



2016 Supply Chain Case Study

Ford Motor Company

Sector: Automobile

Years Engaging Supply Chain: Since 2007

Percent Supply Chain Engaged: 66 percent of total spend
(engaged through CDP climate change questionnaires)

Brings Suppliers Along for the Ride: Carrying forward the values established by Henry Ford in 1903, Chairman of the Board William Ford Jr. advances the company's vision of sustainable transportation. Several Ford Board of Directors members serve on the Sustainability and Innovation Committee, collaborating directly with Ford's Supply Chain Sustainability and Global Sustainability teams. As an auto manufacturer with approximately 11,000 suppliers in over 60 countries, Ford's supply chain largely influences its environmental and social impacts and values. Ford's long-term environmental management strategy has expanded from reducing greenhouse gas (GHG)

emissions and developing a market for reduced, product-related, GHG emissions to active supply chain engagement. Ford's 2016 materiality matrix listed "supply chain management, assessment, capacity building, and performance" as the second-most critical topic to the company and its stakeholders.¹

Outline Expectations and Provide Pathways to Report Progress: In 2003, Ford became the first automaker to develop a code of conduct, which outlines policies for employees, contractors, and suppliers on topics such as health and safety, anti-corruption and anti-trust, workplace ethics, asset and data safety, and product quality, and environmental issues. Ford's [Code of Conduct Handbook](#) references [Policy Letter 24](#)—a supply chain call-to-action published in 2007, which asked suppliers to adopt the same environmental and sustainability policies as those Ford applied to its own operations. To further establish mechanisms for encouraging suppliers to report on environmental performance, sharing best practices with suppliers, and verifying suppliers' environmental and social performance, Ford adopted three frameworks: CDP's (formerly the Carbon Disclosure Project) Supply Chain Program; its own Partnership for A Cleaner Environment (PACE) Program; and the Responsible Business Alliance's (RBA) third-party, validated audit process. Due to extensive engagement efforts, including technical guidance, 84 percent of Ford's requested suppliers—worth 66 percent of Ford's annual spending—responded to the CDP's Supply Chain Climate Change questionnaire in 2016. Through its PACE program, Ford shares its best practices, such as GHG and water management initiatives that suppliers can replicate. Through the RBA, Ford conducted 31 audits among Tier 1 suppliers in 2016 to determine compliance with its sustainability expectations.

Focuses on the Highest Impacts and Continued Growth: Ford's environmental supply chain engagement strategy focuses on suppliers with the highest impact on the environment. Ford first participated in CDP's Supply Chain program in 2010, requesting that 10 of its suppliers respond to the Supply Chain Climate Change questionnaire. By 2016, Ford requested that 242 suppliers respond to the CDP Climate Change questionnaire and that 196 respond to the CDP Water Security questionnaire; 84 and 71 percent responded, respectively, helping Ford identify

Key Lessons Learned

- Benchmark your supply chain to find the highest-impact suppliers and to prioritize their engagement.
- Develop a management team and outline guidelines to support suppliers on environmental and social issues.
- Establish a culture of shared understanding and learning with suppliers.
- Reduce survey fatigue by establishing consistent reporting practices that align with well-established frameworks.
- Engage and educate C-suite leadership to increase internal support for environmental management.

¹ Ford 2017 Corporate Sustainability Report, Materiality Matrix. <https://corporate.ford.com/microsites/sustainability-report-2017-18/doc/sr17-materiality-matrix.pdf>

The PACE Process for Supplier Responsibility

1. Develop long-term strategies and initiatives to reduce environmental impacts.
2. Commit to recording baseline water and GHG emissions data.
3. Replicate and expand successful initiatives.
4. Measure and report progress achieved by sustainability initiatives against baseline data.
5. Communicate best-practices and share knowledge with the greater supplier network.

supplier impacts. To determine whether a supplier has a large environmental footprint, Ford examines its GHG and water intensity as well as where the supplier's facilities are located, especially those in water-stressed regions. Ford works with suppliers in India, China, and other water-stressed locations to raise awareness about water security and to help incorporate environmental responsibility into the suppliers' business strategies. Ford uses CDP data to invite PACE participation among strategic suppliers that demonstrate high GHG emissions or water use. Ford considers that continued engagement growth requires continued dialogue. Ford's Aligned Business Framework (ABF) provides a method for Ford to engage with key strategic suppliers and to streamline

best practices for responsible sourcing and environmental management. The 105 suppliers that make up the ABF network have committed to aligning their Code of Conduct documents with Ford's Policy Letter 24, conducting internal trainings on Policy Letter 24 requirements, and extending these requirements to their own suppliers. If a supplier fails to comply with Ford's Global Terms and Conditions, after discussions with its purchasing teams, Ford has the right to end its relationship with that supplier. Ford strives to develop mutually beneficial relationships with suppliers that make progress towards internal sustainability goals that are consistent with global best practices.

Simplify Supplier Reporting to Engage Suppliers: The automobile industry has established extensively complex supply chains, with up to 10 tiers of suppliers, comprised of production and indirect (non-production) suppliers. While production suppliers can engage in Ford's PACE program more easily, given business similarities, Ford often faces challenges with engaging indirect suppliers in meaningful environmental and social initiatives and in reporting on these efforts. Ford seeks to increase indirect supplier participation by engaging with its indirect suppliers' leadership and by communicating the importance of measuring, monitoring, and reporting environmental data to stakeholders. To address survey fatigue from reporting on environmental and social issues, which presents another challenge, Ford requests that suppliers report through CDP's Supply Chain program. Doing so helped Ford set a uniform reporting framework that suppliers could use to provide environmental performance information and allows Ford to determine more accurately how each supplier contributes to its environmental impact.

Provide Support Through Dialogue and Shared Learning: To create an environment for shared learning, Ford encourages suppliers to communicate openly with Ford and to identify vulnerabilities so that both parties can work to mitigate risks. Ford's Supply Chain Sustainability team regularly monitors suppliers that fail to voluntarily respond to CDP or adopt PACE or RBA guidelines, and discusses their status with directors that manage procurement contracts. These directors then take these issues up with identified suppliers to stress the importance of environmental and social sustainability and to work toward acceptable solutions. Ford strives to help suppliers realize the mutual value added from sustainable initiatives, including competitive advantages, reduced costs, and decreased disruption risks.

Recognizes Suppliers: Though supplier participation in Ford's initiatives remains voluntary, Ford strongly encourages and culturally fosters participation, and acknowledges the efforts of suppliers pursuing excellence in environmental stewardship. At Ford's 18th World Excellence Awards, 57 suppliers from across the globe received recognition as leaders among their peers. The World Excellence Awards addressed the following issues: highest-quality, greenest, and safest products; supply chain diversity; and leadership within the ABF network. The awards ceremony offers Ford a tool to build enthusiasm for continued environmental commitment and collaboration.

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

“We are committed to reducing the environmental footprint of our supply chain. Through the PACE program, we share leading practices and lessons learned from our operations to help our suppliers minimize their environmental impacts and improve their sustainability.”

- Jacklyn Watt, Director of Supply Chain Sustainability, Ford Motor Company