Partnering on Sustainability:
How to Overcome Barriers and Establish a Sound Supply Chain Sustainability Program

Sustainable Purchasing Leadership Council 2015 Summit
Barriers in Establishing Lockheed Martin’s Supply Chain Sustainability Program

1. Size of our company
2. Resources to set up program
3. Hard to quantify cost benefits
   - When “green” goods don’t have cost parity, following the lifecycle savings often gets difficult
   - In the A&D industry, we don’t refresh our products on short cycles, so we have fewer chances to harness incremental improvements of “green” components
   - Majority of environmental footprint is within major subsystems with specific mission requirements that offer few alternatives, not e.g. office supplies
4. Cultural alignment with functional traditions
5. Active database of over 16,000 tier 1 suppliers from 50 countries
6. Maintaining strong partnership with our suppliers and small businesses
7. Multi-tier supply chain – issues may be tiers deeps
Recommendations for Establishing your Supply Chain Sustainability Program

1: LEADERSHIP & GOVERNANCE - Ensure supportive executive leadership and governance structure

- Corporate Sustainability Office created in 2012
- Led by Vice President of Ethics & Sustainability
- Reports into the Executive Leadership Team and CEO
- Sustainability Working Group established with functional leadership representatives

Marillyn Hewson
CEO and President
2013 Responsible CEO of the Year
Recommendations for Establishing your Supply Chain Sustainability Program

- **2: COMMUNICATION** - Learn to phrase sustainability in language targeted to that functional organization

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## SSCM Reporting & Transparency

- Life Cycle Assessment and Environmental Footprint
- Design
- Remediation
- Packaging
- Green Cafeteria Practices
- Green Procurement
- CMS
- REACH / Chemicals of Concern

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- Supply Chain Risk Mgmt
- Supply Chain Incident Detection Tool
- S2T2
- Rare Earth Elements
- Counterfeit Parts
- Cyber Security
- Customs-Trade Partnership Against Terrorism

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- Good Corporate Citizenship and Respect for Human Rights
- Trafficking in Persons
- Conflict Minerals
- Ethics Statement / Code of Conduct
- Ethics Diversity
- Supplier Ethics Monitoring Program
- Supplier Ethics Transparency Act
- Anti-Corruption
Recommendations for Establishing your Supply Chain Sustainability Program

3: BUSINESS CASE- Know the business case

Lockheed Martin’s customers are making energy and sustainability a top priority – our goal is to align with their objectives both in our internal operations and in our product/service offerings.
Business Case
Supply Chain Sustainability

- Increasingly recognized as a key *generator of business value*
- Important element of overall corporate sustainability performance
- Burgeoning demand from stakeholders for supply chain-related governance and performance information

Recommendations for Establishing your Supply Chain Sustainability Program

4: STAKEHOLDER ENGAGEMENT - Hold a stakeholders prioritization event

1. STAKEHOLDER ENGAGEMENT
We engaged with internal, external, and international stakeholders

2. ISSUES ASSESSMENT
Stakeholders plotted 41 issues by importance and business success

3. ISSUE PRIORITIZATION
We assessed “material” issues and clustered correlated topics

4. CORE ISSUES PLATFORM
We identified six core issues reviewed by the Board of Directors

- GOVERNANCE
- TALENT COMPETITIVENESS
- PRODUCT PERFORMANCE
- SUPPLIER SUSTAINABILITY
- INFORMATION SECURITY
- RESOURCE EFFICIENCY
Recommendations for Establishing your Supply Chain Sustainability Program

5: MAKE SUSTAINABILITY ‘EASY’

EXAMPLE: LOCKHEED MARTIN’S SUPPLIER CODE OF CONDUCT

- Issued a stand-alone Supplier Code of Conduct in Nov 2013
- Announced in our annual ethics letter to suppliers
- Appears on lm.com in multiple places (Suppliers, Ethics, etc.)
- Replaced current Purchase Order references with Supplier Code

- Code covers five major topics
  - Anti-Corruption
  - Environment
  - Human Rights
  - Labor Practices
  - Management Systems

- Resulted in a four page document!
### Recommendations for Establishing your Supply Chain Sustainability Program

