



مؤسسة الملك خالد
KING KHALID FOUNDATION



Sustainability Award Performance Development Workshop

Sustainable Supply Chains

Training 2024



Toolkit

Sustainable Supply Chains Training 2024

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Letter to Participants

The King Khalid Foundation (KKF) is pleased to publish, in partnership with AccountAbility, this practical and insightful Sustainability Award Performance Development Toolkit on Sustainable supply Chains for companies in the Kingdom of Saudi Arabia (KSA).

The King Khalid Foundation continues to advance the sustainability agenda by collaborating to deliver impactful sustainability programs and support the growth of responsible business practices. This Performance Development Toolkit builds upon years of experience, feedback, questions, and needs that KSA companies have shared with KKF during the past fifteen years and during each King Khalid Award process. The Toolkit supports the Performance Development Program by providing practical sustainability solutions and guidance for Training participants.

The Sustainable Supply Chains Training

The content of the Sustainable Supply Chains training and this Toolkit is tailored to the needs identified based on 15 years of Award participant feedback and is intended for applicants that are at any stage of their ESG journey. Through explanatory content, relevant case studies, and reflection questions, this Sustainable Supply Chains training highlights a framework to manage and further progress Sustainable Supply Chains in the organization, as well as practical ways to implement this.

This Toolkit is meant to serve as a useful reference tool for the implementation of Workshop learnings in the future and contains the following focus areas:

- Sustainable Supply Chain Overview
- Foundations
- Methods
- Engagement

Upon completion of the Training, you will have the basic tools necessary to engage with a Climate Transition plan in your company.



Sustainable Supply Chains Overview

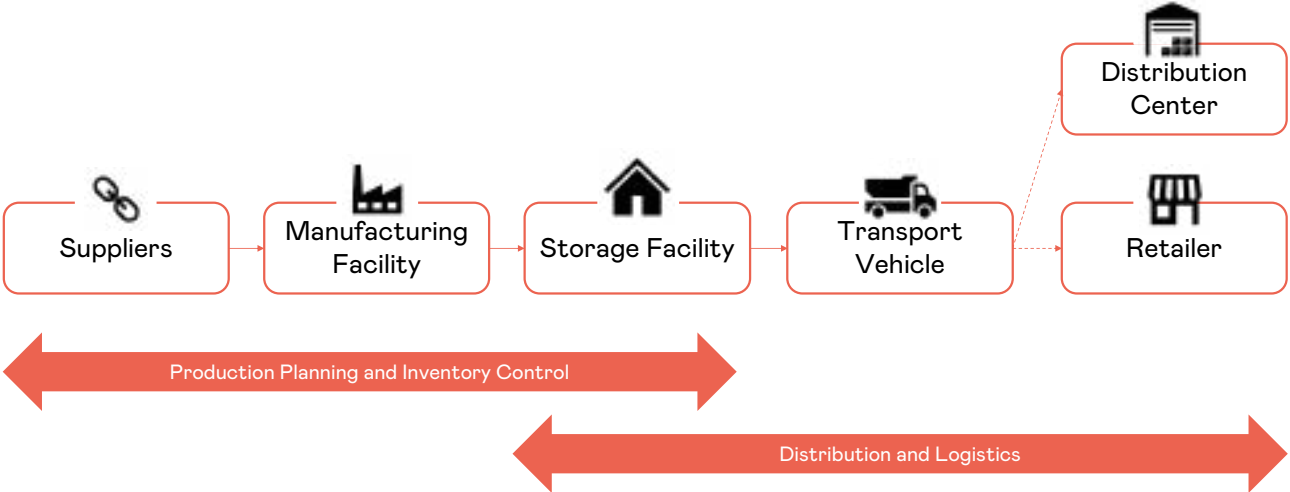
What is a Sustainable Supply Chain?

“Supply chain sustainability is the management of environmental, social and economic impacts, and the encouragement of good governance practices, throughout the lifecycles of goods and services.”¹

A sustainable supply chain is a collaborative approach that generates enduring value for the environment, society, and the economy. By embedding the UN Global Compact principles into supply chain partnerships, companies can foster responsible practices in labor, environmental stewardship, and anti-corruption. This not only enhances a company's sustainability profile but also contributes to a broader ecosystem of responsible business.

The supply chain “refers to the chain of suppliers inputting to a final product.”² It encompasses all the activities involved in the movement of a product, from sourcing raw materials to final delivery to the customer and provides the essential building blocks such as raw materials and resources, needed to develop a product.

Elements of a Supply Chain: Retail Example³



To provide an example of a Supply Chain in action, let us take the Retail cycle. The supply chain here encompasses the interconnected processes of production, inventory management, and distribution. Production planning involves designing and managing the manufacturing process, from raw material acquisition to scheduling and material handling. Inventory control oversees the storage and management of raw materials, work-in-progress, and finished goods. Distribution and logistics focus on moving products from warehouses to retailers, including inventory retrieval, transportation, and final delivery. The effective orchestration of these processes determines overall supply chain performance.

As indicated above, the suppliers, manufacturing facility and storage facility aspects all entail the process of Production Planning and Inventory Control. The storage facility, transportation, retailer and distribution center all constitute the Distribution and Logistics process. The storage facility serves as the common ground between both processes as it serves the role of inventory control as well as distribution.

¹ UN Global Compact and Business for Social Responsibility – [Supply Chain Sustainability](#) (2010).
² SustainAbility, UNEP, The Global Compact – [Unchaining Value Innovative approaches to sustainable supply](#).

³ Beamon – [Supply chain design and analysis: Models and methods](#) (1998).

Supply Chains Are Integral to ESG Strategy⁴

Broader Risk Mitigation

An organization’s supply chain has many potential risk factors that they do not have internal oversight of, including human rights violations and climate resilience.

