

White Paper

A SUPPLY MANAGEMENT VIEW OF SUSTAINABILITY

Broadening the Lens Can Make an Impact on the Environment,
Community — and the Bottom Line.



Presented by



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A Supply Management View of Sustainability

Broadening the Lens Can Make an Impact on the Environment, Community — and the Bottom Line.

Sustainability is becoming a driving force for companies and their supply management organizations as they strive to meet stakeholder and customer expectations, improve their corporate social responsibility, reduce their carbon footprint, and improve the bottom line. The value achieved through strategies like ethical sourcing, (2) environmentally conscious product design and packaging and (3) sustainable manufacturing can be far-reaching, from creating efficiencies to reducing environmental impact to improving communities.

Awareness of the importance of sustainability in the supply chain is growing. Organizations around the globe have created initiatives, standards or blueprints for action. The United Nations' Sustainable Development Goals serve as a blueprint to address 17 focus areas that range from gender equality to decent work and economic growth to responsible consumption and production. The Forest Stewardship Council has standards for responsible forest management.

"A big trend that is happening everywhere is sustainability, no matter the size of your company," says Luis Javier Concepcion, CPSM, CPSD, global procurement supplier diversity and sustainability leader at DuPont in Wilmington, Delaware. "Every company is recognizing that no matter how big your company is, you need to provide sustainable services and sustainable materials. That's the only way that every company will be able to continue to do business in the next 20 to 30 years, while impacting things like the community, environment and economy."

Consumers increasingly want to know the provenance of the products they buy, and the components used to make them. News coverage and social media

continue the conversation about sustainability, social responsibility and ethical sourcing. Accordingly, more and more companies are monitoring their end-to-end supply chains.

As sustainability grows in importance, companies are willing to pay for it. Shawn Nelson, founder and CEO of Lovesac Co., a Stamford, Connecticut-based company that specializes in modular furniture and beanbag chairs, says, "We are very driven by sustainability. ... We're totally committed to it. More importantly, we see a path because (practicing sustainability) is how to do business effectively."

"Sustainability" is commonly considered to have three pillars:

- Social responsibility, pertaining to such areas as equity, health and safety, business conduct, and community
- Environmental impact, encompassing such factors as climate change, greenhouse-gas emissions, land use, and impact on ecosystems
- Economic awareness, including risk management, organizational governance and accountability.

To see how sustainability is perceived and enacted by U.S.-based supply management professionals and their organizations in relation to those three pillars, Institute for Supply Management® (ISM®) and Boise Paper™ conducted a survey in the summer of 2019.

This white paper examines the survey results through the lens of the three sustainability pillars, as well as some of the 11 attributes of the *ISM Principles of Sustainability and Social Responsibility*: anti-corruption, diversity and inclusiveness, environment, ethics and business conduct, financial integrity, global citizenship, health and safety, human rights, labor rights, supply chain sustainability, and transparency.

"Our customers understand that when it comes to sustainability, you are only as good as the company you keep. Organizations must evaluate the internal practices and policies of potential partners to ensure that priorities are aligned, and that sources are contributing positively to all three interconnected pillars of sustainability."

— PAUL LeBLANC

Vice President of Boise Paper

Key Findings

Sustainability has made significant inroads into corporate consciousness. A large majority (74 percent) of those surveyed work for companies that have sustainability goals in place, with almost half (48 percent) of those surveyed at organizations with goals that are integrated into daily operations. Larger companies — those with 10,000 or more employees — are more likely to have goals in place as well as require them as part of daily operations than smaller companies.

Among other findings:

- Of the 11 sustainability attributes, ethics and conduct, followed by health and safety, are most important to supply management organizations and companies.
- Between 48 and 67 percent of supply managers say they would pay more for the most common spend categories, including capital equipment, office supplies and manufacturing components, if they were offered sustainably. What they are willing to pay more for can depend on industry.
- Non-manufacturing companies are less likely to prioritize working with U.S. suppliers than their manufacturing counterparts.
- Generally, 46 to 63 percent of companies say they are willing to pay more for U.S.-made products like capital equipment and manufacturing components.

