication**
  - Specifications
  - Contract terms and conditions
- **Assessment**
  - Evaluation of suppliers' self declarations
  - Audits

Supply Chain Social Responsibility Audit Program

- **IBM Procurement determines suppliers to be audited in growth market countries**
- **IBM Procurement contracts approved third party audit firms for the assessments and audits to determine supplier compliance to IBM or Electronic Industry Citizenship Coalition Code of Conduct**
- **Audit firm provide validated audit results provided to IBM and the suppliers**
- **Supplier Improvement Plans (SIPs), where required, are reviewed and accepted by SCSR team**
- **Re-audit occurs after implementation of SIP**
- **Procurement executive review of results and SIP acceptance timeframe**

Supplier Initial Audit Results – Global Cumulative (2004-2010)

Argentina, Brazil, China, Czech Rep, Hungary, India, Korea, Malaysia, Mexico, Philippines, Poland, Romania, Singapore, Slovakia, Taiwan, Thailand and Vietnam



Carbon Disclosure Project (CDP) Supply Chain Project

- **IBM participated since inception with objectives to**
  - Gain insight of supplier capability to complete energy use and GHG emissions inventories.
  - Understand suppliers' energy use and GHG emissions reduction plans and commitments
  - Send clear message to suppliers regarding importance managing their energy use and GHG emissions

- **Requested participation from both it Production and Non-Production suppliers**
  - 80% of Production spend
    - ✓ Also included critical, energy intensive suppliers such as specialty chemicals
  - 15-25% of Non-Production spend
    - ✓ In 2007 requested responses from sampling of suppliers across all Non-Production categories.
    - ✓ In subsequent years, biased sample to energy intensive activities

Summary of Responses: 2007 - 2010

	Production Suppliers				Non- Production Suppliers			
	2010	**2009**	**2008**	**2007**	**2010**	**2009**	**2008**	**2007**
Total Suppliers Asked	55	69	76	61	52	63	45	65
Total Responding	51	62	51	38	42	52	40	35
Percent Responding	93%	90%	67%	62%	81%	83%	89%	54%
Total Responding w/ Emissions Inventory	96%	79%	73%	53%	86%	67%	73%	60%
Total Responding With Emissions Reduction Target	71%	69%	51%	No Data	64%	58%	60%	No Data
Total Responding With Emissions Reduction Initiatives	92%	No Data	No Data	No Data	88%	No Data	No Data	No Data

Conclusions from CDP Supply Chain Project Participation

- **Increased focus on inventorying and managing energy use and GHG emissions**
  - In 2007, capability was largely in large US and European companies
  - In 2010, capability has extended to smaller companies around the world
  - Completeness of inventories and reduction plans have improved significantly from 2007 to 2010

- **Focusing on our direct suppliers can and is making a difference in improved performance by the suppliers**
  - Supports our approach to inform decisions based on actionable metrics
  - Resources best applied to driving real and value-add results

Collaboration Across Electronics Industry

- **Electronics Industry Citizenship Coalition (EICC)**
  - Promotes an industry Code of Conduct for global electronics supply chains to improve working and environmental conditions.
    - ✓ Started by 23 companies, expanded to 59 members
    - ✓ Commitment to continual Corporate Social Responsibility (CSR) improvement
    - ✓ Promotes tools, standards and programs to improve CSR performance
    - ✓ Establishes single industry contact point to work with stakeholders

- **EICC Environmental Working Group GHG emissions disclosure project**
  - Developed a standardized, simple, spreadsheet-based GHG disclosure system for the electronics supply chain
  - Accepts EICC Simplified Spreadsheet or a company's submittal to CDP or Global Reporting Initiative
    - ✓ Focus on key indicators:
      - ➢ Energy use and GHG emissions
      - ➢ Energy use and GHG reduction plans & commitments
      - ➢ Demonstrated reductions over time
    - ✓ Allow use of existing disclosures to avoid repeat work
  - Sends a clear message to suppliers of the importance of, and reinforces value-add to business in management and reduction of energy use and GHG emissions

IBM's New Management System Requirement for Suppliers (2010)

- **Summary of Requirements**
  - Deploy and sustain a corporate responsibility and environmental management system
  - Measure performance and establish voluntary environmental goals (numeric);
  - Publicly disclose results
  - Cascade this set of requirements to the supplier's suppliers who perform work that is material to the products, parts and/or services being supplied to IBM

- **Objectives**
  - Help suppliers build their capability to effectively manage these responsibilities
  - Help suppliers acknowledge their own accountability
  - Make managing these responsibilities systemic, integral, long term, sustainable

- **IBM is not asking suppliers to do anything it has not already done itself**
  - IBM manages these subjects via a global management system
  - Has published an annual corporate environmental report since 1990 (21 years)
  - Has published an annual corporate responsibility report since 2002

New Management System Requirement for Suppliers (continued)

Specifically:

1. define, deploy, and sustain a corporate responsibility and environmental management system that identifies significant aspects of the supplier's intersections with these matters,
2. establish programs to address these aspects and confirm compliance
3. measure program performance including, at a minimum:
   - energy conservation
   - scope 1 and scope 2 greenhouse gas emissions
   - waste management and recycling
4. set voluntary environmental goals, including goals in each of the three aspects above
5. publicly disclose results associated with these voluntary environmental goals and other environmental aspects, including any regulatory fines or penalties that may have occurred
6. train employees who are responsible for performing this work
7. conduct self-assessments and audits as well as management reviews
8. cascade this set of requirements to the supplier's suppliers who perform work that is material to the products, parts and/or services being supplied to IBM

THANK YOU !

Questions?