In partnership with

LLOYDS BANK

The Manufacturers' Organisation

ESG IN UK MANUFACTURING

GROWTH, SUPPLY CHAIN COOPERATION AND THE FUTURE OF SUSTAINABILITY IN THE INDUSTRY

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CONTENTS

KEY STATS

62% OF UK MANUFACTURERS HAVE **ESG TARGETS OR KPIs**

THIS IS AN **ASTOUNDING** 48% **INCREASE SINCE 2021**[1]

% CHANGE SINCE 2021

EXECUTIVE COMPENSATION LINKED TO ESG 24% ↑ +3%

ESG REPORTING AUDITED 32% ↓ -5%

FORMAL ESG STRATEGIES[2] 56% ↑ +4%

PUBLIC ESG REPORTING 38% ↑ +2%

ESG KPIs IN THE BUSINESS[2] 62% ↑ +20%

LARGE FIRMS ARE JUST UNDER **2x AS LIKELY** TO HAVE **ESG** AS ITS OWN INDEPENDENT FUNCTION COMPARED TO **SMEs**

TURNOVER
<£100M SME
>£100M LARGE FIRM

2/3 OF THE SECTOR **ANTICIPATE EXPANDING** THEIR ESG ENDEAVOURS OVER THE **NEXT TWO YEARS**

74% OF MANUFACTURERS HAVE **ESG CONDITIONS** IN THEIR PROCUREMENT DECISIONS

51% OF SMALLEST FIRMS VS 94% OF LARGEST CORPORATES (43% DIFFERENCE)

ESG CONDITIONS REQUIRED BY CUSTOMERS:

77% ARE SUBJECT TO **ESG CONDITIONS** BY CUSTOMERS

27% **RECEIVE SUPPORT** FROM CUSTOMERS

48% FEEL THAT THEY **DO NOT HAVE THE RESOURCES** REQUIRED

ESG CONDITIONS SET FOR SUPPLIERS:

74% **SET ESG CONDITIONS** FOR SUPPLIERS

35% **GIVE SUPPORT** TO THEIR SUPPLIERS:

24% OF FIRMS GIVE SUPPORT IN THE FORM OF **ACCESS TO TRAINING**

17% OF FIRMS GIVE SUPPORT IN THE FORM OF **PROVISION OF PRACTICAL TOOLS**

12% OF FIRMS GIVE SUPPORT IN THE FORM OF **FINANCIAL SUPPORT**

45% **ARE NOT AWARE** OF HOW THEIR SUPPLIERS ARE PERFORMING AGAINST THEIR TARGETS

[1]Quantitative survey work undertaken by Make UK with its members in 2021, previously unpublished
[2]ESG strategies and ESG KPIs differ, in that ESG KPIs set the goals of an organisation, where as an ESG strategy sets out a plan of actions'

INTRODUCTION

Environmental, Social and Governance, acronymised ESG, is a framework used to understand a firm's impacts and dependencies on society and the environment, in addition to its processes, policies and disclosures to support this. Greenhouse gas emissions, diversity & inclusion, social value, and nature, make up just a small few of the considerations that fall within the sphere of ESG. The rate at which ESG is rising up the business agenda and influencing business strategy is significant in recent years, as this report will go on to demonstrate.

This 2024 report by Make UK and Lloyds Bank, exploring ESG in the manufacturing sector, is the first formal report on the subject by Make UK. It reveals insights from the intersection between ESG and business across a wide spectrum.

Meeting ESG targets, whether internal or external, often requires firms to look beyond their own direct operations. The practices of a firm's supply chain impact the final product, and to that end particular attention in this report is paid to how firms within the UK manufacturing ecosystem and value chain (including customers and suppliers) react, comply, and assist in progressing ESG goals, and where the greatest hurdles lie. Other areas of focus include ESG reporting, ESG drivers and ESG-linked executive pay.

This work has been supported by the quantitative analysis of detailed survey data from the UK manufacturing base, along with select case studies and interviews from household-name businesses which are trailblazing in the rapidly evolving frontier of ESG in the manufacturing industry. 150 UK manufacturers were surveyed or interviewed in total, between September 2023, and January 2024. This report also makes use of valuable data collected in 2021, and unpublished by Make UK at the time, to reveal compelling time series evidence as to the evolution of ESG within the sector.

With thanks to the primary report authors and colleagues:

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LLOYDS BANK

VIEWPOINT

This report showcases the growing importance and prevalence of ESG across the UK manufacturing sector. This is true not only in context of the direct operations of UK manufacturers, but also in context of ESG engagement across the wider value chains of these firms. This trend has not come without its challenges. There are two obstacles in particular which feature heavily in this research, and also in our frequent ESG engagement with our clients and the wider sector.

The first of these obstacles relates to the lack of consistent infrastructure for supply chain reporting. Whilst there are many different methods, systems, and tools for data collection, the lack of a standardised approach increases the reporting burden for suppliers. Also contributing to this, is the lack of consistent standardised ESG metrics from firm to firm. Collectively, these factors also reduce transparency, and the ability to benchmark across the sector.

The second core challenge relates to the lack of support that manufacturers receive to achieve the ESG requirements placed on them, with 48% of survey respondents feeling this way. To ensure a just-transition[3], it is vital that firms who have fewer resources and less inhouse ESG expertise, are not penalised if there is a genuine intent to increase the sustainable impact of their business. This report highlights some of the ways that customers are supporting their manufacturing suppliers on ESG, but also highlights a 50% gap between the number of manufactures that are subject to ESG conditions from their customers, and manufacturers that received ESG support from these same customers. This signals that there is still additional room for customers to support.

However, not all of the responsibility can fall on the customers, who in many instances do not feel that they have the support required themselves to achieve the ESG conditions placed on them from third parties. The negative consequences of poor ESG practices impact all people, firms, and institutions. Therefore it is critical for all parties across the private sector, public sector, government, regulators, third sector and academia to collaborate. This includes collaboration from peers at the same stage of the value chain, who can pool their ESG knowledge and resources in such a way that is mutually beneficial. An example of this would include the online 'Supply Chain Sustainability School' - a collaboration between clients, contractors and first tier suppliers who want to build the skills of their supply chains. There is also room for example, for market participants and/or the government to standardise some of the supply chain reporting processes.

At Lloyds Bank, we look to continue our multi-modal approach to provide ESG support across the manufacturing sector. This includes engagement with our manufacturing clients via our relationship teams, and our in house manufacturing sustainability leads within our dedicated Sustainability and ESG Finance team. This engagement includes the provision and delivery of research and insights, in addition to the provision of practical sustainable solutions, and funding for critical transitional technologies.

We also continue to invest and develop partnerships in the sector, in addition to that with Make UK. Since 2015, we've worked in partnership with the Manufacturing Technology Centre (MTC) and have recently extended our collaboration through to the end of 2029, with a total sponsorship of £15 million. One of the programmes that our funding supports is the new complimentary Sustainability Line Walk. This enables SME manufacturers to access the MTC's expertise to explore how they can make sustainability improvements and identify energy-saving opportunities. Further programmes are available from the MTC to help manufacturers with the sustainability challenges they face, including some of those outlined in this report. We're also working alongside the MTC to create the next generation of engineering talent while upskilling and reskilling existing workforces by delivering high-value manufacturing apprenticeships and training programmes. We're on track to train and upskill 6,000 graduates, apprentices, and engineers by 2030.

For more information on how Lloyds Bank can support your business with its ESG needs, see page 25.

[3]Just transition is an overarching concept of ensuring fairness and equity in the process of transitioning to a net zero economy, ensuring that no one is left behind and that the most vulnerable communities and workers are supported during the transition.

ESG IN UK MANUFACTURING

HOW HAS THE IMPLEMENTATION OF ESG STRATEGIES EVOLVED?

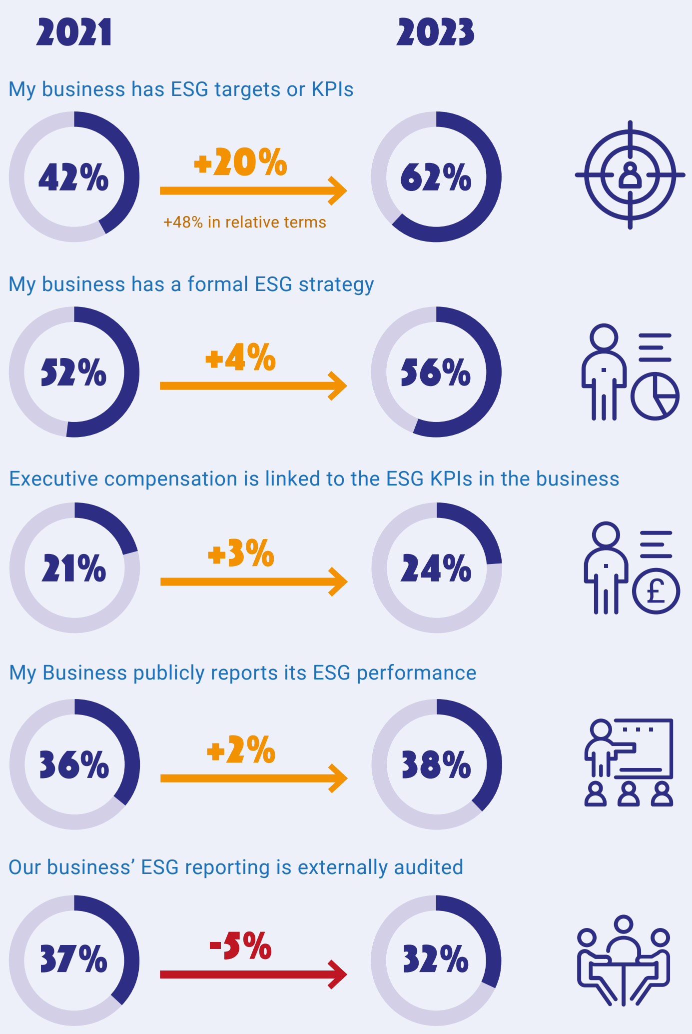
As part of this 2023 research, Make UK and Lloyds Bank repeated core questions regarding the implementation of environmental and social governance across the manufacturing sector, to understand what trends are emerging and receding.