Sustainability as a Corporate Goal

Nearly half (48 percent) of respondents say that their companies' sustainability goals are a part of daily operations, while 26 percent say goals exist but aren't involved in daily operations. Another 8 percent say that although goals don't currently exist, their companies have plans to create them. Ten percent, however, say their companies have no goals and are not planning any.

The percentage of manufacturing versus non-manufacturing companies with sustainability goals is equal at 73 percent. However, more manufacturing

(50 percent) than non-manufacturing respondents (43 percent) say their company's sustainability goals are part of daily operations.

With environmental, social and governance (ESG) ratings a growing factor on Wall Street, larger companies (in head count and revenue) that are publicly traded and/or have a higher profile among consumers are more likely than smaller companies to have sustainability goals that are a part of daily operations. Many smaller businesses lack the resources to set up formal sustainability goals.

Figure 1: My Company's Sustainability Goals

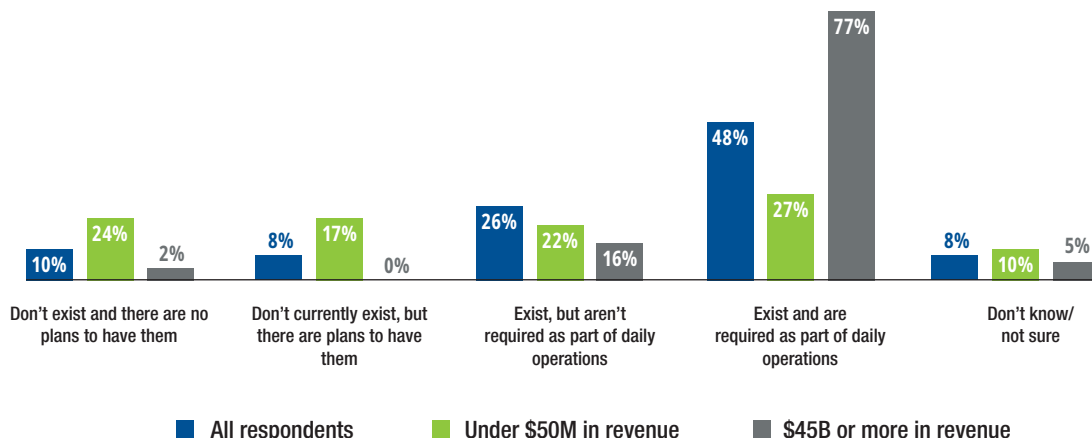


Figure 2: How Much Extra Are You Willing/Able to Pay For the Following If Made/Offered in a Sustainable Manner?

	Won't/can't pay more	1 to 2% more	3 to 4% more	5 to 6% more	7% or more
Chemicals	33%	27%	16%	11%	12%
Packaging	34%	25%	15%	14%	13%
Manufacturing components/materials	35%	26%	21%	8%	11%
Transportation/logistics	37%	23%	16%	11%	13%
Paper	38%	24%	15%	12%	10%
Office supplies/equipment	41%	25%	15%	9%	10%
Electronics, electrical components	41%	27%	13%	10%	9%
Capital equipment	43%	25%	13%	10%	10%
Services (including legal and marketing)	52%	17%	12%	11%	9%

Only the nine most mentioned categories are shown above.

Companies with higher revenues — above US\$4 billion — are more likely than those with lower revenues to have sustainability goals as part of daily operations. Companies with \$45 billion or more in revenue record the highest percentage (77 percent), compared to a third (32 percent) of companies with \$1.2 billion to \$3.99 billion in revenue (see Figure 1).

Paying More For Sustainably Made Products

Not only do companies see sustainability as important — and growing in importance — they are willing to pay a premium for it.

Up to 67 percent of respondents say their companies would pay more if such products as

chemicals, packaging, manufacturing components, transportation/logistics and paper were made or offered sustainably (see Figure 2).

What they will pay more for depends on the sector. For example, respondents in manufacturing say their companies are most likely to pay extra for chemicals, manufacturing components/materials, packaging, machinery, transportation and logistics services, if these are available in a sustainable manner. Those who work for non-manufacturing companies are most likely to pay extra for transportation and logistics services, paper, construction, office supplies and equipment, and electronics/electrical components.