Carbon Reduction Opportunities

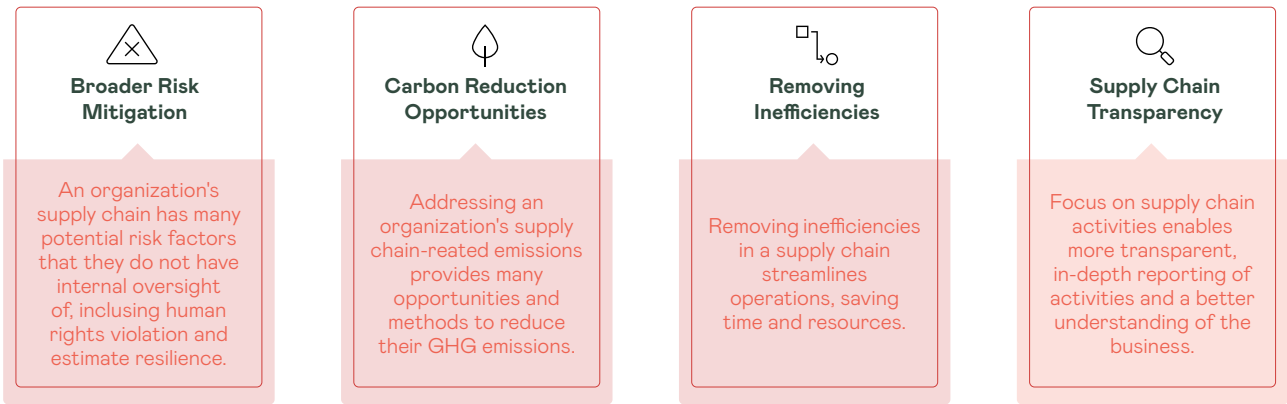
Addressing an organization’s supply chain-related emissions provides many opportunities and methods to reduce their GHG emissions.

Removing Inefficiencies

Removing inefficiencies in a supply chain streamlines operations, saving time and resources

Supply Chain Transparency

Focus on supply chain activities enables more transparent, in-depth reporting of activities and a better understanding of the business



Global Sustainable Supply Chain Trends

- 44% of companies had major challenges arising from their supply chain footprint that required them to make changes during 2023⁵
- 80% of total product value can stem from supply chain activities⁶
- 64% “of companies with product sustainability programs have reduced logistics and supply chain costs”⁷

Global Sustainable Supply Chain Trends

- Compliance with laws and regulations
- Compliance with sustainable business conduct
- Strengthen brand reputation & social license to operate⁸
- Increases access to green capital
- Promote ethical labor practices for worker well-being⁸
- Mitigate risks associated with resource scarcity, climate change, and environmental regulations

Sustainable Supply Chains in Practice

Global Case Study: Unilever

Unilever displays the following leading practices through its work^{9 10 11 12 13}.

- In 2010, the organization launched the Unilever Sustainable Living Plan (USLP) with **ambitious goals to halve their environmental footprint** and improve the social impact of their products by 2030
- They began by **engaging with key suppliers** and setting clear expectations for environmental and social responsibility
- They prioritize sourcing raw materials from **environmentally responsible suppliers** who meet their sustainability criteria
- They strive for complete transparency in their supply chains including implementing traceability systems to track the origin of raw materials and ensure responsible sourcing practices are followed



“Unilever Sustainable Living Plan 2010 to 2020”
Unilever. 2021.

⁵ McKinsey – [Tech and regionalization bolster supply chains, but complacency looms](#) (2023).
⁶ McKinsey – [Overcoming barriers to multitier supplier collaboration](#) (2021).
⁷ Deloitte – [Sustainable Supply Chain Transformation](#) (2023).
⁸ UN Global Compact, BSR – [Supply Chain Sustainability](#) (2010).
⁹ Unilever – [Sustainable Living Plan 2010 to 2020](#) (2021).
¹⁰ Unilever – [Code of Business Principles and Code Policies](#) (2023).
¹¹ Unilever – [Human rights in our value chain](#).
¹² Unilever – [Unilever’s Supply Chain](#) (2023).
¹³ Unilever – [Responsible Partner Policy](#) (2022).

⁴ Deloitte – [The business case for sustainability](#).



Methods

Methods to Implement Sustainable Supply Chains

1. Scope 3

- a. Provides a foundation for understanding your overall environmental impact

2. Sustainable Procurement

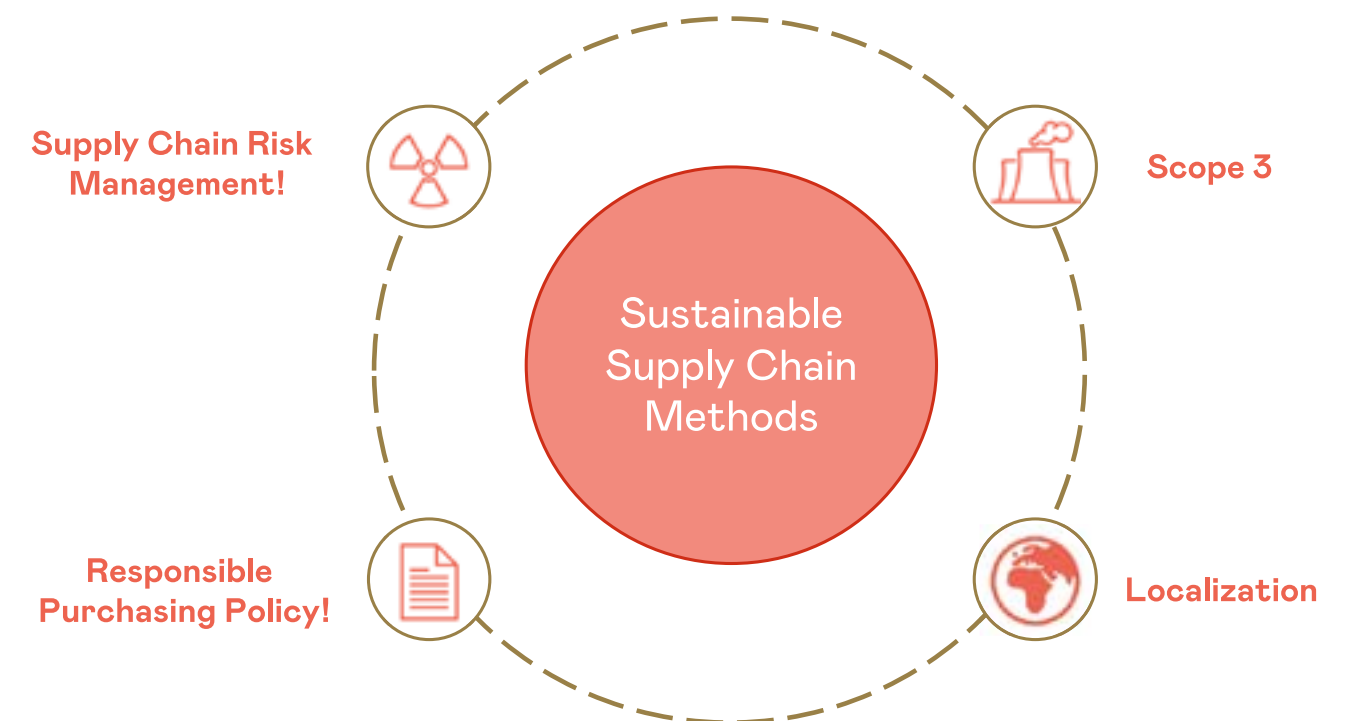
- a. Selects suppliers aligned with sustainability goals and minimizing impact