Consistent questions between Make UK's 2021 and Make UK's and Lloyds Bank's 2023 research included whether firms' ESG reporting is externally audited or publicly reported, whether firms have a formal ESG strategy, whether firms have ESG KPIs (Key Performance Indicators), and whether executive compensation is linked to these ESG KPIs.

Make UK had identified these high-level ESG topics as the most suitable for comparison over time and will continue to elicit intelligence from the sector in the future to keep informed of the shifting ESG landscape into the future.

All comparisons between 2021 and 2023 have seen an increase in the proportion of manufacturers which suggest they agree with the given statements, with the exception of external audits of ESG reports, which have seen a decline. There has been a range of international and domestic ESG developments during this period which have likely contributed to this growth.

Chart 1: ESG Trends from 2021 to 2023: reporting, strategy and executive pay

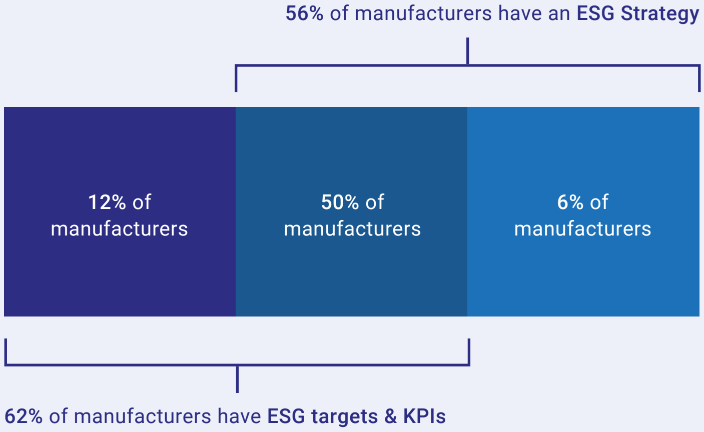


Source: Make UK / Lloyds Bank ESG Survey 2023, and Make UK ESG Survey 2021

> "The prevalence of UK Manufacturing firms having ESG targets or KPIs has grown by an astounding 48% relative to 2021"

By far the most significant growth is observed in whether businesses have internal ESG targets or KPIs (not to be confused with ESG targets or KPIs prescribed by third parties, discussed later in this report). In the latest 2023 data, 62% of UK manufacturers report having ESG targets or KPIs, compared to 42% in 2021. This represents an absolute increase in this category of 20% in only two years, or a relative rate of growth of an astounding 48%. Interestingly, while the majority of firms (56%) report having a formal ESG strategy, an increase of 4% compared to 2021, it is notably below the figure that report having some form of ESG targets. Cross-analysis of the data shows that 12% of the industry have ESG targets or KPIs but fall short of considering themselves to have a formal ESG strategy.

This could potentially undermine the credibility of these ESG targets and increase the risk of greenwashing allegations, given that there is no clear pathway to achieve these targets. However, this may also be a product of the ESG landscape. For many environmental themes in particular (such as, but not exclusively, greenhouse gas emissions), there are scientific thresholds required for the world to hits its international commitments. It isn't uncommon for organisations to set their environmental targets at these thresholds as best practice, then begin to work backwards from here to develop a pathway to reach these targets.



"50% of the manufacturing sector have ESG targets and an ESG strategy. 18% of the sector have disclosed that they have either ESG targets, or an ESG strategy, but not both"

FOCUS ON: ESG STRATEGIES AND NET COST-BENEFIT

The data shows that in the past two years only a small proportion of firms have seen measurable financial return, with 13% reporting as much.

However, of the manufactures that have not yet measured a financial return as a result of their ESG strategy, 54% expect to see a financial turn in the long term. The remaining 46% don't expect to see a financial return arise as a result of their ESG strategy at all.

Interviews conducted with manufacturers during this research has highlighted that financial returns are only one of the many drivers for ESG growth. Other drivers discussed include pressures and incentives from government, changing regulation, financial institutions, sector bodies, existing employees, the wider labour market, customers, suppliers, non-governmental organisations (NGOs) and investors. Failing to strengthen a firm's ESG credentials could therefore create future challenges for all aspects of its business, including recruitment and retention of skilled labour, access to capital, and access to consumer markets.

"Of firms which have not already received a financial return from their ESG strategy, 54% expect to do so in the long run"

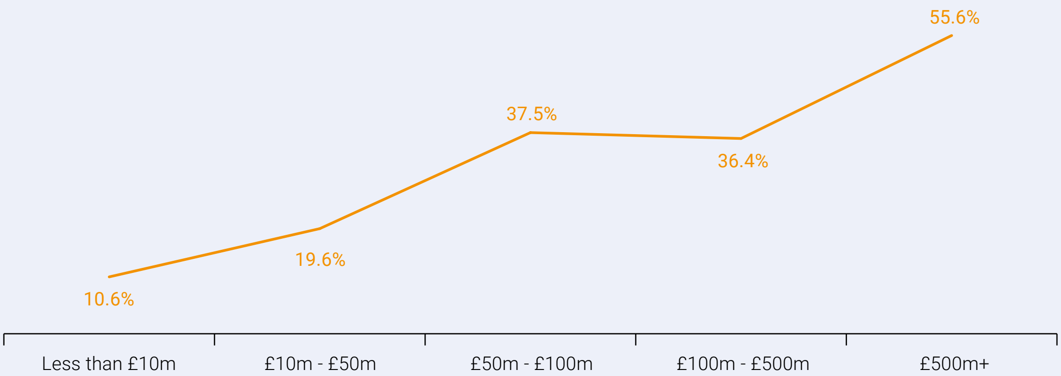
The least prevalent, albeit perhaps most enlightening activity within these topics concerns executive pay. Just under one in four firms (24%) report that executive compensation is linked to the ESG KPIs within the business. This too has seen growth since 2021, increasing in prevalence in the sector by 3%. This topic is most likely to reveal how entrenched ESG strategies are into a wider firm's strategy as it equates the ESG performance of the firm with other traditional corporate measures of success that can often be found to have performance-linked compensation, e.g. growth, profits, margins etc.

FOCUS ON: EXECUTIVE COMPENSATION AND ESG PERFORMANCE

When we break down the headline figure, that 24% of UK manufacturing firms have executive compensation linked to the ESG KPIs within the firm, by firm size, we reveal a strong correlation between the rate of executive compensation linked to KPIs and headcount. This is perhaps unsurprising. As internal operational capacity grows, so too does the formalisation of corporate governance. Furthermore, interviews held with manufactures as part of this research supports that larger firms are exposed to a greater number of stakeholders which will want to observe evidence of good ESG practice before engaging in business or employment.

Chart 2: Strong positive correlation emerges between ESG linked executive pay and firm size

% firms in each size category reporting whether executive pay is linked to ESG KPIs



Make UK / Lloyds Bank ESG Survey 2023

The data illustrates a clear relationship between the size of a UK manufacturing firm and its likelihood of executive pay being ESG performance linked. Ranging from just 11% in the smallest of firms having ESG-linked pay to an impressive majority of 56% of the largest corporates having ESG-linked pay. By comparison, the largest corporates are just over five times more likely to have executive compensation linked to ESG KPIs.

SIEMENS

"Siemens has found that even just over the past year, there has been a step-change in both what customers are asking – both in terms of what Siemens is doing, as well as what it asks of its own customers' sustainability credentials. Internally, Siemens has dubbed this type of proliferation a 'halo' effect, highlighting the subsequent knock-on effects that enhanced accountability within sustainability is having in supply chains."[2]

[2]Full case study included in the appendix of the report

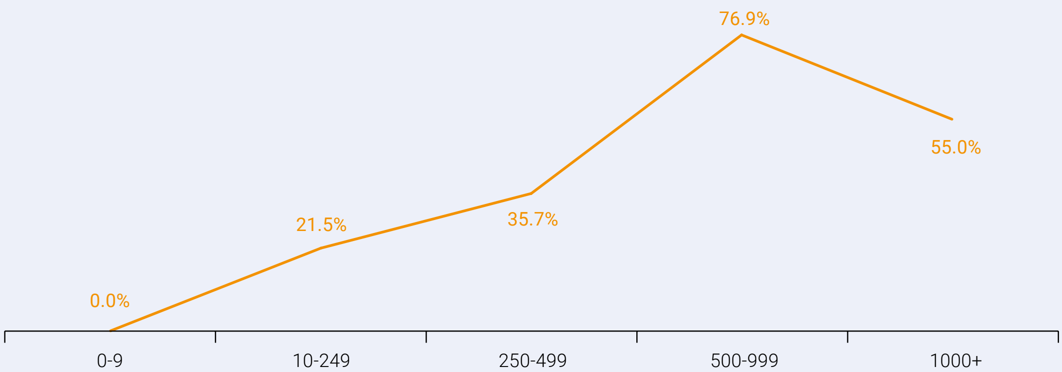
FOCUS ON: INDEPENDENT AUDIT

Evidence revealed throughout this report details how demonstrable ESG performance is growing beyond a nice-to-have toward a competitive business necessity. To demonstrate this, firms continue to move toward standardised ESG reporting, with the heightened test of that reporting being seen by those firms who work with independent auditors to both verify their own ESG data and processes and, perhaps more importantly, signal to the market that their firm's ESG implementations are robust. Independent auditing of ESG data can increase accessibility to discounted sustainability linked financing. It can also improve both solicited and unsolicited third party ESG ratings, which in turn could increase attractiveness of a firm to investors.

Of Make UK's and Lloyds Bank's two-year time comparisons of ESG reporting, strategy, and executive pay, the only facet to see a decline in prevalence is the external auditing of ESG reporting. In 2021, 37% of the manufacturing sector reported that their ESG reporting was independently audited. In the present 2023 data, 32% suggest the same, representing a decline in the prevalence of external auditing of 5%. Of course, while the relative proportion may have declined, the total pool of UK manufacturers that will be reporting, either internally or publicly, on ESG performance has increased in that same period, as data in this report finds. As part of the fieldwork, firms highlighted an increasing focus on cost control in the past two years as a key barrier to increasing spending on ESG concerns, likely accounting for some of the decline in the rate of external ESG auditing observed here.

