IBM’s New Requirements for Suppliers on Corporate Responsibility and Environmental Management

Information Package for Suppliers

GS S&EMS Team – Rev. 091010
Objective of this Document

- In 2010, IBM’s CPO communicated the following new requirements to its suppliers:
  - Deploy/Sustain a Corporate Responsibility and Environmental Management System
  - Measure performance and establish voluntary environmental goals (numeric)
  - Publicly disclose environmental performance including those associated with voluntary environmental goals
  - Cascade the above set of IBM requirements onto the supplier's suppliers

- IBM’s suppliers should be familiar with the underlying issues associated with these requirements since IBM previously wrote to suppliers about ISO 14001 (1998) and IBM’s Supplier Conduct Principles (2004).

- What may be new is suppliers taking the next steps to establish a management system, measure performance, set goals, and disclose results.

The enclosed material is informational for IBM’s suppliers. It presents what IBM defines as its Corporate Responsibility, and a systems approach that IBM employs to manage all aspects (including environmental and supply chain aspects) of its corporate responsibility.

- The pages that follow show how IBM “implements what it requires of its suppliers” and that IBM is not asking its suppliers to do anything it has not already done itself.
IBM takes a systems approach to manage all aspects of its corporate responsibility:

### Corporate Responsibility Executive Steering Committee

Coordination of IBM's corporate responsibility programs and activities is managed through this Committee, consisting of senior executives from each area of corporate responsibility. Supported by a Corporate Responsibility Working Group.

### Corporate Responsibility Working Group

- consisting of subject matter experts from each area -
A Systems Approach at IBM

- By way of example, the following shows how IBM implements a global Environmental Management System (EMS) to manage its environmental responsibilities.

  IBM implements its global EMS using a tiered approach and which calls for its corporate environmental affairs staff and business units to execute responsibilities consistent with their defined roles.

Direct IBM’s environmental affairs programs: set strategy, EMS, requirements, goals and measurements

Monitor performance and disclose results

Drive continual improvement of EMS

Implement management systems and meet all applicable requirements.

Monitor performance and report

Provide feedback on EMS
IBM Announces New Requirements for its Suppliers


IBM Establishes New Corporate Responsibility and Environmental Requirements to Advance Sustainability Across its Global Supply Chain

ARMONK, N.Y., - 21 April 2010: IBM (NYSE: IBM) today announced new management system requirements to advance sustainability across the company's global network of suppliers. IBM's "first-tier" suppliers — those firms with which IBM holds a direct commercial relationship — will now be required to establish and follow a management system to address their corporate and environmental responsibilities.

This is the latest move in IBM's decades-long commitment to working with suppliers around corporate responsibility initiatives. The company runs one of the largest, most complex supply chains in the world, spanning 28,000 first-tier suppliers in 90 countries.

IBM's suppliers are now required to:

- define, deploy, and sustain a management system that addresses corporate responsibilities, including supplier conduct and environmental protection;
- measure performance and establish voluntary, quantifiable environmental goals;
- publicly disclose results associated with these voluntary environmental goals and other environmental aspects of their management systems.

Often the greatest obstacle for a company trying to develop, integrate and sustain strong environmental and corporate responsibility programs is the absence of a strong management system that addresses responsibilities such as workplace safety, increasing energy efficiency and reducing waste. IBM, through its own practices, has long recognized that a strong management system is critical to an organization's ability to identify and manage its corporate responsibilities.

"IBM has always expected its suppliers to operate in an environmentally responsible manner, but now we're strengthening that focus with a management system requirement," said Wayne Wallis, Vice President, Corporate Environmental Affairs and Product Safety. "This is our next step in managing the increasingly complex and critical global supply chains we work with around the world."

IBM has expected its suppliers to operate in an environmentally responsible manner for decades. Accordingly, our management system has included various environmental and supply chain social responsibility requirements for our suppliers. In addition, in 1998, IBM explicitly encouraged its suppliers to align their own environmental management systems with International Standards Organization (ISO) 14001 and to pursue registration under this international standard. In 2004, IBM published its Supplier Conduct Principles to articulate the company's overall supply chain social and environmental requirements.

These early initiatives and actions - taken well before the present day focus on "green" - have served IBM and its suppliers well, underscoring how effective environmental management makes good business sense. As we begin a new decade and in recognition of the continually growing importance of environmental and corporate responsibility across supply chains, I am writing to inform you about some new requirements we are now setting for our suppliers in this important part of business.

Specifically, IBM will now require all of our suppliers to:

- define, deploy, and sustain a corporate responsibility and environmental management system;
- measure performance and establish voluntary environmental numeric goals;
- publicly disclose results associated with these voluntary environmental goals and other environmental aspects of the management system.