3. Localization

- a. Minimizes transportation emissions and fosters closer collaboration with suppliers

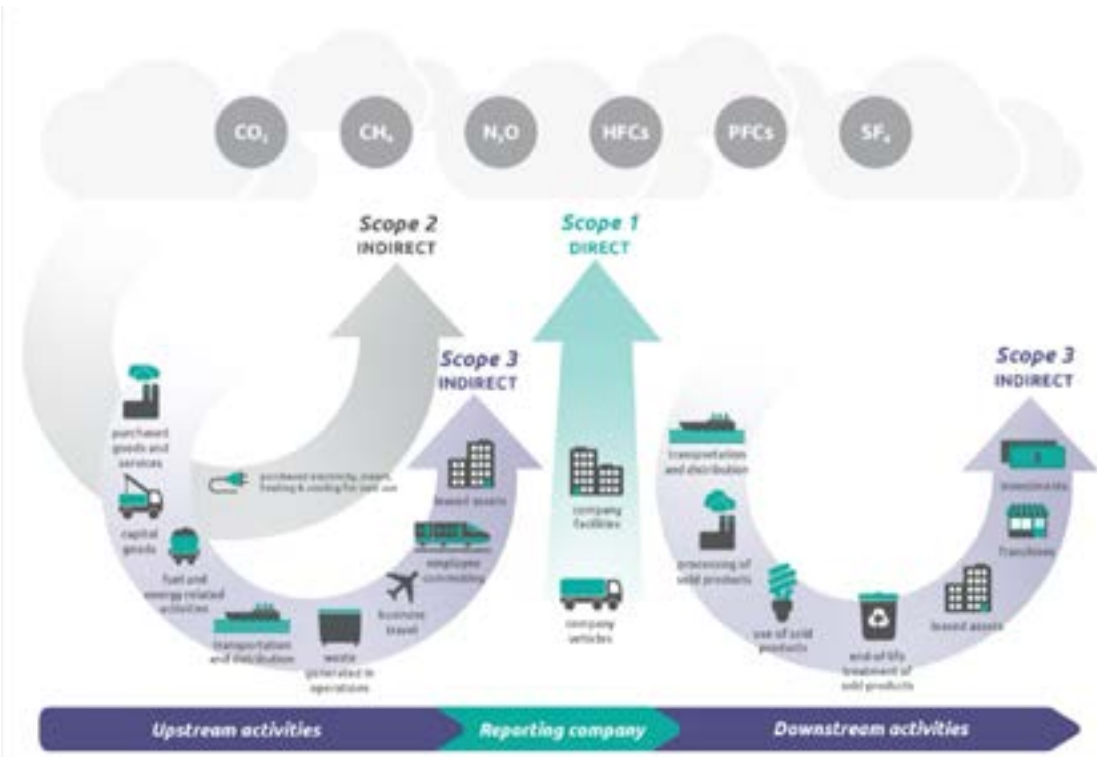
4. Supply Chain Risk Management

- a. Identifies and mitigates potential issues that could disrupt your sustainability efforts



Method 1 - Sustainable Supply Chain Methods

The overview of GHG Protocol scopes and emissions across the value chain are as displayed below:



Scope 1¹⁴: Direct Sources

“Scope 1 emissions are direct emissions from owned or controlled sources.”

Scope 2¹⁴: Indirect Sources

“Scope 2 emissions are indirect emissions from the generation of purchased energy.”

Scope 3¹⁴: Upstream and Downstream Sources

“Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.”

Scope 3 Overview

- Scope 3 emissions are mostly comprised of a company’s supply chain and typically represent the largest portion of an organization's total greenhouse gas footprint¹⁵
- The GHG Protocol outlines 15 categories of Scope 3 emissions, though not all categories apply to every organization¹⁶
- Categories have different methodologies for account carbon intensity¹⁶

Table [5.3] List of scope 3 categories

Upstream or downstream	Scope 3 category
Upstream scope 3 emissions	1. Purchased goods and services 2. Capital goods 3. Fuel- and energy-related activities (not included in scope 1 or scope 2) 4. Upstream transportation and distribution 5. Waste generated in operations 6. Business travel 7. Employee commuting 8. Upstream leased assets
Downstream scope 3 emissions	9. Downstream transportation and distribution 10. Processing of sold products 11. Use of sold products 12. End-of-life treatment of sold products 13. Downstream leased assets 14. Franchises 15. Investments

Key Challenges in Addressing Scope 3 Emissions

Complexity of Supplier Networks¹⁷

- Nearly two-thirds of upstream emissions lay beyond Tier 1 suppliers in geographically complex networks. This makes it **challenging to identify the emission-intensive** parts of a supply chain
- Knowledge gaps often the most carbon intensive
- Some industries are more susceptible to lack of product trackability, i.e., cotton manufacturing for retailers

¹⁴ Greenhouse Gas Protocol – [FAQ](#).

¹⁵ United Nations Environmental Protection Agency – [Scope 3 Inventory Guidance](#).