Chart 3: Growth of ESG auditing is linked to firm size in all but the largest of firms

% firms in each size category reporting whether their ESG reporting is independently audited



Make UK / Lloyds Bank ESG Survey 2023

When we interrogate the data by headcount, we find that there is a similar correlation between firm size and the likelihood of using external auditors to verify ESG reporting. No micro-sized firms (0-9 employees) have external auditors to review ESG reporting, perhaps as expected. What's most revealing is how prevalent external ESG audit is within the 500-999 headcount size of companies, at 77%, but how it drops, albeit still representing a majority of 55% for the 1000+ headcount firm group.

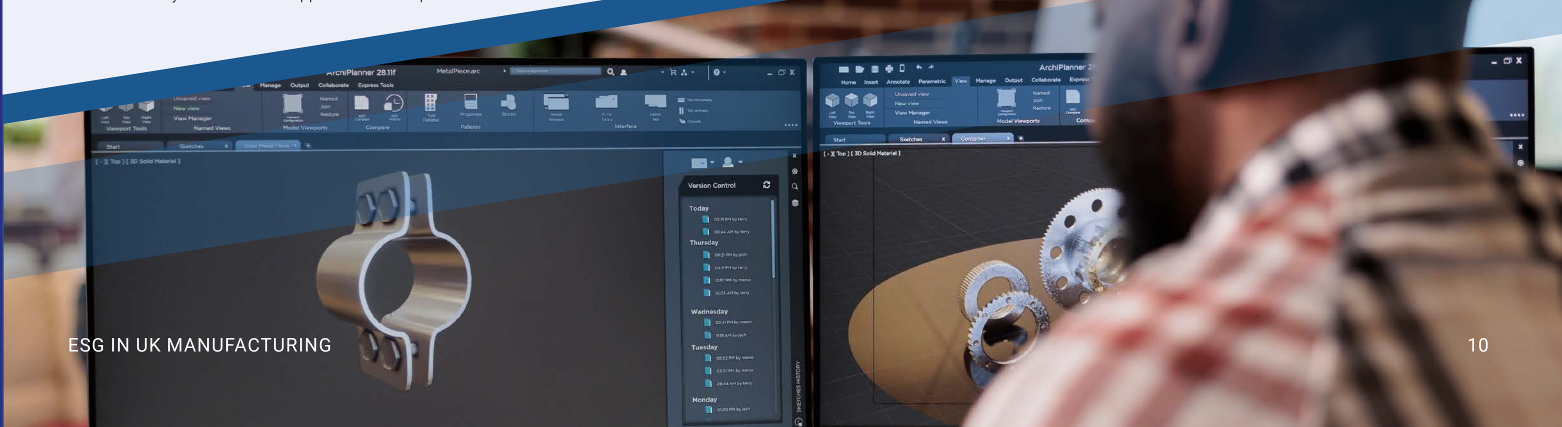
When we combine this insight with the prevalence of dedicated firm-wide ESG directorates, we can see a potential driver for this drop-off in independent ESG assurance for the largest of firms. 30% of firms with 1000+ employees have their own dedicated ESG department within the firm, compared to the average of 17% across the entire UK manufacturing sector. The implication is that firms with their own dedicated ESG directorate are less likely to use external ESG auditing than the sector average. The other significant finding from this comparison is that as a firm grows from 0-9 employees, to 499 employees, its likelihood to use an independent ESG audit increases in a fairly linear fashion, until it reaches a headcount of 500-999 where it increases by a factor of 2.15. In other words, it becomes just over twice as likely than if the firm was in the previous size band of 250-499 employees. When a firm reaches a critical mass of 1000 employees or more, the likelihood of external ESG auditing begins to decline (by 28%) as firms move toward establishing in-house dedicated ESG departments.

It's important to highlight the circumstances of the business environment as we compare this data. When the 2021 data was collected, both the manufacturing sector and indeed the wider economy were on an unusual footing, only just emerging from the UK's ordeal with the COVID-19 pandemic. There has also been geopolitical and UK-political instability since 2021, which has seen disruption to global trade, high inflation, industrial action, and energy security concerns. Intuition would suggest that despite the majority of the time-series comparisons seeing growth in the past two years, figures would likely be even higher had the sector's focus not been so forced into core business survival and recovery. Given this, and assuming no similar global shock of commensurate severity occurs in the coming two years, it would likely be safe to assume that the rate of growth of this two-year comparison will be greater in 2025.

LEONARDO

"Leonardo in the UK is committed to taking action on climate change by reducing greenhouse gas emissions and reaching Net-Zero for Scope 1 and 2 by 2030, and Net-Zero for scope 1, 2 and 3 by 2050. Good progress has already been made, with a 63% reduction in Scope 1 and 2 emissions from 2018 to 2022 – driven by the procurement of 100% renewable energy."[4]

[4]Full case study included in the appendix of the report



ESG CAPACITY AND RESPONSIBILITY

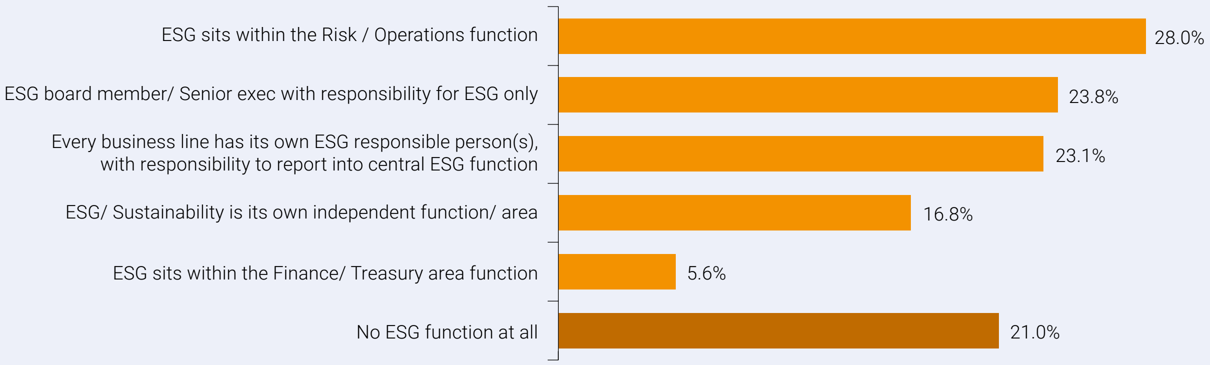
This research quantitatively demonstrates that ESG is a growing remit within UK manufacturing firms, however, the scale and the rate at which firms are expanding their ESG endeavours vary significantly.

As part of this research, Make UK and Lloyds Bank set out to understand where the ESG function often sits within the business of UK manufacturers, and how this varies between SME-sized firms (<£100m turnover), and large corporates (≥ £100m turnover). Finding where the ESG remit sits within firms across the turnover spectrum reveals how the function evolves in significance as firms scale.

Perhaps what is most striking, initially, is the spread of where firms are choosing to place the responsibility of their ESG function, with little consistency emerging across the sector. The most common, accounting for just over one in four manufacturers, is for the ESG remit to sit within the risks or operations function. Despite being the most prevalent, this is perhaps the widest category available. This was closely followed by, with just under one in four firms suggesting as much, a nominated senior individual or board member who has explicit responsibility for ESG. An almost identical proportion suggests that every business line within the firm has a responsible person for ESG, that reports in to a central ESG function.

Notably less common, but certainly the most developed option, is ESG belonging within its own designated business function. At the outset of such a strategy, the cost implication will naturally be higher for a firm given the extra resourcing requirement when compared to other options. This premise is supported when we examine the prevalence of explicit ESG departments between SME-sized firms (<£100m turnover) and large corporates (>£100m turnover).

Chart 4: ESG remit placement is varied across the sector



Make UK / Lloyds Bank ESG Survey 2023

MOOG

"(We) have noted the importance of investing into sustainability projects to improve their social and environmental impact, as well as to enable the business to meet both financial and regulatory requirements. It is clear that, in order to remain competitive and recruit the best employees, there must be a clear focus on sustainability."[5]

HILTON FOODS

"Hilton Foods have set ambitious aims for 2025. Some of their priorities for 2024 include: going through the validation process with the Science Based Targets Initiative to validate their updated scope 1, 2 & 3 targets, including FLAG, looking at nature and beyond deforestation – considering both the TNFD and the SBTN frameworks and best practice, and inputting sustainability clauses into supplier contracts and setting minimum sustainability requirements."[6]

[5,6] Full case study included in the appendix of the report

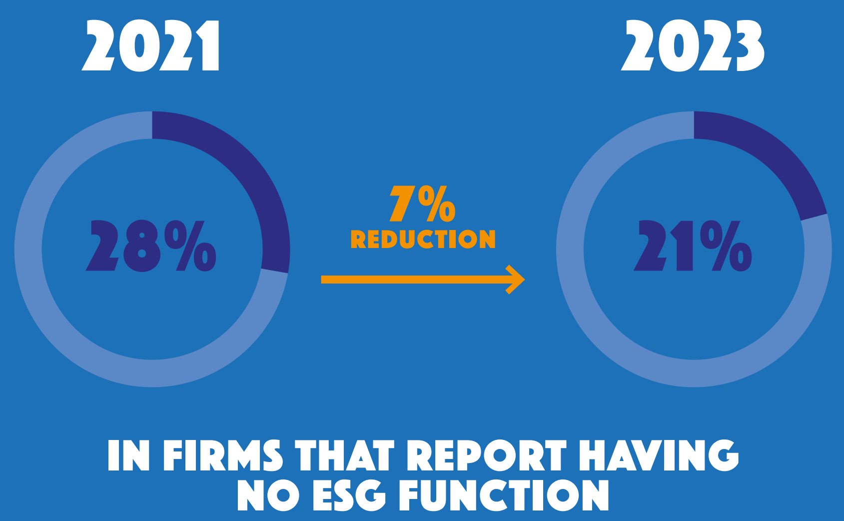
Chart 5: Large firms are twice as likely to have ESG as its own independent function compared to SMEs

Make UK / Lloyds Bank ESG Survey 2023

28% of large corporate firms report having a dedicated ESG business function within the firm, compared to 14% of SME firms.