Many of you have already been doing this for several years, and you have recognized — by IBM — that environmental leadership fosters business efficiency and effectiveness. You have also accepted that environmental responsibility and accountability resides at home, in your own business operations. For others, these requirements may represent a new way of doing business. Nevertheless, we trust you are familiar with the underlying issues since we previously wrote about ISO 14001 and IBM's Supplier Conduct Principles. What may be new, therefore, is taking the next steps to establish a formal management system, measure performance, set goals, and disclose results.

There are certain basic elements that are necessary to put these requirements into action. We have stated them in the attachment below. IBM's own practices are built upon them, yet you are certainly not exclusive or limited in applicability to any one company or any particular industry sector. Although we are not asking you to include these elements in your...
Summary of IBM’s New Requirements for its Suppliers

IBM Suppliers are Required to:

1. Establish corporate responsibility and environmental management system(s) that is defined, deployed, and sustainable.

2. Establish programs to control operations that intersect with these above matters and that confirm their compliance with applicable law, regulation and any particular contractual requirements related to IBM.

3. Monitor/measure their environmental performance and have established voluntary environmental numeric measurements to track and improve environmental performance, including their a) Energy conservation, b) Scope 1 and Scope 2 greenhouse gas (GHG) emissions and c) Waste management.

4. Set targets to achieve positive results associated with their significant environmental aspects, including goals for each of the three aspects cited in Requirement #3 above.

5. Publicly disclose results associated with their voluntary environmental goals and other environmental aspects of their management system, including fines or penalties incurred.

6. Train their respective employees who are responsible for the monitoring, measuring, and/or reporting of their environmental performance.

7. Conduct self-assessments/audits and senior management reviews of their mgmt system.

8. Cascade these same requirements onto their own suppliers who perform work material to the products, parts and/or services supplied to IBM.

Click=> Here for Online version
What is a Management System

- A **management system** is a framework that enables an organization to take a systemized approach to managing and continually improving its policies, procedures and processes.

- To **meet IBM's requirements** for suppliers to have a management system for Corporate Responsibility and Environmental management,
  
  - A supplier's management system must address all elements of the EICC Code of Conduct;
  - and
  - Specific environmental requirements listed in items 2 through 8 in the attachment of the February 22, 2010 letter from IBM CPO to its suppliers (Ref. link below)


- IBM has developed a **podcast** along with a transcript on IBM’s www titled “**Designing, Developing and Implementing a Management System: An Overview**”

How to Use this Document

8 Basic Elements of IBM’s New Supplier Requirements

1. Documented Corporate Responsibility (CR) system and Environmental Management System (EMS)

2. Programs to Control Operations that Intersect with CR and the Environment

3. Measuring Environmental Performance including a minimum of three specific areas of energy conservation, Scope 1 and Scope 2 greenhouse gas emissions, and waste management and recycling

4. Setting Targets to achieve positive Environmental Results

5. Publicly Disclosing results of goals and other aspects of its environmental programs

6. Training Responsible Employees

7. Conducting Self-Assessments/Audits and Management Reviews

8. Cascading same Requirements to the Supplier’s Suppliers

IBM is asking its suppliers to do, basically, what IBM itself has already done...

• Manages these subjects via a global management system
• Published annual corporate environmental report since 1990, and a corporate responsibility report since 2002

Ref.: 22-Feb-2010 Letter from IBM Chief Procurement Officer to suppliers on supply chain and environmental responsibilities

On the following pages, you will find text boxes, like the one below, that refers to what IBM has in place and corresponds to the like-numbered Supplier Requirement # and question contained in the Supplier Questionnaire seen here in the blue circles.

Also, on the following pages, you will find a publicly accessible IBM reference URL web link, containing additional information correlating to the graphics shown on the page and the text comments in the red boxes.
1a. IBM is committed to environmental affairs leadership in all of its business activities. IBM has had longstanding corporate policies of providing a safe and healthful workplace, protecting the environment, and conserving energy and natural resources, which were formalized in 1967, 1971 and 1974 respectively. They have served the environment and our business well over the years and provide the foundation for corporate policy objectives.

IBM is committed to environmental leadership in all of its business activities, from its operations to the design of its products and use of its technology. IBM’s corporate policy on environmental affairs, first issued in 1971, is supported by the company’s global environmental management system, which is the key element of the company’s efforts to achieve results consistent with environmental leadership and ensures the company is vigilant in protecting the environment across all of its operations worldwide.
IBM and the Environment—cont’d:

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Video 1.1

1a&b. Feb-2010 - IBM Announces New Corporate Responsibility and Environmental Requirements to Advance Sustainability Across its Global Supply Chain
Environmental Management at IBM

To identify and effectively manage the potential environmental impact of IBM's operations, IBM established and has maintained a strong worldwide *Environmental Management System (EMS)* for decades. It is a vital element in the company's efforts to achieve results consistent with environmental leadership.