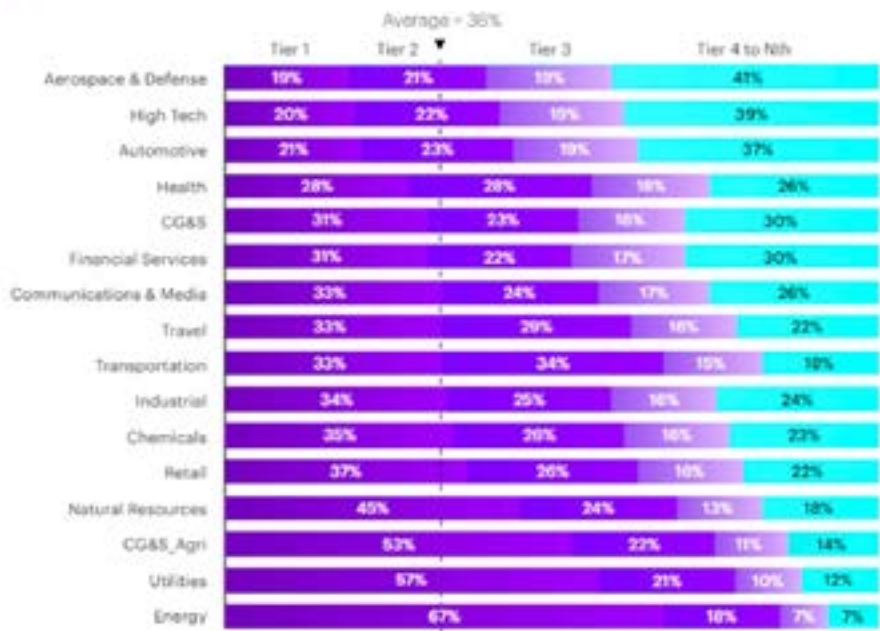
¹⁶ Greenhouse Gas Protocol – [Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard](#) (2011).

¹⁷ Accenture – [Thought you knew the Scope 3 issues in your supply chain? Think again](#). (2022).

Inconsistencies in Measuring Scope 3 Data¹⁸

- Even when non-tier 1 suppliers have been identified, good quality primary data across value chains is often lacking, especially among smaller businesses
- Without consistent data, daunting to calculate complete scope 3 emissions and track progress of emissions reduction over time

Figure 1: Distribution of upstream emissions by supplier tier



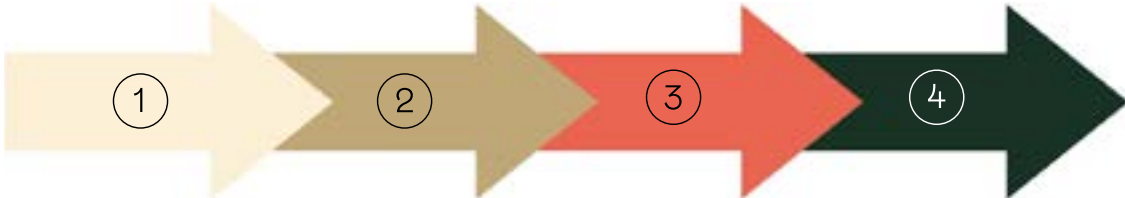
Source: Accenture Research analysis based on EXIOBASE 3 dataset, 2022

Why are Scope 3 Emissions Important for Supply Chain Sustainability?

- Supply chain emissions (part of scope 3) are 11.4% larger than Scope 1 and 2 emissions combined¹⁹
- Supply chains generate up to 60% of emissions globally²⁰
- “64% of Suppliers beyond Tier 1 represent 64% of total upstream emissions”¹⁷
- 95% of companies reported finding scope 3 emission disclosures are useful for decision-making²¹

¹⁸ Deloitte – [Challenges and solutions in measuring and reporting Scope 3 emissions](#).
¹⁹ SBTi – [Engaging Supply Chains on the Decarbonization Journey](#) (2023).
²⁰ Accenture – [How Supply Chain Sustainability Helps Unlock Resilience and Growth](#) (2023).
²¹ World Resources Institute – [Trends Show Companies Are Ready for Scope 3 Reporting with US Climate Disclosure Rule](#) (2022).

Supply Chain Scope 3 Emissions Reduction Action Steps²²



Step 1 - Emission Hot Spot Analysis

Conduct a real multi-tier emissions hot spot analysis to set targets and drive the right actions

- Identify hidden emissions sources
 - Large emissions sources often remain hidden in the supply chain
- Focus on significant impact areas
 - Analyze the supplier base to find the biggest emission sources



Step 2 - Update Procurement Practices

Embed sustainability into category planning and supplier selection

- Incorporate ESG criteria
 - Ensure ESG criteria are included in sourcing and decision-making processes
 - Tailor emission-reduction strategies to address specific hot spots
- Advance Beyond Tier-One with Education
 - Encourage Tier 1 suppliers to be sustainable in their purchasing processes
 - Provide sourcing teams with practical and educational toolkits



²² Accenture – [Thought you knew the Scope 3 issues in your supply chain? Think again](#). (2022).

Step 3 - Support suppliers in their decarbonization efforts

Develop relationships with supplier that enable ongoing engagement on sustainability goals²³

1. Supplier Engagement Program
 - a. Clearly communicate emissions requirements
 - b. Provide training and support to establish science-based targets, set baselines, report, and enhance ESG performance
 - c. Create incentives to encourage suppliers to advance their ESG initiatives
2. Supplier Code of Conduct & Evaluations
 - a. Updating supplier code of conduct and supplier surveys to include harsher ESG language
 - b. Include ESG metrics in evaluations and audits

Principles for Engaging with Suppliers²⁴

1. Leveraging Procurement
 - a. Embed decarbonization into procurement processes
 - b. Include carbon reduction clauses in performance management contracts
2. Building Capacity
 - a. Share carbon-reduction learnings and leading practices through supplier forums and workshops
 - b. Train suppliers in decarbonization and offer peer benchmarking
3. Rewarding Progress
 - a. Offer financial incentives for achieving decarbonization
 - b. This may include rewarding achievements of emissions targets or investing in power purchase agreements
3. Enforcing Performance
 - a. Institute financial penalties as incentive
 - b. For example, carbon pricing holds suppliers accountable by shifting responsibility



Step 4 – Sector Engagement

Collaborate across your sector to speed up decarbonization at scale

1. Scope 3 Data sharing with Peers
 - a. Companies rely on incomplete emissions data from ad-hoc sharing
 - b. Instead, aggregate data from various sources to recommend effective decarbonization steps
2. Ongoing engagement and improvement
 - a. Suppliers must continuously engage, improve data quality, and act on suggestions
 - b. Suppliers making progress are rewarded, providing customers with transparency



Scope 3 in Practice

Global Case Study: HP

HP displays the following leading practices through its work.²⁵

- HP conducts **procurement-driven workshops** with suppliers who are GHG emissions “hot spots” in their supply chain on topics that include setting science-based targets, increasing renewable energy use, waste reduction, etc.
- They conduct initiatives that include **sourcing renewable energy** in countries in which their suppliers operate, enabling corporate renewable energy procurement
- They conduct **in-depth assessments** of their suppliers' sustainability practices. This allows them to identify areas for improvement and collaborate with suppliers to develop strategies for achieving their sustainability goals.