Noting that manufacturers were able to select more than one option for this question, cross analysis of the data allows us to deduce that 6% of firms that have nominated responsible individuals for ESG within every business line reporting into a central ESG function, do not have ESG as its own independent function. These business lines report on ESG into non dedicated ESG business units such as those referenced in Chart 4.

Whether a UK firm has an ESG function at all has evolved over the past two years. In 2021, 28%, approximately one in five manufacturers had no ESG function at all. In 2023, Make UK and Lloyds Bank found that figure to be 21%. In comparison, over almost exactly two years, the proportion of UK manufacturing firms that report not having an ESG function has reduced by 7%.



FRAMEWORKS AND TOOLS

As this report will go on to show, the accurate reporting of ESG performance goes beyond internal accounting into a wider necessity for pitching contracts and creating opportunities for firms to enter new and diversified value chains. It is important that firms are collecting the right types of data, based on the ESG themes that are most material to their operations. It is also important that this data is benchmarkable.

Make UK and Lloyds Bank set out to understand the types of frameworks and tools that UK manufacturers are using in their business today to demonstrate their ESG performance, by inviting business decision-makers to volunteer, with no set options, the types of processes used.

The most prevalent standards and frameworks that UK manufacturers have adopted are SASB, GRI and TCFD. Make UK's 2021 work into ESG found that 24% of the sector adhered to GRI and/or SASB frameworks, with a further 12% reporting they were in the process of considering doing so.

Chart 6: Word cloud highlighting themes elicited from senior decision makers when asked about whether and which tools and processes are used in the measurement of ESG performance

Make UK / Lloyds Bank ESG Survey 2023

CEMEX

"CEMEX runs a global Supplier Sustainability Programme, which invites its suppliers to perform a sustainability assessment via third party software (e.g. AFNOR), based on ISO 26000 guidelines, which cover social, environmental, health and safety, business ethics, stakeholder relationships, and financial performance standards. In some jurisdictions, including the UK, if a supplier's carbon rating is better than average, they may also benefit from more favourable financing options, via sustainable supply chain finance."[7]

[7] Full case study included in the appendix of the report

WHAT DO THE ACRONYMS MEAN?

TCFD: THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Task Force on Climate-related Financial Disclosures, or TCFD, is a global organization formed to develop a set of recommended climate-related disclosures that firms and financial institutions can use to better inform investors, shareholders and the public of their climate-related financial risks.

The goal of these disclosures is to bring transparency to firms' climate-related risks. Broad disclosure of climate-related financial risks enables more informed investment, credit, and insurance underwriting decisions and can help facilitate the transition to a more sustainable, low-carbon economy.

Source: Task Force on Climate-related Financial Disclosures

SASB: THE SUSTAINABILITY ACCOUNTING STANDARDS BOARD

Serving as an ESG guidance framework, the SASB Standards identify sustainability issues that may impact financial performance and enterprise value for 77 industries. These industry-specific standards include six disclosure topics and 13 accounting metrics across five key dimensions of sustainability—environment, social capital, human capital, business model and innovation, and leadership and governance.

The SASB Standards were framed using a transparent standard-setting process that included evidence-based research, open participation from firms, investors and subject-matter experts; and oversight and approval from the SASB Standards Board. Firms may use these standards for guidance as they disclose sustainability risks and opportunities impacting their enterprise value.

Source: The Sustainability Accounting Standards Board

GRI: THE GLOBAL REPORTING INITIATIVE

The Global Reporting Initiative (GRI) is an international, independent nonprofit that supports firms, governments and other organizations to clearly communicate their impact on the world. Thorough and accurate ESG reporting is paramount for both growth and transparency, but without a standardized methodology, sustainability reporting can be difficult to assess. The GRI standards are the most prevalent set of standards, reported to be used by over 10,000 firms in over one hundred countries.

Source: Global Reporting Initiative

In practice, many firms use a combination of these standards as they are often complimentary to each other. This increases the comprehensiveness of a firms ESG report, allowing for greater capture and reporting of relevant ESG-related data with interoperability for both demonstration to stakeholders (both internal and external) and use with ESG performance software platforms. The most prolific software mentioned by manufacturers in their tracking of ESG performance was Envizi, and the most common software provider mentioned was EcoVadis. However, many also referenced that their ESG reporting maturity was currently insufficient to warrant the use of dedicated software platforms.

In many instances Government legislation can impact ESG reporting requirements, such as the 'Companies (Strategic Report)(Climate-related Financial Disclosure) Regulations' in 2022, which places requirements on many large UK quoted and private firms to include TCFD aligned climate disclosures in their annual reports. Whilst this can add additional reporting burden, it also creates more transparency, accountability and consistency in the market on ESG matters. It is anticipated that additional legislation in the next couple of years will require large firms to also disclose against the International Sustainability Standards Board draft standards and the UK Green Taxonomy. Smaller firms can also volunteer to report against these frameworks, but are less likely to have the resource to do so.

Life Is On | Schneider Electric

"The core pillars of this long-term strategy are Climate, Resource, Trust, Equality, Generations and Local. These topics frame how Schneider Electric shapes and delivers its actionable short-term strategies. Within these strategies, there are two focuses, put simply, one with an internal focus and one with an external focus.

Schneider Electric is seeing an increase in the number of customers that require robust sustainability information, citing it is often requested by the end user. This in turn is increasing the proliferation of sustainability reporting throughout Schneider Electric's supply chain, as the company itself cannot give the most robust sustainability information to its customers without the buy-in from their own suppliers."[8]

[8]Full case study included in the appendix of the report

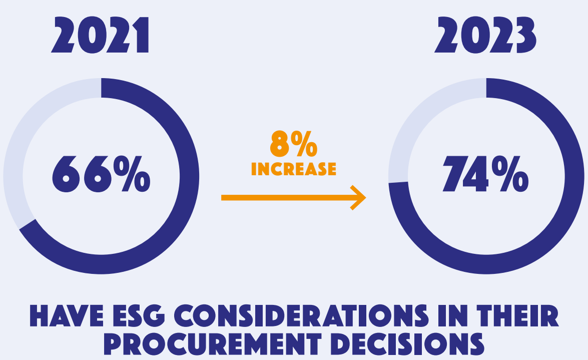
ESG CONSIDERATIONS ACROSS THE SUPPLY CHAIN

PROCUREMENT

Procurement policy, that is the conditions that a firm sets to govern its purchase of products and services, is rapidly expanding beyond the classic dichotomy of quality and price. As ESG strategies become increasingly pervasive throughout the value chain, adherence to and compliance with themes beyond price and quality become conditional to doing business.

Make UK's 2021 research into ESG in the sector found that 66% of the sector had ESG conditions built into their procurement policy ('**procurement ESG conditions**'). New data as part of this research in 2023, from Make UK and Lloyds Bank, finds that this figure has now grown to 74% - an increase of 8%.

Furthermore, this new data also highlights how pervasive ESG considerations are in the procurement strategies of large corporates' when compared to SMEs. Specifically, 94% of the largest corporates have procurement ESG conditions vs just 51% of the smallest firms.



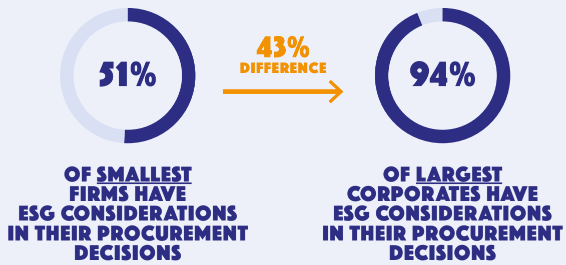
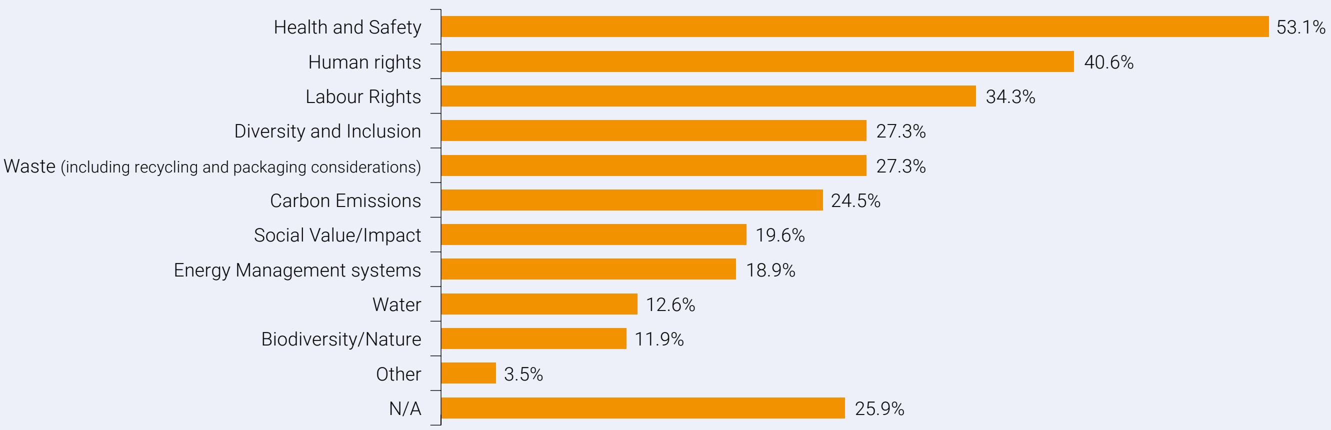


Chart 7: Types of ESG conditions that UK manufacturers have built into their procurement policy



Make UK / Lloyds Bank ESG Survey 2023

The top four most common types of ESG conditions within manufacturer's procurement policy are all related to human capital, in simpler terms, employee conditions in the firm being sourced from. 53% report having stipulations on health and safety, 41% on human rights, 34% on labour rights and 27% on diversity and inclusion. This is perhaps unsurprising given that these are ESG measures that are well established and understood in the industry. For example, health and safety and labour rights have featured in legislation since the 19th century (e.g. the Factory Act 1802). Whilst procurement ESG conditions relating to themes such as carbon emissions and biodiversity / nature were less common, scoring 25% and 12% respectively, it is very likely that these could become increasingly prevalent noting the range of recent and upcoming international agreements, market frameworks, and domestic legislation focusing on these ESG themes. A prime example would include the Kunming-Montreal Global Biodiversity Framework, agreed at the UN's Nature Conference of the Parties in 2022, committing 196 countries to halt and reverse nature loss by 2030. This trend is supported by interviews held with manufacturers, who frequently sited carbon and nature in particular as the areas that they are looking to embed into their procurement strategy in the future. Make UK will look to monitor any trends over time.