- **IBM's Global Environmental Management System**
  - Developed, owned and managed by Corporate Environmental Affairs (CEA) staff
  - Foundation of all IBM’s Environmental Affairs (including energy management) programs
  - Aligned with the ISO 14001 standard for EMS
  - Sets the framework, consistent approach and requirements for management systems for IBM business organizations such as the Global Supply Social & Environmental Management System (GS S&EMS)

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1a&b. IBM has a defined and deployed environmental management system (EMS) that identifies significant aspects of its intersections with the environment.

- **Corporate Responsibility at IBM**
- **Environmental Management at IBM**
IBM Corporate Responsibility


IBM’s global management system governs the significant aspects of its intersections with corporate and environmental responsibility, including those articulated in the EICC’s Code of Conduct.

- Corporate Responsibility at IBM
- Environmental Management at IBM

Link to New Corporate Responsibility and Environmental Requirements for Supply Chain
http://www.ibm.com/ibm/environment/

“We will consider these principles and adherence to them in our selection process and will seek ongoing compliance by actively monitoring performance.” - John Paterson
http://www-03.ibm.com/procurement/proWeb.nsf/ContentDocsByTitle/United+States~Supply+chain+social+responsibility

- More details about IBM’s Corporate Responsibility activities and performance is available on its Corporate Responsibility website.
Global Supply
Social and Environmental Management System

IBM Corporate Responsibility – cont’d


Global employment standards

At IBM, we have always set high standards for the way we conduct business – in areas from corporate and social responsibility to sound business ethics, including compliance with all applicable laws and regulations.

These Conduct Principles apply to all IBM employees. However, they are not meant to describe the full scope of IBM human resource policies or practices. More detailed statements of policies, procedures and practices are contained in documents such as the IBM Business Conduct Guidelines. Employees are required to comply with all IBM policies, procedures and practices at all times and are responsible for consulting their management if they have any questions.

Our goal is to ensure full compliance with these principles by IBM managers and employees. A companion to this document, the IBM Supplier Conduct Principles, governs our relationships with and standards for IBM suppliers.

Forced or involuntary labor
IBM will not use forced or involuntary labor of any type (e.g., forced, bonded, indentured or involuntary prison labor); employment is voluntary.

Child labor
IBM will not use child labor. The term “child” refers to any employed person under the age of 16, or under the age for completing compulsory education, or under the minimum age for employment in the country, whichever is greatest. We support the use of legitimate workplace apprenticeship, internship and other similar programs that comply with all laws and regulations applicable to such programs.

Wages and benefits
IBM will, at a minimum, comply with all applicable wage and hour laws and regulations, including those relating to minimum wages, overtime hours, piece rates, nonexempt or exemption classification and other elements of compensation, and provide legally mandated benefits.

Working hours
IBM will not exceed maximum hours of work prescribed by law and will appropriately compensate overtime. Employees will not be required to work more than 60 hours per week, including overtime, except in extraordinary business circumstances with the consent or where the nature of the position requires such work, as for exempt employees and employees in executive, managerial or professional positions. In countries where the maximum work week is shorter, that

http://www.eicc.info/EICC%20CODE.htm

http://www-03.ibm.com/procurement/proweb.nsf/ContentDocByTitle/United+States~Supply+chain+social+responsibility#IBM supplier conduct principles/guidelines
IBM’s Supply Chain Social Responsibility (SCSR) Program

1b. A companion to IBM’s Global Employee Conduct Principles are our Supplier Conduct Principles (SCP), which govern our relationships with - and set standards for - our supply chain.

A Component of Corporate Responsibility at IBM
Program announced to suppliers in April 2004 via CPO letter
Includes Supplier Conduct Principles (SCP) addressing the following 13 provisions:

1. Forced or involuntary labor
2. Child labor
3. Wages and benefits
4. Working hours
5. Nondiscrimination
6. Respect and dignity
7. Freedom of association
8. Health and safety
9. Protection of the environment
10. Laws, including regulations and other legal requirements
11. Ethical dealings
12. Communications
13. Monitoring/record keeping

Requirement for all IBM suppliers (as contained in -> Supplier Conduct Principle Letter Agreement, SCPLA)

IBM accepts the Electronic Industry Citizenship Coalition (EICC) Code of Conduct (CoC) as an equivalent/alternative to IBM’s own SCP.
IBM is transitioning from its own SCP to using the EICC’s CoC and its Validated Audit Process (VAP) for all manufacturing suppliers.

IBM’s suppliers are to comply w/ the EICC CoC as we make this transition.

“SCSR is not optional, it is a requirement for IBM suppliers … We cannot have supply chain issues that impact our brand’s perception in the market”…

John Paterson, IBM Chief Procurement Officer
2. IBM has programs (defined by its management system) that control its operations, research, product development and services as they intersect with the environment in support of its policy commitment to environmental leadership, and that also confirms IBM’s compliance with applicable law, regulation and contractual requirements.