“Sustainable Impact Report”
HP. 2023.

²³ Accenture – [Opening Our Eyes to The Scope 3 Supply Chain Opportunities | Accenture Cop27 Series](#) (2023).

²⁴ PwC – [What you really need to know about Scope 3 emissions and your business.](#)

²⁵ HP – [Sustainable Impact Report](#) (2023).

Local Case Study: Shell

Shell displays the following leading practices through its work.^{26 27}

- ✓ Shell addresses Scope 3 emission reduction in the value chain by having created the **Supplier Energy Transition Hub**, a digital platform to empower companies to reduce their Scope 3 emissions
- ✓ Companies across various industries can compare their performance with others on the platform and identify proven strategies for reducing emissions in their specific industry
- ✓ The platform provides a space for users to **discover and implement** innovative solutions for lowering their carbon footprint
- ✓ By inviting key suppliers to **share their emissions data**, Shell aims to gain insights into their upstream Scope 3 footprint and create reduction initiatives



"Supplier Energy Transition Hub"
Shell.

Method 2 - Sustainable Procurement

What is Sustainable Procurement?

"Sustainable procurement is a process which incorporates sustainability considerations throughout the procurement process".²⁸

- ✓ **Sustainable procurement is a smarter approach.** It considers the environmental and social impact alongside economic factors, leading to a more holistic and strategic buying strategy.
- ✓ **Going green doesn't mean slowing down or spending more.** Sustainable practices can be implemented efficiently and don't necessarily increase costs.

Examples of sustainable procurement include:

- ✓ A **responsible purchasing policy** which encourages environmental and/or social practices to be adopted by suppliers. This may include criteria like purchasing from vendors who use bio-degradable products or recycled products, who monitor their emissions or water use, who use local materials for manufacturing, etc.

Pillars of Sustainable Procurement

The 3 Pillars of Sustainable Procurement include²⁸:

Economic:

- ✓ Value for money
- ✓ Emerging markets
- ✓ Total cost of ownership

Environmental:

- ✓ Resource management
- ✓ Alternative energies
- ✓ Protection of ecosystems
- ✓ Pollution and waste management

Social:

- ✓ Human rights
- ✓ Fair trade
- ✓ Fair pay
- ✓ Gender equality
- ✓ Health and safety



²⁶ Shell – [Supplier Energy Transition Hub](#).

²⁷ WBCSD – [Reaching Net Zero: Incentives for Supply Chain Decarbonization](#) (2021).

²⁸ The World Bank – [Sustainable Procurement: An Introduction for Practitioners to Sustainable Procurement in World Bank IPF Projects](#) (2019).

Sustainable Procurement in Practice

Global Case Study: Walmart and Bain

Walmart displays the following leading practices through its work²⁹:

- Walmart’s Responsible Sourcing program began in 1992 to establish expectations for suppliers and to monitor facilities in potentially high-risk geographies. Since then, we have expanded our efforts to provide ways for workers to report concerns, began **risk-based auditing and audit assessments** to monitor supply chain health, engaged with stakeholders around the world, and engaged in key supply chains to solve for root cause issues.



“Sustainable Impact Report”
Walmart. 2023.

Bain displays the following leading practices through its work^{30 31}:

- Bain & Co. has a **sustainable procurement policy** that addresses protecting environment, business ethics, labor and human rights, and community development with the goal of:
 - Upholding the laws and regulations of the respective countries they operate in
 - Endorsing highest standards of economic, social, ethical and environmental practices
 - Identifying and moderating risks associated with their procurement process
 - Communicating the policy with stakeholders (internal and external) and raising awareness among our suppliers



“ Sustainable Procurement Fact Sheet”
Bain & Company.

²⁹ Walmart – [Responsible Sourcing](#).
³⁰ Bain & Company – [Sustainable Procurement Policy](#).
³¹ Bain & Company – [Sustainable Procurement Fact Sheet](#).

Method 3 - Localization

What is Localization?

Localization in a sustainable supply chain context refers to the practice of sourcing materials, manufacturing products, and distributing goods closer to the point of consumption.³²

It allows for closer collaboration with suppliers and better oversight of production processes. Further, shorter distances between production and consumption locations translate to lower transportation needs, leading to a significant reduction in greenhouse gas emissions and air pollution.³³

Localization through Saudi Vision 2030³⁴

Grow SME Contribution to the Economy

- By sourcing from and partnering with local Small and Medium Enterprises (SMEs)for supplies and services, companies can significantly contribute to this vision pillar
- Localization fosters a more vibrant domestic supply chain ecosystem, creating opportunities for SMEs and boosting overall economic activity. Supporting local businesses also promotes job creation and economic diversification within the Kingdom

Develop Promising Local Companies into Regional & Global Leaders

- Localization allows Saudi companies to gain valuable experience and expertise by catering to local markets
- This experience can then be leveraged to expand their reach and become regional or even global players
- By prioritizing local suppliers and fostering their growth, Saudi Arabia can cultivate a pool of successful domestic companies capable of competing on the international stage

³² Oracle Netsuite – [Localizing Your Supply Chain: A Cost-Benefit Analysis](#) (2022).
³³ EY – [Reshoring Manufacturing – Time to Seize The Opportunity](#) (2015).
³⁴ [Vision 2030](#).

Localization: Global Trends

- 90% of supply-chain executives expect to pursue some degree of regionalization during the next three years³⁵
- 63% of business buyers say that improving sustainability in their purchasing practices is a top goal³⁶
- The Kingdom aims to localize 50% of its defense procurement under Vision 2030³⁴
- 48% of surveyed companies know the location of their tier-one suppliers and corresponding risks³⁴

Localization Insights: Benefits and Risk Resilience^{37 34}

Geopolitical & Logistic Disruption

- Increased trade tariffs, wars, pandemics and failing infrastructure are responsible for increased cost of shipping and mass delays of products

Support Vision 2030 Ambitions

- Vision 2030 seeks to localize a significant portion of certain industries, including energy, mining, and defense across the entire value chain.

Reduce Operational Costs

- Localizing sourced goods significantly decrease costs of shipping and logistics.

Reduce Operational Costs

- Localizing sourced goods decreases emissions of air, auto, train, and ocean shipping.

Method 4 - Supply Chain Risk Management

What is Supply Chain Risk Management?