“A well-rounded health and safety program that includes everything from wellness programs to safe and ergonomic equipment to safety policies and training is an essential element in today’s business landscape. Not only do investors and employees expect health and safety programs, but increasingly, buyers want assurances from their suppliers that such programs are in place. That expectation extends outside of the U.S.”

— **NORA NEIBERGALL, CPSM, CPSP, C.P.M.**

Institute for Supply Management® Senior Vice President and Corporate Secretary

Sustainability as Reflected by the Three Pillars

How do companies today view the three pillars of sustainability?

Pillar No. 1: Social Responsibility

Companies today are taking a more active look at their social responsibility as well as how others perceive them. When asked how their organizations prioritize ISM's 11 attributes of sustainability, survey respondents identified ethics and business conduct as the highest priority, followed by health and safety (see Figure 3).

Maintaining Ethics and Business Conduct

In the *ISM Principles of Sustainability and Social Responsibility*, the general principle of ethics and business conduct is to “behave ethically always and demand ethical conduct within the organization and throughout the supply chain.” Ethics enables the expression of other aspects of sustainability.

For instance, acting ethically also means developing minority-owned suppliers (diversity and inclusion), caring for the company's surrounding community (global citizenship), not polluting the air, water and soil (the environment), and the like.

Among goals for ethics and business conduct, survey respondents say their companies most frequently measure whether an internal code of conduct policy has been established, communicated and tracked. Another oft-cited measurement is completion rates for ethics/business conduct training (see Figure 4).

Figure 3: Aspects Included in your Company's Sustainability Goals

(Lower Rank = Higher Priority)

Aspect of Sustainability	Rank
Ethics and business conduct	3.17
Health and safety	3.42
Environment	4.35
Financial integrity	4.84
Supply chain sustainability	4.93
Diversity and inclusion (employees)	5.03
Anti-corruption	5.23
Human rights	5.64
Transparency	5.82
Diversity and inclusion (suppliers)	6.09
Labor rights	6.45
Global citizenship	6.90

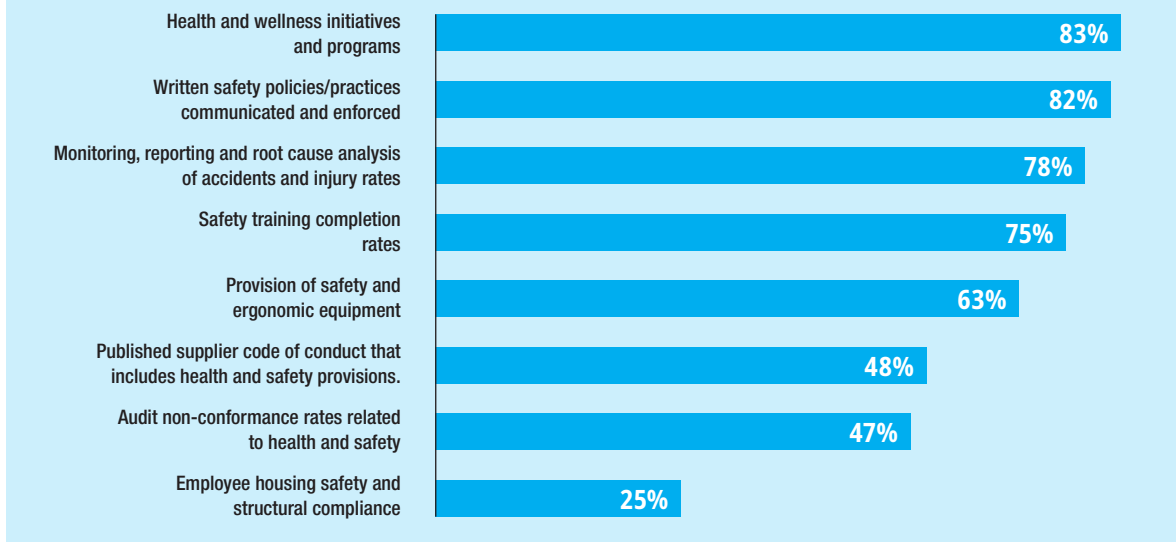
Enhancing Health and Safety Measures

The survey called out respondents' thoughts about their companies' view of the importance of health and safety as well as their supplier health and safety policies.

Figure 4: How Are Your Ethics and Business Conduct Goals Measured?



