

REPUTATION RISK IN SUPPLY CHAIN AT BASF

RepRisk interview with Dr Eike Messow, Head of Sustainability in Procurement

RepRisk: What is BASF and what is the scope of your Sustainability challenge?

Eike Messow: BASF is headquartered in Ludwigshafen, Germany, and employs more than 110,000 people. Our tier 1 supplier network consists of more than 40,000 suppliers. Our total supplier network is in excess of millions around the world. In 2011, BASF purchased approximately 500,000 different raw materials, technical goods, plant construction, and maintenance and logistics services. We procure raw materials from more than 6,000 suppliers. BASF Group's purchasing volume in 2010 amounted to GBP 30.1 billion, excluding merchandise. BASF's special products for the nutrition industry meet the highest safety standards and comply with global regulatory requirements for food.

RR: What is the challenge facing BASF today in managing sustainability across its global supply chain?

EM: BASF depends on public acceptance of its corporate actions and therefore positions itself in accordance not only with legislative standards, but also in line with public perceptions, ethical standards and international standards. These standards include the United Nations Global Compact Principle, the Global Reporting Initiative and the Responsible Care initiative.

As one of the largest chemical companies operating all over the world, our product portfolio includes chemicals, plastics, functional solutions, performance products, agricultural solutions, crude oil, and natural gas.

RR: What initiatives have you recently undertaken to proactively address ESG risks in supply chain?

EM: From September 2011 through to June 2012, BASF conducted a research project with RepRisk at the London School of Economics to examine how leading quantitative indicators such as the RepRisk Index could be implemented across a global corporation to proactively identify and help us prioritize environmental, social and governance risks (ESG risks) across BASF's global supply chain.

In order to examine existing practices, interviews and academic research were conducted with sustainability and procurement experts across the company.



(from left) Abhishek Jain from the London School of Economics, RepRisk Analyst Nicole Neghaiwi and BASF Head of Sustainability in Procurement, Dr Eike Messow, meet to discuss the joint project on supply chain monitoring, in Ludwigshafen, Germany.

We had 3 objectives on this project:

1. To define the key challenges around the management and monitoring of ESG risk
2. To identify the processes and business intelligence tools currently in use and to identify the gaps that exist, and
3. To understand the desired customer experience for BASF staff for any new tools that can address these gaps and any potential roadblocks for implementation

RR: What outcomes were achieved in this research?

EM: Research outlined that Business intelligence deployed across the global workforce could be expanded to address limits on resources and provide global coverage of all companies and projects. In phase 1 we will be deploying RepRisk to provide early warning signals on our suppliers, empower decision-making and help identify and prioritize those suppliers in breach of BASF's standards and ethics. This will support early mitigation of potential reputation risks and proactive engagement with associated suppliers, to protect BASF brand and the company reputation whilst demonstrating compliance with international standards and legislation.

RR: Why is BASF so concerned about sustainability in supply chain?

EM: The objective of supply chain sustainability at BASF is to create, protect and grow long-term environmental, social and economic value for all stakeholders involved in bringing its products and services to market. Through supply chain sustainability, BASF aims to protect the long-term viability of its business and to secure a social license to operate. An effective early warning system is necessary in all areas of the business so as to alert executives to ESG risks quickly. Embedding ESG risk monitoring in the supply chain is an approach aimed to support BASF's long-term strategic view of sustainability and build it into the key value creation levers that drive returns on capital, growth, and risk management.

RR: What are some of the challenges you face in your mission?

EM: Supply chain sustainability is increasingly recognized as a key component of corporate responsibility. However, our supply chains consist of large numbers of suppliers and continuously evolving markets and relationships. To navigate this complex terrain, integrating business intelligence into decision-making is just one of the practical steps that BASF can take toward embedding sustainability into procurement strategies.

RR: What risks are BASF seeking to mitigate in the supply chain?

EM: Consumers want to know exactly where their food comes from. This is why BASF launched the S.E.T. initiative. S.E.T. stands for sustainability, eco-efficiency, and traceability. BASF's eco-efficiency analysis is a key element of the S.E.T. initiative of BASF Nutrition Ingredients.

S.E.T. makes the entire value chain from feed to the consumer transparent. Manufacturers of human and animal nutrition products who are customers of BASF can trace which ingredients were used in the production of BASF's products. Customers have access to BASF's supply chain at any time and any place via an internet-based system.