“Supply Chain Risk Management (SCRM) is the process of identifying, assessing, and neutralizing risks associated with the global and distributed nature of product and service supply chains.”³⁸

To manage risk in supply chains:

- identify supply chain risks within your business.
- identify what is within your control or outside your control.
- understand the impact on your business if there are disruptions.
- develop a risk management plan to account for disruptions.

Supply Chain Risk Management Trends

- Although it is a priority, only around 37% of respondents have seen increasing visibility across their supply chains³⁹
- “50% of companies report basic KPIs on supply chain sustainability and risks”⁴⁰
- “55% of supply chain executives say they expect to see better management of operational risks within the next one to three years”⁴⁰
- “41% of supply chain executives expect an increased ability to anticipate supply chain disruptions over the next three years”⁴⁰

³⁵ McKinsey & Company – [How COVID19- is Reshaping Supply Chains](#) (2021).
³⁶ Amazon – [2022 State of Business Procurement](#) (2022).
³⁷ Harvard Business Review – [Are the Risks of Global Supply Chains Starting to Outweigh the Rewards?](#) (2022).

³⁸ GRI – [GRI 308: Supplier Environmental Assessment 2016](#) (2018).
³⁹ EY – [How Sustainable Supply Chains are Driving Business Transformation](#) (2022).
⁴⁰ EY – [Building Supply Chain Sustainability that Can Drive Revenues and Reduce Operational Risks](#) (2022).

Sustainable Engagement in Practice

Global Case Study: Sabic

Sabic displays the following leading practices through its work^{41 42 43}:

- SABIC conducts **comprehensive risk assessments** of potential and existing suppliers to evaluate environmental, social, and governance (ESG) risks within the supplier's operations
- They created the **Supplier Lifecycle Management (SLM)** program that also ensures that they operate a clean and sustainable supply chain
- SABIC has established a **Supplier Code of Conduct** outlining expectations for responsible business practices which addresses labor standards, environmental impact, and ethical sourcing practices



"Risk Assessment and Governance"
Sabic.



"Supplier code of Conduct"
Sabic.

Local Case Study: Saudi Aramco

Saudi Aramco displays the following leading practices through its work⁴⁴:

- Aramco's supply chains have proven to be highly resilient, weathering multiple factors and proving to be capable of returning to normal operations
- To support Aramco's vast operation of wells, the organization has relied on three core resiliency pillars to reduce risk:
 - A local manufacturing base
 - Multi-geography sourcing, and
 - A strategic inventory management strategy
- They add circularity to make their supply chains more resilient through "circular procurement and reverse logistics, sharing, and asset's life extension"
- To ensure compliance, Aramco performs inspections of suppliers, especially in areas deemed high-risk



⁴¹ Sabic – [Supplier Due Diligence](#) (2016).
⁴² Sabic – [Supplier Code of Conduct](#).
⁴³ Sabic – [Risk Assessment and Governance](#).

⁴⁴ Saudi Aramco – [Investing in Growth: Innovating for Sustainability](#) (2023).



Engagement

Supply Chain Engagement^{45 46}

- Engaging with suppliers is a method through which companies can work with suppliers to support their emissions reduction efforts.
- Building relationships with suppliers enables trust, better communication, and more transparency when it comes to supply chain activities.
- It takes time and thoughtful planning to foster deep engagement with suppliers. Before engaging external suppliers, organizations should develop internal methodology for data management and supplier engagement policies.



Supplier Engagement Techniques



Source(s): AccountAbility Global Insights

⁴⁵ SBTi – [Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management](#) (2018).

⁴⁶ UN Global Compact and Business for Social Responsibility – [Supply Chain Sustainability](#) (2010).

Supplier Engagement Program and Strategy^{45 47}

To establish a successful supplier engagement program and drive progress:

- 1. **Involve Internal Stakeholders:** Engage diverse company departments for a comprehensive strategy
- 2. **Collaborate Across Teams:** Work with Procurement, IT, and Marketing to integrate the program into existing processes
- 3. **Secure C-Suite Support:** Top-down support helps enlist other key stakeholders
- 4. **Build Quality Relationships:** Enhances efficiency, transparency, and resilience in the value chain
- 5. **Assign Oversight Responsibility:** Designate a person or team to oversee the program and track progress
- 6. **Create Feedback Mechanism:** Encourages more stakeholders to take climate action, making it easier for others to follow
- 7. **Essential Components for Success:** Data collection and tools and Engagement system and strategy

Internal Methodology: Involve Internal Stakeholders & Collaborate Across Teams⁴⁸

Involving internal stakeholders and collaborating across teams involves the following:



- 1. **Identify the internal departments responsible for data collection**
Companies should evaluate their current supply chain surveying methods and identify the key internal departments essential for successful data collection
- 2. **Engage the procurement staff**
The procurement team should assess the selected suppliers for suitability, educate staff on data collection procedures, offer guidance on supplier interactions, etc.
- 3. **Select suppliers and identify supplier information**
Companies should pinpoint key activities or processes where supplier data is most valuable and focus on engaging with suppliers of the highest-emitting products.
- 4. **Develop a method for managing supplier data**
Managing supplier data includes the data collection process, quality assurance, and reporting functions

Target Setting: Strategizing Supplier's GHG Reduction^{47 49 50}

- Develop a credible target by aiming for maximum emissions reductions in key areas and focusing on top categories like Purchased Goods & Services
- Request suppliers to set Scope 1 and 2 targets aligned with SBTi criteria and include Scope 3 goals
- Start estimating emissions and integrate data as it becomes available
- Align data collection and reporting with annual sustainability reports to ensure accurate progress tracking
- Set specific metrics, such as the percentage or number of strategic suppliers to set science-aligned targets by a certain year
- Publicly state your supplier engagement target and include interim goals to track progress



⁴⁷ Anthesis – [Activating Supplier Engagement on Scope 3 Emissions](#) (2021).
⁴⁸ Greenhouse Gas Protocol – [Gas Protocol Supplier Engagement Guidance](#).

⁴⁹ 1.5°C Supply Chain Leaders and BSR – [The 1.5°C Supplier Engagement Guide](#).
⁵⁰ SBTi – [Engaging Supply Chains on the Decarbonization Journey Version 1.0](#) (2023).