Figure 5: How Are Your Health and Safety Goals Measured?



Robust health and safety policies help mitigate circumstances that could ultimately affect an organization's bottom line. For example, these policies can reduce the chance that the company will suffer reputational damage if the company's or a company supplier's poor health and safety protocols are made public. Other potential benefits include lower employee turnover and higher employee morale, both of which are more likely to manifest when employees feel that their employer cares about their welfare.

The five most frequently cited ways companies measure health and safety goals are through (1) health and wellness initiatives and programs, (2) written safety policies and practices that are communicated and enforced, (3) monitoring, reporting and root-cause analysis of accidents and injury rates, (4) safety training completion rates and

(5) provision of safety and ergonomic equipment (see Figure 5). While the order may differ, the five factors transcend sector and size of company in revenue and number of employees.

When making buying decisions, a large majority (70 percent) of respondents report that supplier safety protocols, standards, or records are "very important" or "extremely important." Those at larger, higher-revenue companies are more likely to feel that supplier safety is important in buying decisions.

Written/audited safety procedures, accident/injury rates, and working conditions are the most common criteria respondents use to evaluate supplier safety protocols, standards or records. Those working for smaller companies are less likely to evaluate supplier safety.

Figure 6: How Important Are Your Supplier's Community Involvement/Charitable Partnerships in Your Decision-Making?

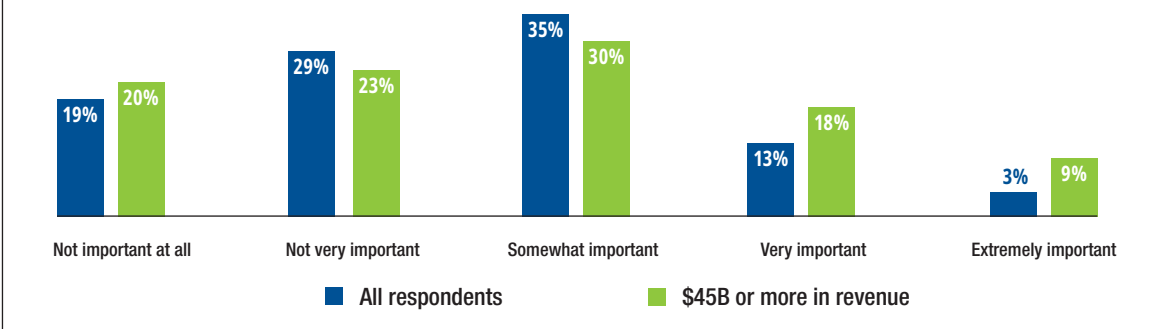


Figure 7: How Are Your Employee Diversity and Inclusion Goals Measured?



Two other ISM sustainability attributes that fall under the first pillar of social responsibility are global citizenship and diversity and inclusion.

Demonstrating Global Citizenship

Helping build a strong sense of community offers a business potential revenue-generating or cost-avoidance benefits, including a higher likelihood of support from community members — either directly, by purchasing the company's product or service, or indirectly, by advocating for the company to colleagues, friends and family.

When making buying decisions, however, almost half (48 percent) of survey respondents report that a supplier's community involvement and charitable partnerships are not important. Those working for companies with the highest revenues (\$45 billion or higher) are more likely to say that a supplier's community involvement/charitable partnerships are important when they make decisions (see Figure 6). In general, global citizenship wasn't deemed important — respondents ranked it last among the 11 attributes of sustainability.

Assuming high-quality products or services at a reasonable price, a large majority (71 percent) of respondents are "very likely" or "extremely likely" to choose a supplier that aligns with their values. Those who work for manufacturing companies and those working for small companies (fewer than 100 employees) are more likely to choose a supplier that aligns with their values.

Incorporating Diversity and Inclusion

Diversity in nature reflects the health of ecosystems. A high level of biodiversity correlates with healthier animals, plants, soil and water. As biodiversity declines, ecosystem health deteriorates. Diversity in human affairs is no different.

To thrive, a human ecosystem needs a variety of cultures, generations, beliefs, personalities,

and ideas. Diverse employees and suppliers are key to building and maintaining a healthy business environment in a fast-changing global marketplace. The ability to remain open to unfamiliar cultural ideas, for instance, might lead to an employee or supplier sharing a novel solution to a long-standing problem for your organization.