Interviews highlighted that alignment to external benchmarks is also common amongst procurement ESG conditions in the manufacturing value chain. Examples include the requirement to have a science based target validated by the SBTi, or an ESG rating from providers such as EcoVadis.

It is important to note that a firm may have one or more procurement ESG conditions, without necessarily considering itself as having a formalised ESG strategy.

NO ESG CONDITIONS:

Manufacturers of non-metallic minerals (including building materials), and transport (excluding aerospace & motor vehicles) were the most likely to not have any procurement ESG conditions (67% and 50% respectively)

CARBON EMISSIONS:

Manufacturers of food & drink, transport (excluding aerospace & motor vehicles), and aerospace & defence were the most likely to have carbon emission procurement ESG conditions (50%, 50%, and 46%, respectively)

SOCIAL VALUE/IMPACT:

Manufacturers of textiles, leather & products, food & drink, and chemical & pharmaceutical were the most likely to have social value/impact procurement ESG conditions (67%, 50%, and 33% respectively)

RECYCLING/WASTE:

Manufacturers of transport (excluding aerospace & motor vehicles), and aerospace & defence were the most likely to have recycling/waste procurement ESG conditions (50% and 46% respectively)

WATER:

Outside of motor vehicles (25%) very few other manufacturing sub-sectors set procurement ESG conditions based on water usage

SPOTLIGHT ON MANUFACTURERS OF CHEMICALS AND PHARMACEUTICALS:

Manufacturers of chemicals and pharmaceuticals:

Take the most holistic approach to their ESG procurement policy, with 44% setting procurement ESG conditions across each of the 10 ESG theme assessed (excluding 'other')

Are four (3.8) times more likely than other types of manufactures to have biodiversity / nature procurement ESG conditions

ESG CONDITIONS PLACED ON MANUFACTURERS BY THEIR OWN CUSTOMERS

Just as manufacturers have their own suppliers, they themselves also fall into the supply chain of others (including other manufacturers). In a similar fashion to Make UK's and Lloyds Bank's research on the ESG considerations that manufacturers include in their own procurement policy, work was undertaken to understand the extent to which manufacturers themselves, are subject to ESG conditions from their own customers ('**customer ESG conditions**'). Generally, we find that UK manufacturers have a slightly greater propensity to be subject to ESG customer conditions, than to set ESG procurement conditions. However, large corporates (>£100m) are more likely to both set procurement ESG conditions and be subject to customer ESG conditions, with 93% of large corporates setting conditions, and 79% being subject to conditions. This is compared to SMEs (<£100m) of which 69% set procurement ESG conditions and 76% are subject to customer ESG conditions.

The largest variance is seen in carbon emissions, with 24% of the sector setting carbon procurement ESG conditions, but 35% of the sector subject to carbon requirements by their customers, a difference of 10% (rounding).

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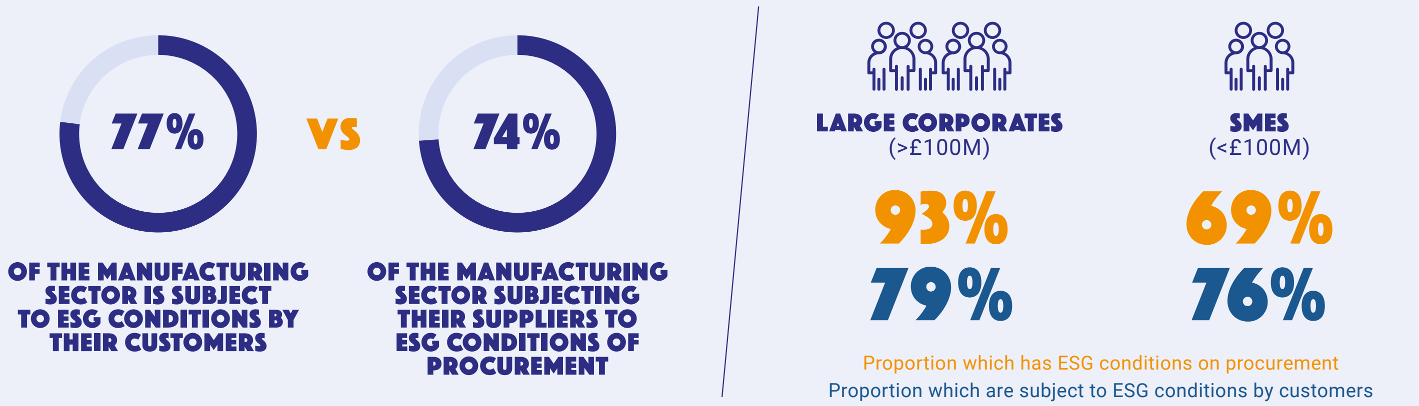
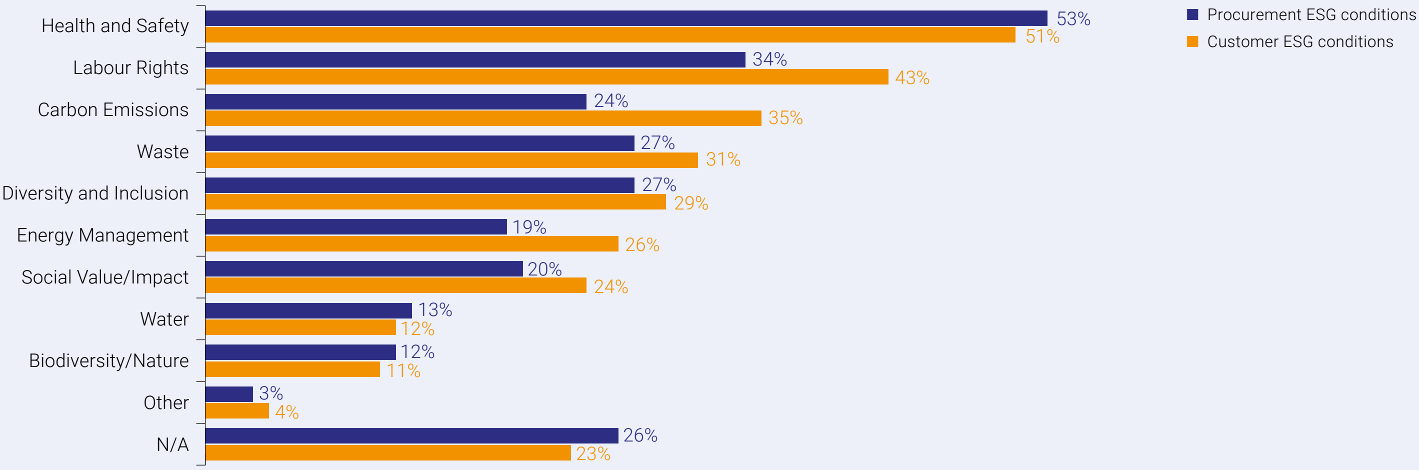


Chart 8: Comparative analysis of firms subjecting, or being subjected to, ESG conditions across their suppliers and customers

% firms reporting whether they set or receive a compliance condition procurement



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CLARITY OF ESG CONDITIONS

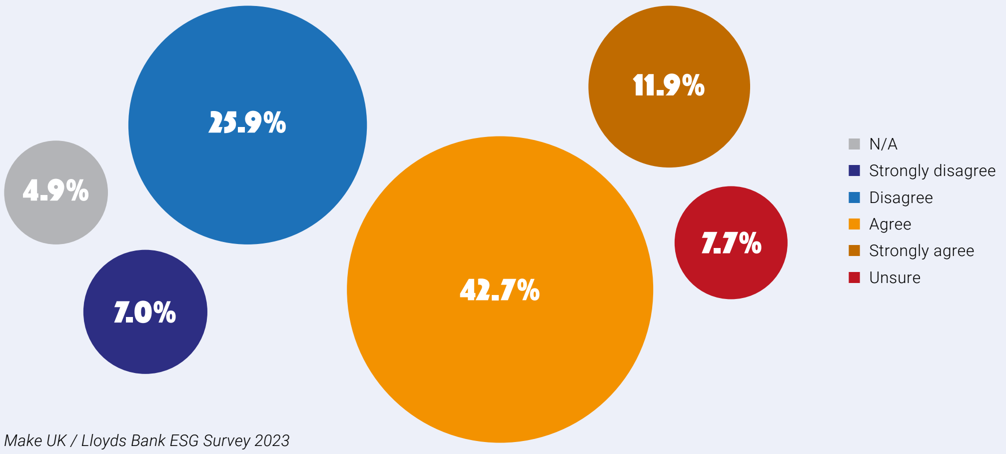
Perhaps more importantly than understanding the types of ESG conditions that UK manufacturers have shared that they are subject to, is the finding that only the slim majority of the sector (55%) feel that it is clear what ESG conditions are required of them by their customers. While a majority may initially strike as encouraging about the degree of mutual understanding on ESG targets, only a much smaller proportion would say that they strongly agree with the premise, with only 12% suggesting as much. This differential highlights a knowledge failure between customer and supplier, given that only roughly one in ten manufacturers is resolutely confident as to the ESG conditions and targets to which they have agreed to or engaged with during the course of business with their customer.

33% of the sector say that they are unclear of the ESG conditions or targets required of them by their customers, with 7% strongly holding that view. This is particularly concerning, given that interviews highlighted that some firms will only look to purchase from suppliers in the future that meet their ESG requirements. However, other firms did raise the importance of supporting their supply chain to achieve these targets (something discussed further in this report) and 'bringing their supply chain along with them' on their ESG journey.