#### 6: MEASURE EVERYTHING

<table>
<thead>
<tr>
<th>6 Core Issues</th>
<th>6 Objectives</th>
<th>41 Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOVERNANCE</td>
<td>Continually enhance efforts to uphold high standards and controls for ethical business conduct, compliance and transparency</td>
<td><img src="#" alt="Green" /></td>
</tr>
<tr>
<td>PRODUCT PERFORMANCE</td>
<td>Innovate to deliver optimal economic and performance value over the lifecycle of our products</td>
<td><img src="#" alt="Blue" /></td>
</tr>
<tr>
<td>INFORMATION SECURITY</td>
<td>Minimize the probability and impact of undesirable events associated with security incidents in our operations and for our customers’ missions</td>
<td><img src="#" alt="Red" /></td>
</tr>
<tr>
<td>TALENT COMPETITIVENESS</td>
<td>Foster a high-performance, inclusive culture that attracts, engages, and develops talent to excel in our marketplace</td>
<td><img src="#" alt="Yellow" /></td>
</tr>
<tr>
<td>SUPPLIER SUSTAINABILITY</td>
<td>Partner with at least 90% of active suppliers to advance responsible sourcing practices and improve transparency</td>
<td><img src="#" alt="Red" /></td>
</tr>
<tr>
<td>RESOURCE EFFICIENCY</td>
<td>Optimize the use of natural resources in our operations to reduce carbon emissions through improved energy management</td>
<td><img src="#" alt="Blue" /></td>
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</tbody>
</table>

We used a systematic approach of stakeholder engagement and sustainability issue analysis to prioritize issues and metrics.
# SUPPLIER SUSTAINABILITY

<table>
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<th>Objective</th>
<th>Partner with at least 90 percent of active suppliers to advance responsible sourcing practices and improve transparency.</th>
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<tr>
<td>Sub-issues</td>
<td><strong>Supplier Standards:</strong> We hold our suppliers to the same standards for business conduct as we do our own employees. Building capacity among suppliers to live these values improves environmental and social conditions worldwide.</td>
</tr>
<tr>
<td>Metrics</td>
<td>100% of Suppliers Receiving Supplier Code of Conduct (via open POs)</td>
</tr>
</tbody>
</table>
7: REPORT IT

**Public sustainable supply chain management webpage**

**Environmental Stewardship**  **Supplier Conduct**  **Supplier Sustainability Assessments**  **SSCM Resources**

**Sustainability language on all vendor purchase orders**

Consistent with our values and our commitment to setting the highest standards, Lockheed Martin has established a sustainability strategy that integrates **environmental**, **social** and **governance** stewardship principles into our Company’s business lifecycle. In all three facets, our suppliers represent a key partner in achieving success in sustainability. Suppliers are encouraged to visit our Sustainable Supply Chain Management website at [http://www.lockheedmartin.com/us/suppliers/sustainable-supply-chain.html](http://www.lockheedmartin.com/us/suppliers/sustainable-supply-chain.html) and our **Sustainability Report** to learn more about Lockheed Martin’s objectives and how they can partner with us to drive responsible growth and raise standards. Suggestions or questions regarding our sustainability strategy can be sent to sustainability.lm@lmco.com.


Recommendations for Establishing your Supply Chain Sustainability Program

8: PARTNER - Partner with your suppliers

**EXAMPLE: LOCKHEED MARTIN’s SUPPLIER ETHICS MENTORING PROGRAM**

- Idea and best practices exchange with ethics officers
- Aid suppliers in creating or enhancing ethics programs
- Two suppliers per business area enroll annually

**Voluntary Participation**
- No mandatory requirements, no contract changes

**Program Assessment & Recommendations**
- Jointly assess supplier’s ethics program, identify possible gaps, recommend enhancements, and provide access to resources

**Support & Guidance**
- Our Ethics Officers available to support suppliers based on goals and needs
- Level of effort dependent upon desired gain from the program

**Measure Success**
- Jointly assess mentoring relationship, process, & results in a close-out session
- Participate in a roundtable discussion with all supplier mentees and Ethics Officers