When looking at goals for diversity and inclusion, survey respondents most frequently measure staff diversity, the level of communication and enforcement of diversity policies and practices and the percentage of spend allocated to diverse suppliers (see Figures 7 and 8).

Figure 8: How Are Your Supplier Diversity and Inclusion Goals Measured?



Figure 9: Methods of Evaluating Environmental Impact

	Not important at all	Not very important	Somewhat important	Very important	Extremely important
Hazardous contaminant screening	3%	3%	13%	33%	48%
Sustainable sourcing operations	4%	6%	25%	36%	29%
Third-party certifications	4%	7%	28%	35%	26%
Solid waste volume produced	5%	6%	28%	37%	25%
Energy expenditure	4%	6%	31%	36%	23%

Pillar No. 2: Environmental Impact

For this white paper, “environment” refers to the biosphere, where all life on the planet exists — and never has it been more of an issue for companies and their supply chains. In the 2019 edition of the World Economic Forum’s (WEF) *Global Risks Report*, environmental threats, for the third straight year, ranked as not only the most likely to occur, but to have the biggest impact. Business leaders surveyed by WEF indicated that extreme weather, migration caused by climate change and natural disasters are the three biggest risks their companies face.

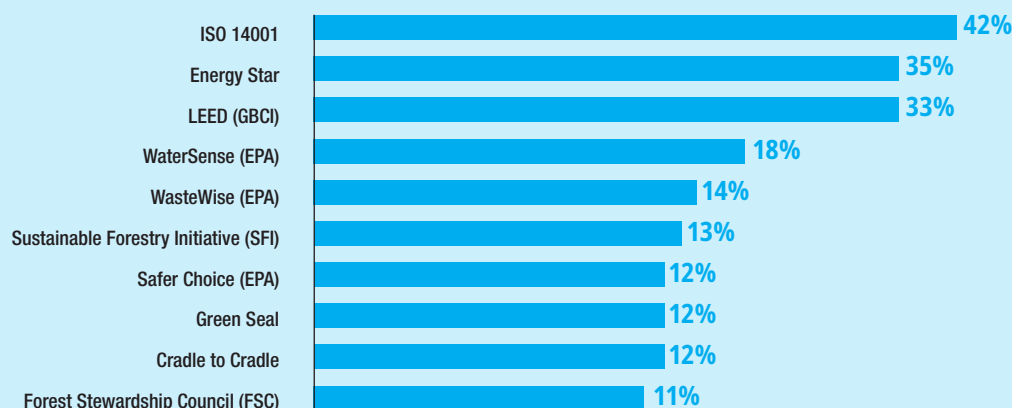
Making Environment a Priority

Survey respondents rated the “environment” as the third-highest priority in the 11 attributes of sustainability.

The most-cited metrics for measuring environmental goals involve disposal and waste management, paper use and recycling, and water management. Such factors as company size and business sector (manufacturing or non-manufacturing) didn’t substantially impact how survey respondents felt about their companies’ environmental goals.

Respondents — particularly those in manufacturing — indicated hazardous-contaminant screening is the most important method of evaluating environmental impact, followed by sustainable sourcing operations, third-party certifications, solid waste volume production levels, and energy expenditure (see Figure 9).

Figure 10: Which Third-Party Certifications and/or Standards Are Important For Your Company (or Its Suppliers) to Have?



“It makes sense that businesses rely on certifications and measurable outcomes, because environmental impact is so different across different industries. For example, at our mills, we focus on sourcing from sustainable forests, and ensuring that the majority of the energy used is self-generated using renewable, carbon-neutral biomass. We also have all relevant certifications to ensure our potential partners see our commitment and understand what it means for them.”

— EBBA HANSEN

Product Environmental Stewardship Manager for Boise Paper

ISO 14001, Energy Star and LEED were the most important third-party certifications/standards cited by survey respondents. ISO 14001 was more frequently cited by those working for a manufacturing company, while Energy Star was the most common certification chosen by those in non-manufacturing (see Figure 10).

Pillar No. 3: Economic Awareness

This pillar might be the most familiar to businesses that haven't formally adopted sustainability goals. Organizational governance and accountability help keep businesses cognizant of ethical conduct. Companies also need to be profitable while practicing financial integrity and enacting the other two pillars — social responsibility and environmental impact.