(Click on Menu Items at Website)
3a,b,c. IBM monitors and measures its environmental performance and has established voluntary environmental numeric goals to track and improve upon its environmental performance; including energy consumption, Scope 1 & 2 greenhouse gas (GHG) emissions and waste management.
Setting Goals/Targets to achieve Environmental Results

- For a complete list of IBM’s environmental KPIs, Refer to http://www.ibm.com/ibm/environment/annual/factsheet_kpi_2009.pdf

- Below is an image of the first page of IBM’s KPI document

4a,b&c. IBM sets voluntary environmental goals to achieve positive results associated with their significant environmental aspects, including energy conservation, greenhouse gas (GHG) emissions and waste management.

Conservation:

- **Energy Conservation Goal:** Achieve annual energy conservation savings equal to 3.5% of IBM’s total energy use.

  **Results:** In 2009, IBM’s energy conservation projects across the company delivered savings equal to 5.4% of its total energy use.

- **Water Conservation Goal:** Achieve average annual water conservation savings equal to 2% of IBM’s annual water use at microelectronics manufacturing operations, based on the water usage of the previous year and measured over a rolling 5-year period.

  **Results:** As of year-end 2009, IBM’s microelectronics manufacturing operations had achieved an average annual water savings of 3.1% over the past 5 years versus the 2% goal.

Climate Protection:

- **CO₂ Emissions Reduction Goal:** Between 1990 and 2005, IBM reduced or avoided CO₂ emissions by an amount equivalent to 40% of its 1990 emissions through its global energy
Public Disclosure: Environmental Performance & Results vs. Goals

One significant measure of a company’s environmental performance is its record of fines and penalties. IBM had two fines in 2009, totaling $30K.

5a&b. IBM publicly discloses its environmental performance, including fines and penalties the company receives, in the company’s annual IBM and the Environment report and other reports:

Training Employees Responsible for EMS Work

Refer to web page: http://www.ibm.com/ibm/environment/ems/

6. IBM requires that its employees and contractors performing work on its behalf at an IBM location, receive environmental training that is commensurate with their responsibilities and includes IBM’s environmental policy and commitment.

IBM ensures that its employees have the appropriate and current knowledge of applicable legal and IBM requirements, and the company’s corporate responsibility & environmental policies and objectives.

IBM communicates to its suppliers (contractors/vendors) -- via Statement Of Work (SOW) - that:

- suppliers are to train their employees relevant to applicable environmental requirements,
- suppliers are to maintain records of this training, and
- suppliers are to allow IBM to audit them as to their compliance to these requirements.
Self-Assessments/Audits and Management Reviews

- IBM’s environmental programs and performance are reviewed annually by the Directors and Corporate Governance Committee of IBM’s Board. This committee is responsible for reviewing and considering IBM’s position and practices on significant issues of corporate public responsibility, including protection of the environment. (Ref. http://www.ibm.com/ibm/environment/annual/IBMEnvReport_2009.pdf, pg.4).

- Under IBM's single global ISO 14001 registration, approximately 20 sites or registered entities are audited annually on a sampling or rolling basis by Bureau Veritas Certification North America, IBM's ISO 14001 registrar.

  These audits of IBM's EMS include sampling and verification of the implementation of IBM's internal requirements, monitoring and measurement as reported through the self-assessment program, energy master plans, and in the Environmental Performance Database (EPD), and other tools used to provide the information for IBM's annual environmental and corporate responsibility reporting and for management review (Ref. http://www.ibm.com/ibm/environment/iso14001/).

7a&b. Audits and self-assessments of IBM’s Management System are conducted on a periodic basis to provide assurance to the company that its system’s is effectively implemented and to determine if the system is operating as designed; also to provide information for Management Reviews to determine the capability of the system in achieving IBM’s environmental objectives & targets.
IBM’s Requirements passed on to its Tier 1 Suppliers on 22-Feb

1. Corporate Responsibility (CR) and Env Management System
2. Programs to Control Operations intersecting w/ CR and Env
3. Measure Environmental Performance
4. Set Targets to achieve positive Environmental Results
5. Publicly Disclose results of goals and other aspects of its environmental programs
6. Train Responsible Employees
7. Conduct Self-Assessments/Audits and Management Reviews
8. Cascade same Requirements onto Supplier’s own Suppliers

Suppliers Cascade IBM’s Requirements onto their Suppliers

8. IBM’s suppliers (Tier 1) are to cascade these same basic elements, listed in requirements #1 thru #7 on the previous slides, onto their own suppliers (IBM’s Tier 2 suppliers) who perform work that is material to the goods and/or services being supplied to IBM; …and Tier 2 onto Tier 3.

Legend
- Supplier of Services
- Supplier of Product
- Contract Manufacturers
- Goods & Services Flow
End