Interviews also uncovered that some firms with large purchasing power are exploring placing a cap on how much they are willing to pay for goods from less sustainable suppliers. This would incentivise more sustainable business practices in the supply chain, as sustainable manufacturers would be able to sell their goods at a higher price. Given that unsustainable suppliers would be forced to sell their goods for less to access these markets, the saving made by the consumer would be used to fund the cost required to purchase carbon or nature offsets. However, there is limited evidence of this already taking place on a large scale.

Chart 9: Only a slim majority of firms report that it is clear what ESG conditions are required of them by their customers

IT IS CLEAR WHAT ESG CONDITIONS OR TARGETS ARE REQUIRED OF ME BY MY CUSTOMERS?



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COMMUNICATION, RESOURCE, AND BUY-IN

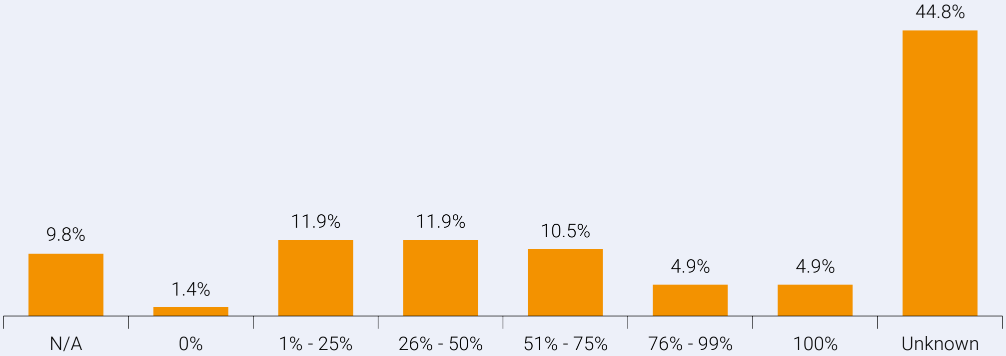
Not only do many manufacturing firms not understand the ESG conditions required of them by their customers, but in context of their own procurement policy, 45% (just under half of the sector) do not know what percentage of their existing supply chain is on track to achieve the set procurement ESG conditions within the given timeframe required. For those manufacturers that do have sight of their supply chain's progress towards set procurement ESG conditions, the majority say that 1-75% of their supply chain are on track, with a pretty evenly spread distribution across this range. Very few suggest 0% are on track. Whilst only just shy of 5% of the industry consider 100% of their supply chain to be on track to meet their ESG targets, this is still an impressive feat given the size and complexity of manufacturing supply chains. However, it is possible that the procurement ESG conditions set by these firms may not be as ambitious as others and hence are easier to comply with at the outset.

The challenges discussed above are further amplified by the fact that just under half of the manufacturing sector, 48%, believe that they have sufficient resources and means available for their firm to achieve the ESG conditions or targets required of them by their customers. 35% of the sector suggest that they do not have the means or resources to comply with their customers' ESG conditions.

> "35% of manufacturers do not have the resources or means available to achieve the ESG conditions or targets required of them by their customers"

As part of this research, Make UK and Lloyds Bank interviewed manufacturers to understand any additional barriers preventing them from achieving the ESG conditions required by their customers. A recurrent theme emerged around awareness, lack of vision and the potential burden of ESG compliance. Concerns around the accuracy of information was also present, but less frequent.

Chart 10: Firms reporting what percentage of their existing supply chain is on track to achieve the ESG conditions or targets required by their firm



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SUPPLY CHAIN SUSTAINABILITY SCHOOL

"In supplying educational courses without charge, the school aims to respond to concerns regarding a lack of information and (quality) data on sustainability, particularly further down built environment supply chains. Its most popular teaching methods are e-learning and short videos – for example, a 5 minute clip on science-based targets. However, it boasts more than a virtual learning environment. With a carbon tracker and free self-assessment tools, firms can see their emissions and send the data to those who request it. This helps the original business to work out where to improve, and assists other companies in reporting on their Scope 3 emissions. All of this creates further accountability across international supply chains, and offers firms the opportunity to become more sustainable."[9]

[9]Full case study included in the appendix of the report

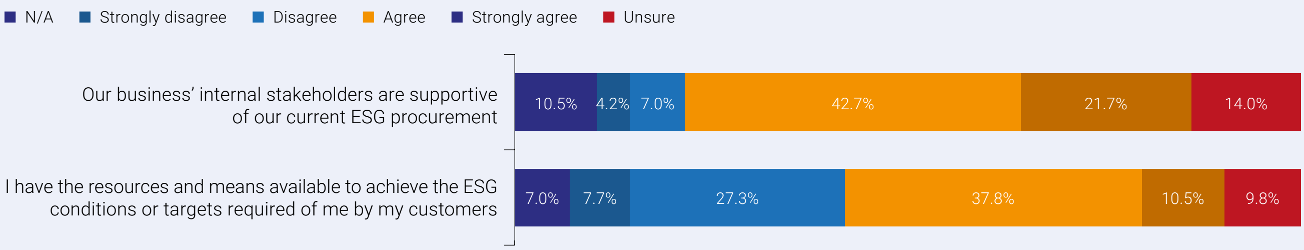
COMMONLY CITED CHALLENGES TO ACHIEVING ESG CONDITIONS SET BY CUSTOMERS AND SUPPLIERS

- A lack of vision among senior leaders and managers on ESG
- Lack of knowledge and awareness
- Inability to access the right tools and technologies
- Other business priorities and time pressures
- Budgetary constraints
- Ensuring the business and its suppliers have accurate information
- Reporting burden, with different customers requesting data through different systems and processes. Some of which are paid for by the firm itself and not the customer requiring this

INTERNAL BUY-IN

A more positive finding, is that despite the huge number of UK manufacturers that do not have the resources required to reach the ESG conditions of their customers, only 18% of the sector do not feel that the internal stakeholders of their firm are supportive of these ESG requirements. This indicates a willingness for UK manufacturers to increase their ESG footprint and credentials, despite the challenges in doing so.

Chart 11: A split picture emerges between manufacturers ability to resource the ESG conditions of their customers, and the level of buy-in for them to do so



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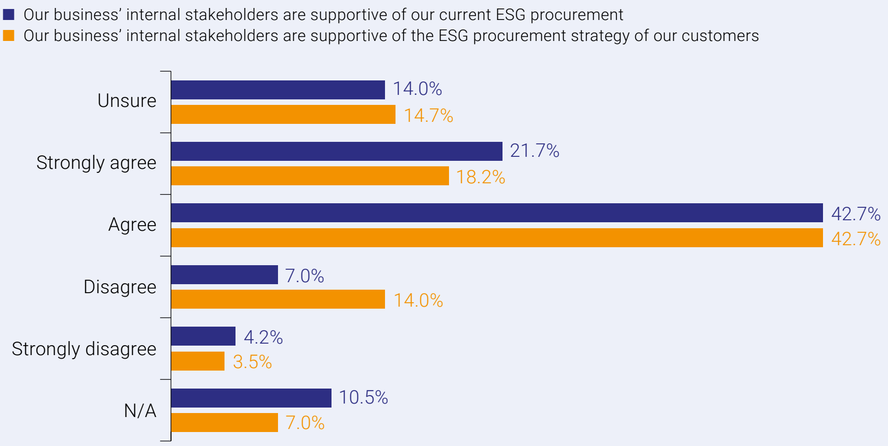
The sector is also demonstrably confident that it has significant buy-in from its wider internal stakeholders for its own ESG procurement policies. Despite the view being representative of senior management exclusively, as the fieldwork was undertaken with Managing Directors, C-Suite, Presidents, Directors, Heads of Department and Managers only, just 11% of the sector do not think there is buy-in within the firm for their strategy, with 64% suggesting they have it. A not insignificant 14% remain uncertain either way.

When the data on internal buy-in for the ESG conditions placed on UK manufacturers from their customers, is compared to the data on internal buy-in for UK manufacturers own ESG procurement policy, the view is remarkably consistent, with the only significant deviation being found in the proportion of those that disagree there is support for ESG procurement strategies. This was further supported by the interviews with manufacturers. This level of buy-in from the sector in context of the incorporation of ESG into their own procurement policy, and also the incorporation of ESG into the procurement policy of their suppliers, suggests that this is a feature of the market that is likely to stay or grow.

Chart 12: Comparison between whether there is internal support for firms' own ESG procurement strategy against internal support for customers' ESG procurement strategy

% firms reporting whether they agree that their internal stakeholders are supportive of their own or their customers' ESG procurement strategy



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PROVISION AND RECEIPT OF SUPPORT

This research also set out to understand how UK manufacturing firms were providing support to their suppliers in order to meet these targets and whether firms were also in receipt of such support.

Overall, the data shows that manufacturing firms provide support to their supply chain to meet procurement ESG conditions at a greater rate than firms in the sector receive it support to meet customer ESG conditions. Nevertheless, the majority of the sector neither receives nor provides support to or from suppliers and customers to aid in meeting ESG targets. Just under three in four (73%) of firms say that they receive no support from suppliers to in aid developing or delivering ESG targets, in contrast to the 65% who report they do not provide support to their customers for the same.

"Three in four manufacturers receive no support from suppliers in delivering ESG targets"

"Manufacturers are 2.6 times more likely to provide support to suppliers in pursuit of ESG targets than to receive it"

Customers may not have the resources required to be able to provide support to all of their suppliers, so may need to develop a strategy to ensure that any support provided is directed to those that need it most. Firms could also look to collaborate with peers who have similar supply chains, to maximise synergies and increase the quality and quantity of support provided to their suppliers. This is particularly important noting the earlier finding that only 48% of the sector feel that they have the resources required to achieve the ESG conditions that they are subject to. This support could also be in the form of tools and processes to support with data collection, giving more firms transparency over how their supply chain are performing against their ESG objectives.

