

Environmental Supply Chain Management: Corporate and Business Unit Challenges

CfSD Environmental & Social Aspects in Supply Chain Management seminar

Farnham Castle, Monday 27 June 2005

Presentation by: Jonathan Garrett

Director, Environment, Health and Safety
Smiths Group



Structure of Presentation

smiths

- About Smiths

- How we manage environment and our supply chains

- Our approach and experiences to date
 - RoHS compliance
 - Extending SCM to broader social and ethical issues

Who we are

- FTSE 100 manufacturing & technology business
- £2,700 million sales
- 31,500 people worldwide
- 110 manufacturing sites
- Highly decentralised
 - Local autonomy and accountability
 - No Group purchasing department
- Diverse operations
- Profile continually changing the acquisition/divestment

110 Manufacturing Sites

smiths

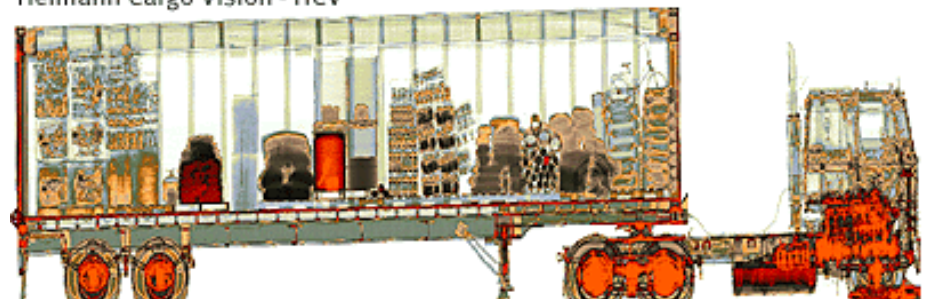


Aerospace and Detection

smiths



Heimann Cargo Vision - HCV



Medical and Specialty Engineering

smiths



Stakeholder Dialogue



smiths



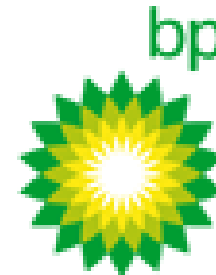
NHS Purchasing
and Supply Agency



MORLEY
Fund Management



GKN plc



Smiths and Sustainability

smiths

- Code of Ethics & environmental policy
- Group EHS Committee
- Group standards (ISO 14001) and eco-efficiency targets
- Information sharing and promoting best practice
- Supply chain management



Business Unit Approaches to SCM

smiths

- Driven by ISO 14001
 - Questionnaires and audits to assess:
 - Risks - sole source/high impact supplier
 - Opportunities - use of returnable re-usable packaging
- Phase out use of hazardous substances in components and raw materials
 - Legal - RoHS banned substances
 - Commercial - customer specific substances (e.g. Aerospace)
- Encourage suppliers to improve their environmental performance

Smiths Detection Case Study: LCAD

smiths

- Non-military version of LCAD for first responder market
- Database of components
 - 65% components lead free
- Most suppliers promising lead free by September
- Some suppliers have no information on lead free
 - Risk of component obsolescence
- Length of supply chain
 - Time for leaded components to 'flush through'