Capacity Building: Supporting Supplier's GHG Reduction^{50 51 52}

Capacity Building Methods include:

- Direct and hands-on training on calculating emissions and setting SBTs may be necessary for specific supplier groups
- Supplying information, tools, and examples can expedite their goal-setting and action-taking processes
- Workshops
- One-on-one coaching or group support sessions
- Expert support sessions (office hours or email)
- E-learning and webinars

Tips for implementation:

- Companies should recognize that suppliers are at different stages of their climate journey, needing various levels of guidance and support
- Be strategic in selecting capacity-building methods and deciding which suppliers to train. Collaborate with industry peers to share resources and conduct joint training

Table 4: Ways companies can support suppliers by engagement actor

Engagement actors	Types of support
Company to supplier	• Workshop / training • Goal setting • Technical guidance • Financial support
Supplier to supplier	• Knowledge sharing
Third party to supplier	• Workshop / training • Tools (e.g. frameworks or software)

⁵¹ SBTi – [Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management](#) (2018).
⁵² Exponential Roadmap Initiative – [Supplier Action Guide](#).

Remediation: Improving Supplier's GHG Reduction⁵³

Sustainability in the supply chain requires a strategy that promotes continuous improvement and incentivizes progress, such as remediation efforts

Remediation efforts to improve supplier efforts towards GHG reduction:

- Collaborate with suppliers to develop a corrective action plan with clear and reasonable deadlines for achieving compliance
- Maintain regular communication with non-compliant suppliers to encourage ongoing improvements



Tracking: Monitoring, Self-Assessments and Audits of Supplier's GHG Reduction^{53 54}

1. Monitoring

- a. Provides a foundation for understanding your overall environmental impact
- b. Effective in establishing baseline measurements and assessing performance
- c. Compliance-based monitoring raises concerns about costs and production disruptions

2. Self-Assessments

- a. Increases suppliers' understanding of customer expectations
- b. Efficiently covers a large supplier base quickly and cost-effectively compared to audits
- c. Reliable self-assessments require trust

3. Audits

- a. On-site evaluations of supplier performance against policies and expectations
- b. Audits can be conducted the company or by a third-party
- c. Most effective method but costly (money and time)

⁵³ UN Global Compact, BSR – [Supply Chain Sustainability](#) (2010).
⁵⁴ SBTi – [Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management](#) (2018).

Supplier Dialogue: Discussing Supplier's GHG Reduction

Activities that can be undertaken to improve dialogues with Suppliers:

- Incorporate climate performance in regular business reviews between procurement and suppliers⁵⁵
- Ensure suppliers know they must cut emissions by 50% before 2030. Assess suppliers' existing emission reduction targets and request revisions if they don't align with your climate goals⁵⁵
- Review suppliers' transition plans to ensure they align with their emission reduction targets⁵⁵
- Address any concerns suppliers have about setting targets and reducing emissions⁵⁴
- Regularly discuss climate performance to track progress, share peer performance examples, and identify mutual needs and opportunities⁵⁶
- Send notes acknowledging data review and thanking suppliers to build lasting relationships⁵⁶

Tips to improve supplier dialogue:

- Clear, concise, and regular communication is key to gathering meaningful inventory data from the supply chain⁵⁶
- Open conversations with suppliers clarify expectations, build trust, and identify collaboration opportunities and support needs⁵⁵
- Interactive communication is most effective, though it may not be feasible with large numbers of suppliers⁵⁴

Methods to engage with suppliers:⁵⁴

Table 2: Methods to communicate with suppliers	
Communication method	Description
Online platform	Facilitates the exchange of ideas and best practices between suppliers.
Non-interactive contact	Verbal or written contact from a company to its suppliers, without an interactive open dialogue. Example: McDonald's sends out regular newsletters to suppliers, communicating expectations and sharing best practices.
Open events	An open meeting between company, suppliers and third parties, where ideas and views on best practices can be exchanged.
Interactive meetings	Regular meetings, often at management level.
Webinars and videos	Offer one-way communication in an engaging way.

Rewarding: Incentivizing Supplier's GHG Reduction

Peer Benchmarking⁵⁷

- Showing suppliers how they perform in relation to peers can incentivize improvements
- A ranking or scoring system could be implemented

Public Recognition⁵⁷

- Larger organizations can reward suppliers who achieve specific emissions reduction targets or milestones by giving them public recognition

Reward/Penalty⁵⁷

- This approach entails offering monetary incentives rewarding good performance or non-monetary incentives penalizing bad performance

Other Approaches⁵⁸

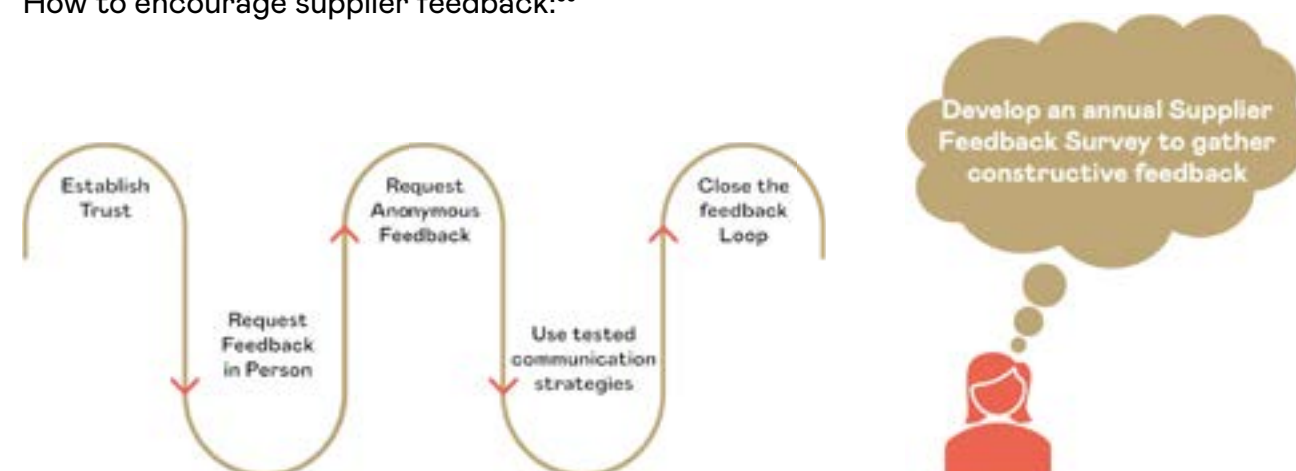
- Reduce the frequency of audits
- Implement a preferred supplier program
- Involve suppliers in strategic planning meetings
- Share costs for sustainability improvements

⁵⁵ Exponential Roadmap Initiative – [Supplier Action Guide](#).
⁵⁶ Greenhouse Gas Protocol – [Supplier Engagement Guidance](#).