Where support for ESG targets is provided, the most prolific type takes the form of access to training, with 24% of the sector reporting that their firm provides this to their supply chain. This is also the most common type of support received by manufacturers, but to a lesser degree, with 9% of firms suggesting they receive access to training from their customers. Given that 83% of manufacturers do not have their own central ESG function, there is likely to be a vast discrepancy in ESG expertise and specialism across firms. Those firms that do have in house ESG expertise can look to share this knowledge with their supply chain. However, supply chain ESG training does not always need to be provided in house, and can also be delivered by engaging third parties, or facilitating the distribution of existing external resources.

In terms of the provision of other forms of support, namely the provision of practical tools (17%) or financial support (12%), access to training will carry the lowest cost barrier, likely driving it as the most common form of support provided. Large firms are providing a much greater degree of support to the supply chain, with 61% of £500m+ turnover firms and 46% of £100-£500m turnover firms providing access to training and 39% and 27% providing access to practical tools respectively. Overall, it is the largest corporates (£500m+) that provide the most support to the market across the spectrum, with two out of three firms in this category providing some form of support to their suppliers in achieving ESG targets.

ESG CONDITIONS REQUIRED BY CUSTOMERS:

77% are subject to ESG conditions by customers

27% receive support from customers

48% feel that they do not have the resources required

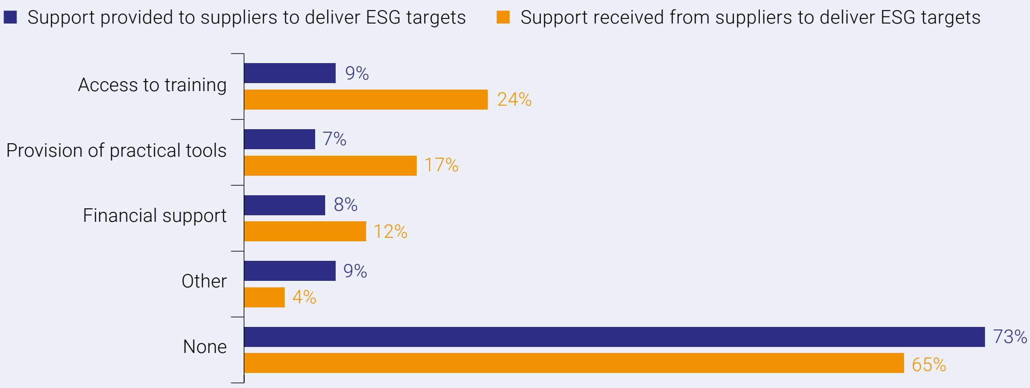
ESG CONDITIONS SET FOR SUPPLIERS:

74% set ESG conditions for suppliers

35% give support to their suppliers

45% are not aware of how their suppliers are performing against their targets

Chart 13: UK manufacturers are more likely to provide support to the supply chain to meet ESG targets than to receive it



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CONCLUSIONS AND THE FUTURE

A striking aspect of this 2023 research into ESG strategies within the UK's manufacturing sector is the rate at which its prevalence has increased over only two years despite the backdrop of the uniquely challenging trading environment that the sector has faced in that same period.

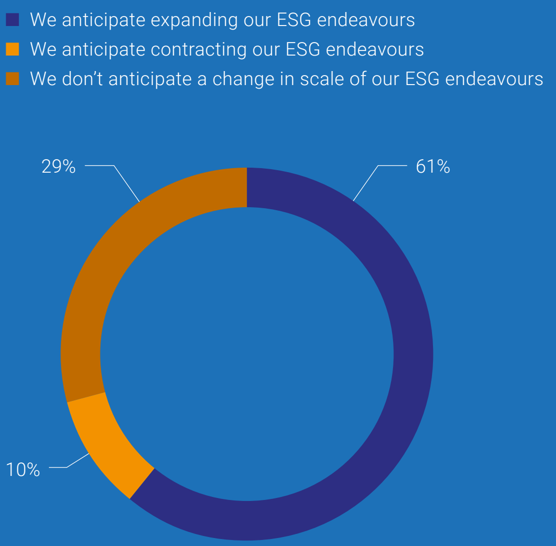
Nevertheless, despite the growing focus, there remains a way to go before implementation, communication and desired impacts are consistent throughout the sector, from small firms to large and throughout the breadth of the UK.

Even given the growth we've seen in these strategies in the sector over the past two years, the data indicates that the rate of growth is only going to accelerate. 61%, effectively two out of every three firms in the sector are set to expand their ESG activities over the coming two years. 60% of those who anticipate an expansion in their ESG strategies are also expecting financial return from doing so in the long run. A relatively small proportion, just in double digits at 10%, expect to contract such activities.

The majority of this future growth activity in the short term will be rendered in the SME space. This research has revealed that it is larger companies that currently have the head start on areas such as formalised ESG strategies, ESG corporate governance and supplier engagement, to name but a few. However, it has also revealed that smaller supply chain firms are increasingly aware of the conditions that need to be met in order to remain and thrive within the value chain, which will drive disproportionately rapid growth towards the development of and compliance to ESG concerns within this slice of the market.

Chart 14: Almost two-thirds of the sector anticipate expanding their ESG endeavours over the next two years

% firms reporting the direction in scale of their ESG strategy in the coming two years



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Make UK is backing manufacturing – helping our sector to engineer a digital, global and green future. From the First Industrial Revolution to the emergence of the Fourth, the manufacturing sector has been the UK's economic engine and the world's workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward-thinking, bold and versatile sector, manufacturers are engineering their own future.

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#BackingManufacturing

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Lloyds Bank has a long history with the manufacturing sector and continues to be committed to support UK manufacturers, from Small & Medium Enterprises (SMEs) to listed Tier 1 (Original Equipment Manufacturers) OEM's, supported by our highly experienced Environmental, Social and Governance (ESG) team for the sector. Our manufacturing sector and ESG teams support businesses across the UK, providing insights and learnings to clients to inform their green strategies. The team combines deep experience in structuring sustainable finance products across many sectors with expertise and insights to help clients make the right decisions for their firms and the environment. In 2022, the Group provided £7.9 billion of green funding and sustainability linked finance to corporate and institutional customers.

We continue to invest and develop partnerships in the sector. Since 2015, we've worked in partnership with the Manufacturing Technology Centre (MTC) and have recently extended our collaboration through to the end of 2029, with a total sponsorship of £15 million. We're working alongside the MTC to create the next generation of engineering talent while upskilling and reskilling existing workforces by delivering high-value manufacturing apprenticeships and training programmes. We're on track to train and upskill 6,000 graduates, apprentices, and engineers by 2030.

Through the partnership, we're focusing on emerging challenges such as the journey to Net Zero, ongoing skills shortages in the sector, and looking at the future of manufacturing with digital and technology adoption. Our sector expertise and strong product offering mean that we bank 1 in 5 SME manufacturers in the UK and continue to support thousands of manufacturers to adapt and grow during challenging times.

www.lloydsbank.com/business

For more information on our support for the manufacturing sector, visit us here

For more information on our sustainability related support for our clients, visit us here

For further insights on our support for small to mid-corporate businesses, visit us here and follow us on:

For further insights on our support for corporate and institutions, visit us here and follow us on:

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UK Head of Manufacturing, SME & Mid Corporates

For corporate manufacturers:

Huw Howells
Managing Director, Manufacturing & Industrials

For corporate ESG discussions:

Kingstun Nelson
Associate Director, Sustainability & ESG Finance

SIEMENS

Christine Lowe
Sustainability Lead,
Siemens plc

Sustainability isn't a new target for Siemens as a business, with environmental protections having been present in the technology company for more than 50 years. Nevertheless, the remit is expanding and in 2021 Simens launched its global DEGREE framework, a development on the term ESG, covering Decarbonisation, Ethics, Governance, Resource efficiency and Equity (DEGREE).

By publicly reporting via this framework, Siemens has achieved marked improvements in the company's ability to frame its sustainability position, and delivered measurable change at the country level in the UK as well.

Siemens has found that even just over the past year, there has been a step-change in both what customers are asking – both in terms of what Siemens is doing, as well as what it asks of its own customers' sustainability credentials. Internally, Siemens has dubbed this type of proliferation a 'halo' effect, highlighting the subsequent knock-on effects that enhanced accountability within sustainability is having in supply chains.

Interestingly, Siemens has been approached by some key customers that have explained that asking more in-depth and impactful questions of them allows these customers to improve compliance down the supply chain, rather than become prohibitive or slow progress. It's this more comprehensive approach to communicating the sustainability requirements of Siemens to their first-order suppliers that allows subsequent suppliers further down the chain to collaborate effectively on meeting goals shared by the whole value chain.

Siemens' UK operation works with a lot of SME firms and recognises that sometimes smaller firms will not have all the sustainability answers that they are looking for. Siemens sees collaboration with SME businesses on sustainability goals as a key part of its strategy, working with suppliers to map out their journey toward a more sustainable future. The company has dedicated staff to iteratively improve this process, collating feedback from SMEs to ensure as many firms as possible within the supply chain are able to participate in the industry's journey. In this way, providing access to training then also becomes a key enabler of improving ESG performance within industry.

Siemens is also preparing for the future of ESG in the UK, and the legislation expected to grow around it. It's the firm's view that as legislation in this space becomes more robust, sustainability credentials move at an even faster rate from nice-to-haves to core business necessities. As well as having thorough sustainability processes in its own organisation, Siemens recognises that the future will increasingly evolve to focus on the supply chain for industry as a whole. It's therefore critical that the entire value chain evolves for the business environment of the future.

LEONARDO

Ben Knight
Head of Sustainability,
Leonardo UK

At Leonardo, sustainability is integrated into all aspects of the business to create long-term positive economic, social and environmental impacts.

Leonardo in the UK is committed to taking action on climate change by reducing greenhouse gas emissions and reaching Net-Zero for Scope 1 and 2 by 2030, and Net-Zero for scope 1, 2 and 3 by 2050. Good progress has already been made, with a 63% reduction in Scope 1 and 2 emissions from 2018 to 2022 – driven by the procurement of 100% renewable energy.

Across the UK, there is lots of activity to reduce energy, waste and emissions. A new Single-Site Logistics Hub in Yeovil - built using 25,000 cubic metres of demolition material - features rainwater harvesting tanks to recycle water for use onsite, whilst a planned solar farm will generate renewable energy aiming to create an ~80% biodiversity gain.