This means embracing supply chain transparency, remaining responsive to human- and labor-rights abuses and being stewards of the environment, among other measures — all while remaining profitable. When businesses perform in this manner, they help secure the long-term viability of their organizations and the well-being of their employees, customers and communities.

“Supply chain sustainability” was given fifth-highest priority among the 11 attributes of sustainability.

Regarding goals for supply chain sustainability, survey respondents most often cite ways to measure responsible sourcing, recycling, end-of-life management, transparency of supply chain, disclosure of substances of concern, and risk management.

Buying U.S.-Made Products

In recent years, rising labor costs in other countries, tariffs, and reduced U.S. corporate taxes and regulations have caused companies to rethink their offshoring efforts and move production back to America. A wave of nationalism also has swept the country, bringing increased interest in U.S.-made products.

Local, regional or national sourcing of components or products can provide organizations with such advantages as increased supply chain visibility, quicker time to market for new products or innovations, reduced logistics costs, more convenience and — potentially — less impact on the environment. Plus, it can benefit communities where production occurs.

But there can be a premium associated with U.S.-made products. Generally, more than half — and as much as two-thirds — of respondents are willing to pay more, depending on the product. They are most

“Buying from a supplier that is ‘Made in the USA’ is about more than just supporting local jobs and economies. There are tangible benefits to buying from a domestic manufacturer, including a quick and reliable supply chain and reliable customer service.”

— PAUL LEBLANC

Vice President of Boise Paper

Figure 11: How Much Extra Are You Willing/Able to Pay For the Following If Made in the U.S.?

	Won't/Can't pay more	1 to 2% more	3 to 4% more	5 to 6% more	7% or more
Manufacturing components/materials	37%	21%	12%	15%	15%
Packaging	42%	21%	10%	16%	11%
Capital equipment	42%	16%	15%	11%	16%
Electronics, electrical components	45%	19%	12%	10%	14%
Chemicals	47%	14%	14%	12%	13%
Paper	49%	20%	10%	10%	11%
Transportation/logistics	51%	15%	12%	9%	13%
Services (including legal and marketing)	53%	10%	12%	8%	16%
Office supplies/equipment	54%	18%	10%	12%	7%

Only the nine most mentioned categories are shown above.

likely to pay more for manufacturing components/materials, packaging, capital equipment, electronics and electrical components, chemicals, and paper (see Figure 11).

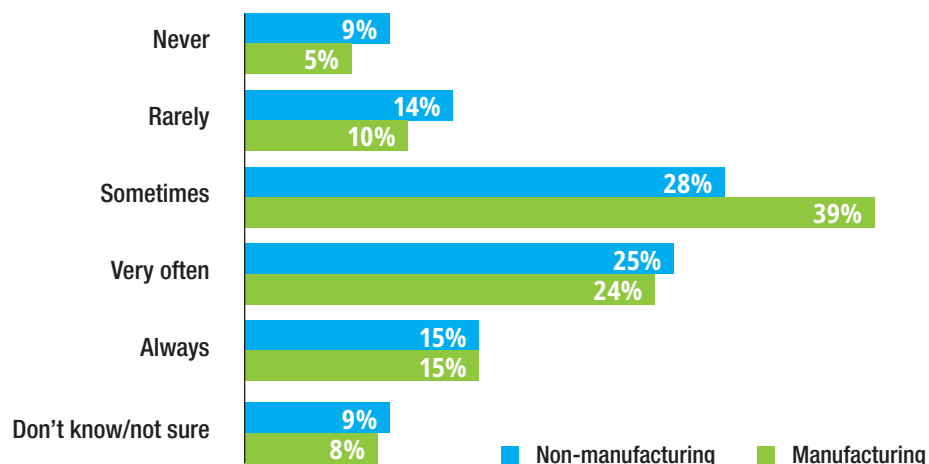
Sector also can determine what type of U.S.-made product a company is willing to spend more for. Respondents from manufacturing companies say their companies are more willing or able (compared to non-manufacturing respondents' companies) to pay extra for products made in the U.S. Manufacturing companies are most likely to pay extra for machinery, capital equipment, and manufacturing components/materials; non-manufacturing companies are most likely to pay

extra for capital equipment, paper, electronics and services.