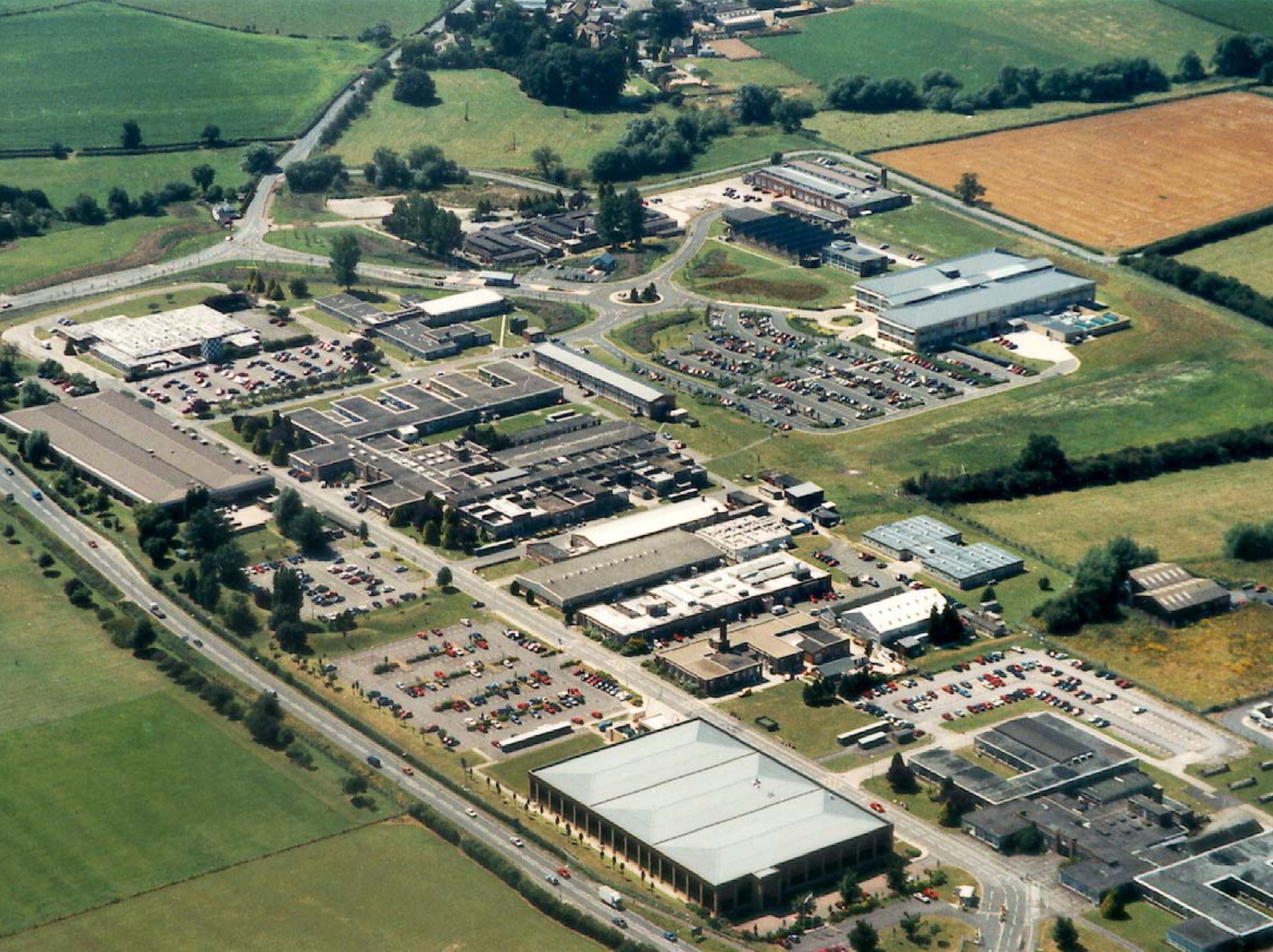
Our Experiences with RoHS

■ Customers

- Very time consuming!
- Lack standardisation (questionnaires)
- No co-ordination
- Lack understanding
 - e.g. “homogenous material”
- Some go beyond RoHS limits
- Some require product testing, not a supplier declaration - cost

■ Suppliers

- Scale of the task
- An administrative headache
- Some suppliers lack knowledge (education required)
- Information management is key
- Not all suppliers respond!
- Focus is on supplier declarations not product testing



■ Partners:

- Smiths Aerospace
Electronic Systems
Cheltenham
- Envirowise
- Business Link
- University of
Gloucestershire

■ 9 UK suppliers:

- Metal finishing
- PCBs and components
- Packaging

■ Phases:

- Recruitment
- Training and networking
sessions (Cheltenham)
- Follow-on site support visits
- Action plans for identified
opportunities
- Further training to achieve
savings (waste min, energy,
eco-design)

Code of Corporate Responsibility & Business Ethics

smiths

1. Compliance with laws and regulations
2. Competition
3. Proper business behaviour
4. Dealings with suppliers and customers
5. Employees
6. Health and safety
7. Environment
 -seeking ways to improve the environmental performance of suppliers...
8. Communities
9. Public activities
10. Human Rights
11. Reporting and Internal controls
12. Application and compliance

4. Dealings with suppliers and Customers

- “Smiths believes in working in partnership with suppliers..... to meet expectations of Smiths’ customers”
 - In practice - some customer pressure to phase out use of certain hazardous substances in products
 - Other customer pressure – e.g. Boeing, BP, Shell, looking at ethics in their supply chains
- “We expect our suppliers...to work with us to secure compliance with the relevant standards set out in the Group Code”
- Code to be communicated to Smiths’ suppliers
 - Note: Smiths Aerospace alone has 5,000 suppliers!
- Supplier performance against the Code to be monitored

Communicating the Code to Suppliers

- New code of conduct clause in agreements by Aug 2006:
 - Smiths expects its suppliers (1st tier) to conduct their businesses ethically and lawfully
 - Group Code available on Smiths website
 - Supplier to notify Smiths if Smiths business in breach of Code (i.e. supplier as whistle-blower)
- Is this sufficient?

Challenges

- No guidance available for the procurement professional
- But highest risk may be in 2nd, 3rd or 4th tier
- What if the Smiths business becomes aware that supplier is behaving unlawfully or unethically?
- Demonstrating compliance to others

The Need for Guidance

- For procurement professionals
 - Involve in development of tools/guidance
 - No one size fits all – division, business, country or product specific may be needed
 - Adaptable to change
- Risk based approach preferred
 - Not just 80/20 or top 10
 - Focus on risks and benefits, threats and opportunities
- Need senior management buy-in
 - Make business case
 - Not just a bureaucratic/data gathering exercise
 - Not just “digging for dirt” for its own sake

■ Raise awareness

- Obtain “buy in” from Ethics Council for risk based approach
- Identify risks and opportunities from 2-3 high risk products

■ Workshop with procurement professionals

- Develop tools/approaches/case studies
- Manage risks and opportunities in the supply chain
- Disseminate materials developed across Smiths

- SCM is difficult!
- Our approach is evolving – we have a long way to go
- Managing RoHS in the supply chain is resource intensive
- Guidance needed to implement our Code of Ethics in the supply chain
- Risk based approach preferred
- Procurement needs to own the process

Smiths Group

jonathan.garrett@smiths-group.com

Tel. 020 8457 8346