⁵⁷ WBCSD – [Reaching Net Zero: Incentives for Supply Chain Decarbonization](#) (2021).
⁵⁸ UN Global Compact, BSR – [Supply Chain Sustainability](#) (2010).

Supplier Feedback and Surveys

How to encourage supplier feedback:⁵⁹



Engaging with Sub-Tier Suppliers

Challenges: Significant risks can arise from sub-tier suppliers due to lack of transparency and limited leverage.

Strategies to Overcome Challenges: ⁵⁸

- Industry Collaboration: Collaborate with other companies to increase influence on sub-tier suppliers and share costs and resources.
- Public Policy Engagement: Seek legal and regulatory solutions to address sustainability issues and enhance leverage
- Supply Chain Optimization: Shorten supply chains by grouping smaller suppliers into cooperatives, reducing middlemen, and increasing revenue for small suppliers

⁵⁹ UN Global Compact – [Communicating Decent Work to Suppliers](#).

Options to Manage Supplier Non-Compliance

A few options to manage non-compliance from suppliers are as follows:⁶⁰

Monitoring

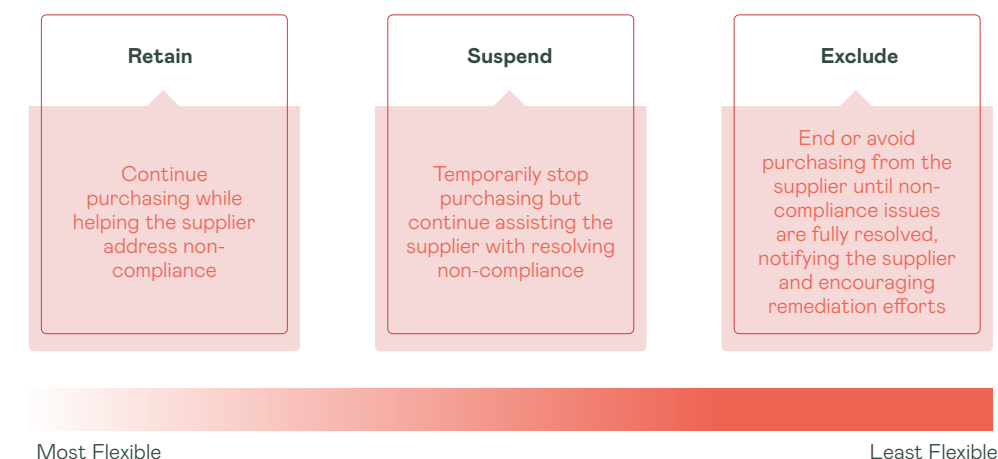
Continue purchasing while helping the supplier address non-compliance

Suspend

Temporarily stop purchasing but continue assisting the supplier with resolving non-compliance

Exclude

End or avoid purchasing from the supplier until non-compliance issues are fully resolved, notifying the supplier and encouraging remediation efforts



⁶⁰ Accountability Framework – [Operational Guidance on Supply Chain Management](#) (2019).

Supplier Engagement in Practice

Global Case Study: Philips

Philips displays the following leading practices through its work^{61 62 63 64 65 66 67}:

- Philips **invests in relationships** with environmentally-responsible suppliers
- Philips has established a **supplier sustainability strategy**, translating this into **programs** that help suppliers improve ESG performance
- Philips sets **clear targets**, provides progress updates, offers tailored **training and coaching, audits supplier performance** with their Supplier Sustainability Performance (SSP) program, and supports non-compliant suppliers in taking corrective action
- Philips emphasizes **collaboration**, taking a leading role in the Responsible Business Alliance to address supply chain sustainability challenges
- The company also has responsible purchasing and sourcing policies, requiring suppliers to comply with substance and data requirements



"Supplier Sustainability Performance"
Philips.

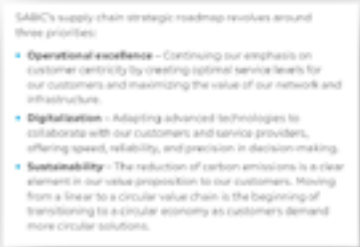


"Responsible Sourcing of Minerals Policy and Due Diligence"
Philips.

Local Case Study: Sabic

Sabic displays the following leading practices through its work⁶⁸:

- SABIC expects "transparency, fair, speed and clarity of the procurement process."
- SABICS engages with their **suppliers with a supplier engagement portal, industry conferences, compliance trainings, Supplier Code of Conduct**, etc.
- SABIC has "implemented a supply chain visibility tool" and "joined Together for Sustainability (tfs), a procurement-driven initiative created by chemical companies to enhance sustainable supply chain practices."
- Furthermore, SABIC states that "all of our global suppliers are also subject to the SABIC Supplier Life Cycle Management (SLM) program, which includes robust due diligence to ensure SABIC suppliers meet our sustainable supply chain and procurement requirements and to demonstrate their compliance practices in areas such as safe working conditions, anti-corruption, and environmental sustainability."



SUPPLIER ASSESSMENT METRICS					
Metric	2020	2021	2022	2023	2024
New suppliers through SLM	1,000	1,000	1,000	1,000	1,000
Suppliers removed from SLM	0	0	0	0	0
Total suppliers through SLM	1,000	1,000	1,000	1,000	1,000
Suppliers assessed through TFS	100	100	100	100	100
Suppliers assessed through TFS	100	100	100	100	100
Suppliers assessed through TFS	100	100	100	100	100
Suppliers assessed through TFS	100	100	100	100	100

"Integrated Annual Report 2023"
Sabic.

⁶¹ Philips – [Supplier Sustainability](#).
⁶² Philips – [Our approach](#).
⁶³ Philips – [Responsible Sourcing of Minerals Policy and Due Diligence](#).
⁶⁴ Philips – [Substances Management](#).
⁶⁵ Philips – [Greening the Supply Chain](#).
⁶⁶ Philips – [Supplier Sustainability Performance](#).
⁶⁷ Philips – [Our policies](#).

⁶⁸ Sabic – [Integrated Annual Report 2023](#) (2023).

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