Prioritizing Purchases

Is working with U.S.-based suppliers a priority for companies? About 40 percent of survey respondents say their company prioritizes working with U.S.-based suppliers "very often" or "always," while 19 percent say they "rarely" or "never" do this. Respondents from companies with fewer than 100 employees are more likely to prioritize working with U.S.-based suppliers. Non-manufacturing respondents say their companies are twice as likely (as those in manufacturing) to never prioritize working with U.S.-based suppliers (see Figure 12).

Figure 12: Does Your Company Prioritize Working With U.S.-Based Suppliers?



“Sustainability only continues to grow in importance for consumers, the companies that serve them and the supply management function that orchestrates the company’s sustainable policies, processes and performance. And a great track record in sustainability is linked to higher revenues, profit and company valuations. It’s here to stay.”

— **THOMAS W. DERRY**

Institute for Supply Management® CEO

Companies that do not prioritize working with U.S. suppliers are more than twice as likely to say that a supplier’s community involvement and supplier safety protocols are “not important at all” in their buying decisions, when compared to all respondents.

The top three benefits of working with U.S.-based suppliers, according to respondents, are shorter lead times, shorter supply chains and improved

quality control. Supporting U.S. workers and intellectual property protection are especially important to non-manufacturing respondents. Respondents were asked about the advantages of working with non-U.S. suppliers. The benefit cited most frequently is labor cost savings, which can be passed on to customers. Those at the largest companies consider less regulation a key benefit of doing business outside the U.S.

Conclusion

“Sustainability only continues to grow in importance for consumers, the companies that serve them and the supply management function that orchestrates the company’s sustainable policies, processes and performance,” says Thomas W. Derry, ISM CEO. “And a great track record in sustainability is linked to higher revenues, profit and company valuations. It’s here to stay.”

Sustainability has become embedded in today’s business consciousness. Companies are making headway, with nearly three-quarters having sustainability goals in place and half integrating them into daily operations. With the perception

of sustainability moving beyond being primarily associated with environmental concerns to encompassing a wider set of attributes like ethics and business conduct, health and safety, and diversity, companies have an opportunity to make a greater impact. They must define sustainability as broadly as possible, while diving deeply enough to craft thoughtful and measurable sustainability goals.

Focusing on the three pillars of sustainability while drawing from the 11 attributes of the *ISM Principles of Sustainability and Social Responsibility* — in particular, ethics and business conduct, health and safety, and environment, the sustainability attributes considered most

“Boise Paper is focused on sustainability for the long term, and we are gratified to see that buyers value the hard work we are doing to make a positive impact across all three pillars — environmental, social and economic. We know that our efforts reflect on the overall contribution of our customers, and we want to continue working with them to ensure our mutual success for the future.”

— **PAUL LEBLANC**

Vice President of Boise Paper

important to supply management organizations — can help them create value while impacting the environment, being responsive to customers, and improving communities.

Sustainable sourcing of such products as chemicals, packaging and manufacturing components as well as sourcing of U.S.-made products like manufacturing components/materials, capital equipment, packaging, electronics and paper are other ways companies can offset their environmental impact.

Environmentally conscious products in these categories generally are available at a premium, and the type of product or sector may determine how much extra a company is willing to pay.

“We would love if other companies in other industries adopted our way of thinking, because I think it would just be a better world with better products and better supply chains,” Nelson says. “Our entire goal — our big, hairy audacious goal — is to inspire mankind to buy less and buy better.”

How the Survey Was Conducted

Institute for Supply Management® (ISM®) asked survey respondents about their companies' sustainability goals, how they evaluate environmental impact, why they work with U.S.-based suppliers, health and safety in their supply chains, and other topics.

The survey yielded 778 usable responses. Respondents are supply management professionals from U.S.-based companies. The survey launched on June 13, 2019 and was open for six weeks. In addition to asking sustainability-specific questions, ISM also asked about participants' industry sectors and sub-sectors, their companies' revenue, number of employees, size of their supply management organizations, their job roles, and the spend categories for which they're responsible. Participants could opt-in to enter a drawing to win a US\$25 gift card (20 available).