Ben Knight is the new Head of Sustainability at Leonardo in the UK and he is keen to support the company's ethos of viewing its sustainability activities as sitting within a wider environmental and societal ecosystem.

He said: "Sustainability is about more than just environmental targets– it's about people and value chains. For example, creating an inclusive and diverse culture is a key aim of our I&D strategy, but this also extends to caring for the welfare of those living in our local communities. Across the UK, Leonardo has also partnered with Olio to ensure that any food on sites is not wasted and is given to local families."

Ben launched a recent Couch to Carbon Zero campaign, which provided a colourful and accessible 2-week sprint, with a daily drop of bite size videos where employees learned about all of the ways they could create a positive impact through small changes in their daily habits.

He has led a number of SME workshops with the aim of helping the suppliers to understand their own sustainability drivers, barriers and solutions to reduce Scope 3 emissions.

Leonardo technology is already being used for environmental purposes. From the thermal imaging equipment used by BBC camera crews to record the behaviours of lionesses in pitch dark conditions for BBC's Planet Earth III – to the infrared detectors contained within a satellite to monitor climate change picking up a range of heat signatures from everything from buildings to wildfires.

Ben said: "Once you can share a simple example of environmental impact that is striking and engaging, you can leave a person with awareness that will inform everything they do in the future."

Eloise Cotton
Head of Sustainable Development UK&I,
Schneider Electric

Schneider Electric takes a dual strategic approach to sustainability within the organisation. It has an overarching long-term strategy, and a short-term strategy, currently running between 2021 and 2025 to enable greater measurable impact more quickly.

The core pillars of this long-term strategy are Climate, Resource, Trust, Equality, Generations and Local. These topics frame how Schneider Electric shapes and delivers its actionable short-term strategies. Within these strategies, there are two focuses, put simply, one with an internal focus and one with an external focus.

The first of these, the Schneider Sustainability Impact (SSI), is made up of what the firm calls 11+1 targets, which are a translation of their six-long term commitments into highly transformative and innovative programs, with a wide reach that go well outside the walls of Schneider Electric themselves and aim to deliver change within the value chain. For example, the focus on assisting the company's suppliers and customers decarbonise is captured within the SSIs.

The other, dubbed Schneider Sustainability Essentials (SSE), focuses on internal best practice and continual improvement, while ensuring that the company is leading by example in demonstrating progress towards the industry's sustainability goals. An important part of this, and a focus for Eloise, is implementing Schneider Electric's global strategy into a UK context.

By pursuing these programmes in tandem Schneider Electric ensures that sustainability progress is made in both the firm itself and throughout the supply chain, capitalising on the intelligence learned from each programme.

Schneider has a multi-level team across the global business which ensures strategies set out at the highest level are effectively delivered at a regional level. There are responsible sustainability professionals at each of these levels. In Eloise's case, as Head of Sustainable Development for UK&I, she is guided by the programmes and strategy that are set at the Global level and frameworks developed at the regional European level.

Schneider Electric is seeing an increase in the number of customers that require robust sustainability information, citing it is often requested by the end user. This in turn is increasing the proliferation of sustainability reporting throughout Schneider Electric's supply chain, as the company itself cannot give the most robust sustainability information to its customers without the buy-in from their own suppliers.

An illustrative example of this is Schneider Electric's Zero Carbon Project, where they work collaboratively with their top 1000 suppliers to help them reduce their scope 1 and scope 2 emissions by 50% by 2025. This includes giving companies in their supply chain the tools they need, the resources they need and providing a platform where the sector can connect to find solutions to the most significant challenges, ensuring that Schneider Electric's supply chain is brought along on its sustainability journey into the future.

Emer Fardy
Head of Sustainability and Human Rights,
Hilton Foods

At Hilton Foods, sustainability policy is driven by shareholder, customer, and, increasingly, regulatory requirements. These have led to the establishment of the 2025 Sustainable Protein Plan: their blueprint for social and environmental progress, and influenced their commitment to becoming a net zero business by 2050.

The 2025 Sustainable Protein Plan has 3 pillars: people, planet, and product, and their policies are closely aligned to the UN's Sustainable Development Goals. Each pillar contains its own focus areas and targets.

- 'People' focuses on valuing their people, developing them to their best potential, and ensuring human rights are respected in their supply chains
- 'Product' focuses on the circular economy and the life-cycle of their products, waste and resource efficiency
- 'Planet' focuses on reducing emissions, nature positive and deforestation

Hilton Foods have set ambitious aims for 2025. Some of their priorities for 2024 include: going through the validation process with the Science Based Targets Initiative to validate their updated scope 1, 2 & 3 targets, including FLAG, looking at nature and beyond deforestation – considering both the TNFD and the SBTN frameworks and best practice, and inputting sustainability clauses into supplier contracts and setting minimum sustainability requirements.

Hilton Foods work collaboratively with their suppliers, stakeholders and customers to embed sustainability requirements, such as reporting on emissions, complying with human rights and ensuring products are free from deforestation

Thus far, Hilton Foods have achieved an ISO 50001 certification for energy management in 10 of their sites, as well as an A- rating from CDP for Climate Change. Alongside a 14% reduction in Scope 3 emissions, meaning that they are on track to meet their SBT target, they have partnered with universities from across the nation to explore emissions reduction and the influence of sustainability metrics.

A key challenge for Hilton Foods has been collating data and then presenting it for the huge number of different audiences and reporting requirements.. The additional audits and data requests, they hope, will embed sustainability not only in their company, but across the network of businesses in the UK.

CEMEX

Maria Jose Prado Valdes
Head of ESG for Europe, Middle East, Africa and Asia, CEMEX

Martin Casey
Director of Communications, Public Affairs and Social Impact, CEMEX

At CEMEX, data collection is key to understanding its sustainability footprint.

CEMEX runs a global Supplier Sustainability Programme, which invites its suppliers to perform a sustainability assessment via third party software (e.g. AFNOR), based on ISO 26000 guidelines, which cover social, environmental, health and safety, business ethics, stakeholder relationships, and financial performance standards. In some jurisdictions, including the UK, if a supplier's carbon rating is better than average, they may also benefit from more favourable financing options, via sustainable supply chain finance.

By 2030, CEMEX aims to have assessed at least 90% of its critical suppliers' spend under the firm's global Supplier Sustainability Programme. Alongside this target, CEMEX has published a number of sustainability policies, including proposals on safeguarding the natural environment.
To make things easier for its suppliers, in light of the range of different reporting formats, CEMEX accepts supplier sustainability certification from a range of providers.

A lack of standardised ESG reporting metrics can pose a burden not only for firms reporting on ESG within their supply chain, but for a global firm to meet its regulatory needs across different jurisdictions. As a company headquartered in Mexico, listed in the USA, and with operations in the EU and UK, the similar (but not identical) metrics requested can be a barrier.

CEMEX has noted the recent changes to public procurement contracts, which offer an important incentive for environmental reporting. However, other drivers for improving their sustainability offer include ensuring recruitment of talent and meeting shareholder expectations, both of which require demonstrating its green and social credentials.

With these goals publicly announced, CEMEX is committed to continuing in its sustainability journey, and its goal to reach net zero by 2050.

MOOG

Graham Spaull
Campus Support Services Manager for Moog Tewkesbury and Project Manager for their new site

At Moog, sustainability embraces employees' focus on meeting self-set green goals and gaining official sustainability credentials.

As a US-head-quartered company, ESG strategy begins abroad and goals are communicated across its international offices. In the UK, small teams are leading the way, as local companies' desires to improve environmentally are driving new sustainability projects.

For example, in Tewkesbury, Moog are moving to a new purpose-built facility, having spent over 30 years in their old building. The new build has secured a BREEAM rating of Excellent and is carbon neutral. Alongside its energy saving technology and 90% upcycled furniture, the site is also designed with strong social and diversity considerations in mind. To name but a few features, the building is 100% accessible, with height adjustable desks and tea points, and offers a reflection room for any employees who require a quiet space during the day.

Currently, Moog is focusing on recording their Scope 1 and Scope 2 emissions to meet reporting requirements, stakeholder expectations and tackle any gaps. They have noted the importance of investing into sustainability projects to improve their social and environmental impact, as well as to enable the business to meet both financial and regulatory requirements. It is clear that, in order to remain competitive and recruit the best employees, there must be a clear focus on sustainability.

Looking further ahead, the company is aware that there will only be increased pressure from the public, as well as a range of other stakeholders, to become even more environmentally responsible. As its current public commitments include a reduction of Scope 1 and Scope 2 GHG emissions by 40% by 2030 (compared to a fiscal year 2022 baseline), as well as reducing water consumption and hazardous waste generation, Moog is sure that it will continue to progress sustainably.

SUPPLY CHAIN SUSTAINABILITY SCHOOL

Shaun McCarthy
Chair,
Supply Chain Sustainability School

The Supply Chain Sustainability School was launched in 2012, and created with a vision of wholly sustainable procurement in the future. It provides free learning resources for those working within the built environment sector to improve their sustainability skills, and has over 3000 people attend its training events per year.

In supplying educational courses without charge, the school aims to respond to concerns regarding a lack of information and (quality) data on sustainability, particularly further down built environment supply chains. Its most popular teaching methods are e-learning and short videos – for example, a 5 minute clip on science-based targets.

However, it boasts more than a virtual learning environment. With a carbon tracker and free self-assessment tools, firms can see their emissions and send the data to those who request it. This helps the original business to work out where to improve, and assists other companies in reporting on their Scope 3 emissions. All of this creates further accountability across international supply chains, and offers firms the opportunity to become more sustainable.

The Supply Chain Sustainability School also offers accreditation (Bronze, Silver and Gold award scheme). Securing one of these ratings has a significant financial value, as firms can secure important contracts by demonstrating sustainability credentials.

Most importantly, however, the school offers a free opportunity to improve awareness of sustainability targets, and provides advice on how to achieve them. With the UK committed to Net Zero by 2050, the Supply Chain Sustainability School is helping businesses to take their first steps towards this goal now.

For more information, you can visit: Home - Supply Chain Sustainability School

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