BASF also works to protect itself from potential supply chain interruptions or delays associated with suppliers' ESG practices by monitoring its tier 1 suppliers to ensure suppliers have effective compliance programs and robust management systems covering all the areas of the Global Compact Principles. Where a single source supply arrangement for key inputs exist, managing risks is essential to ensuring continued access to those resources.

BASF's aim is to ensure that its suppliers comply with environmental regulations, extended product responsibility legislation and to reduce potential future liability.

RR: How does this support the realization of efficiencies and a reasonable return on investment to each business?

EM: Monitoring those risks can reduce BASF's risk of supply interruptions while also reducing the environmental footprint of its supply chain, as well as improving worker health, motivation, and productivity. For example, BASF can create cost efficiencies by undertaking efforts to reduce emissions, accidents and illnesses and improve the overall health of workers in our supply chains.

Such benefits include:

- Strong labor and health and safety practices which may result in cost efficiency and improved productivity
- Increased understanding of key processes in the supply chain, including natural resource management and extraction, logistics and manufacturing, which enables better management and stewardship of resources
- More efficiently designed processes and systems, which reduce required inputs and lower costs

RR: How can this be used in supporting the creation of Sustainable Products?

EM: Collaboration with suppliers on sustainability issues serves to foster product innovation. Identification of those suppliers with a low RepRisk Index can support BASF teams embarking on Sustainable Product initiatives with the addition of new features and performance characteristics to existing products and even to generate new products. It is possible for the sustainability of products to be a differentiating factor and to lead to increased sales for BASF.

For example, in collaboration with experts from the European starch industry, we developed the starch potato Amflora, which is tailor-made for industrial use and produces pure amylopectin. Industry benefits from high-quality Amflora starch because it optimizes industrial processes: it makes paper glossier, for example, and also enables concrete and adhesives to be processed for a longer period of time. This reduces the consumption of raw materials such as water, additives and energy.

RR: How is Customer and Investor feedback taken into account in BASF Supply Chain Practices?

EM: Customers and investors are increasingly expecting BASF to understand and manage impacts in its supply chains. They want to ensure that BASF is aware of and is mitigating key risks affecting its supply chains and that we are compliant with the UN Global Compact principles. We will use RepRisk's specific stakeholder monitoring to provide us with further transparency of our perceived UNGC performance across our supplier network.

We also look after individual requests. For example, Carotenoids are nutritionally valuable substances used in foods as well as for colorants and beverage production. For people suffering from allergies, vegetarians or those who have special dietary needs, we offer a large selection of suitable vitamin and carotenoid formulations.

RR: Contrary to Naomi Klein's perspective in *No Logo*, there is an altruistic view that through global brands, great things can be achieved. Tell us how BASF views this opportunity.

EM: The purchasing power of BASF can become a unique driver for bringing about positive change in society. When BASF can engage early and regularly with stakeholders, we have the opportunity to take a proactive approach to ESG issues and to partner with stakeholders and engage with our suppliers rather than discovering the issues through an activist campaign. Early identification of issues through stakeholder engagement supports BASF in taking early leadership in comparison to our peers differentiating us as a responsible company operating in our communities.

We are also proactively working with the industry to create responsible products in the areas of nutrition, health and water. For example, in the Safo project, a public private partnership, which BASF is operating in collaboration with the German Federal Agency for International Cooperation (GIZ), staple foods like flour and oil are fortified with microencapsulated vitamin A to prevent malnutrition in developing countries. We also discovered that water could also be filtered with BASF plastic. The LifeStraw® Family portable water purification system made by Vestergaard Frandsen uses a filter membrane made from our Ultrason® E high performance plastic. Large quantities of dirty water can be converted into drinking water in developing countries with the help of this easy-to-use plastic equipment.

RR: In today's globalized economy, we all know that outsourcing business operations does not result in outsourced responsibility or risk – or that BASF's responsibility ends once a product is sold. Tell us more.

EM: BASF understands that we have a role to play throughout the lifecycle of our products and services. Embedding environmental, social and governance risk monitoring into Supply Chain sustainability management is key to maintaining the integrity of our brand, ensuring business continuity and managing operational costs. 