



Integrated Supply Chain – Global Supply

Supply Chain Social Responsibility (SCSR)

Production Suppliers



Integrated Supply Chain – Global Supply

IBM Corporate Citizenship

Corporate Citizenship / Responsibility – defined as:

The way that companies manage their business processes to produce an overall positive impact on society.

Corporate Citizenship is a business imperative

Corporate Citizenship is a platform for doing business in a globally integrated world

- Manage the challenges of globalization
- A key competitive differentiator
- Enabler to opening up and gaining share of new and growing markets
- Relate to more diverse key stakeholders (Communities, NGOs)
- For IBM, consistent with our Core Values

Corporate Citizenship is an increasingly important decision criteria for customers, partners and investors



Integrated Supply Chain – Global Supply

IBM Supply Chain Social Responsibility

IBM Supply Chain Social Responsibility (SCSR)

- SCSR is part of IBM's Corporate Citizenship activity

- SCSR is a requirement for all IBM suppliers
 - Supported by the Chief Procurement Officer and Procurement managers/staff

- Suppliers are viewed (externally) as an extension of IBM's brand
 - *Supply chains are visible; the Internet makes this possible*

SCSR – The IBM Brand

What is at Stake ?

IBM is the worlds 2nd most valuable brand.... IBM's brand value increased by 30% in 2009 to \$86 billion₁.

₁ Millward Brown Optimor Top 100 Brands 2010

How Does Procurement Protect the Brand ?

"SCSR is not optional, it is a requirement for IBM suppliers. IBM has the second most valuable brand name in the world and we can not have supply chain issues that impact our brand's perception in the market"

John Paterson, Chief Procurement Officer

SCSR – Code Provisions

- Requirement for all IBM suppliers
(contained in -> Supplier Conduct Principle Letter Agreement)
- IBM Supplier Conduct Principles address the following 13 provisions
- EICC (industry code) adds +2 Management System provisions
- IBM has adopted the EICC code as equivalent to its own code

1. Forced or involuntary labor
2. Child labor
3. Wages and benefits
4. Working hours
5. Nondiscrimination
6. Respect and dignity
7. Freedom of association
8. Health and safety
9. Protection of the environment
10. Laws, including regulations and other legal requirements
11. Ethical dealings
12. Communications
13. Monitoring/record keeping



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SCSR Audit Program

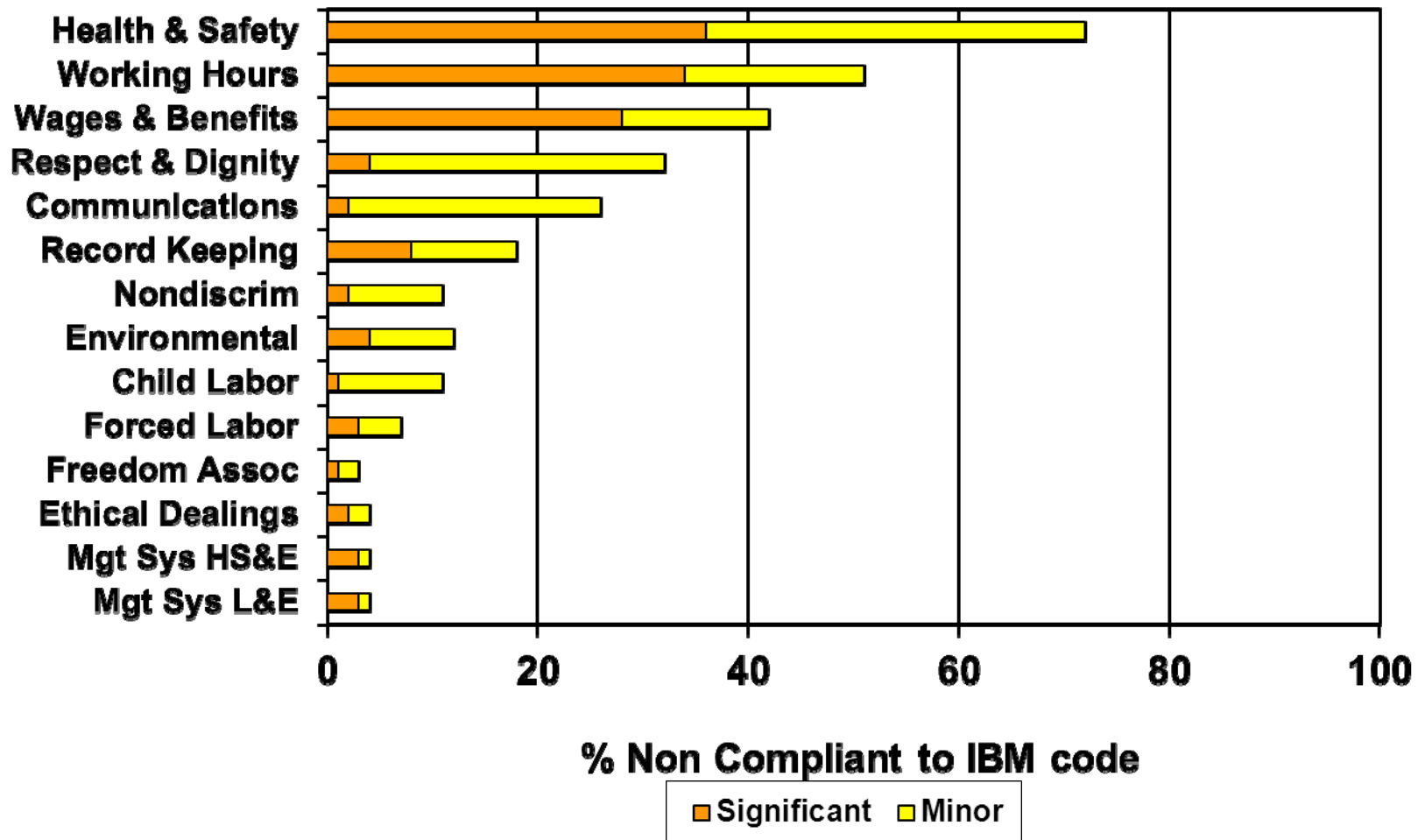
SCSR Audit Program

- IBM Procurement and Supply Chain Social Responsibility team determine suppliers to be audited
- Third party audit firm contracted for the assessments
 - EICC Validated Audit Process (Pages 16 – 38)
- Supplier Improvement Plans (SIPs); reviewed/accepted by SCSR team
 - All improvements must be implemented within 6 months
- Re-audit sustainability 6 months after implementation of SIP
- Monthly internal review of results and SIP acceptance timeframe
- Expectation is for suppliers to be fully compliant with no major nonconformances to Code of Conduct
 - Future business is contingent on this

Supplier Initial Audit Results – Global Cumulative (2004-2010)

Argentina, Brazil, China, Czech Rep, Hungary, India, Korea, Malaysia, Mexico, Philippines, Poland, Romania, Singapore, Slovakia, Taiwan, Thailand and Vietnam

(base = 900+ suppliers)



SCSR Audits: Observations / Conclusions

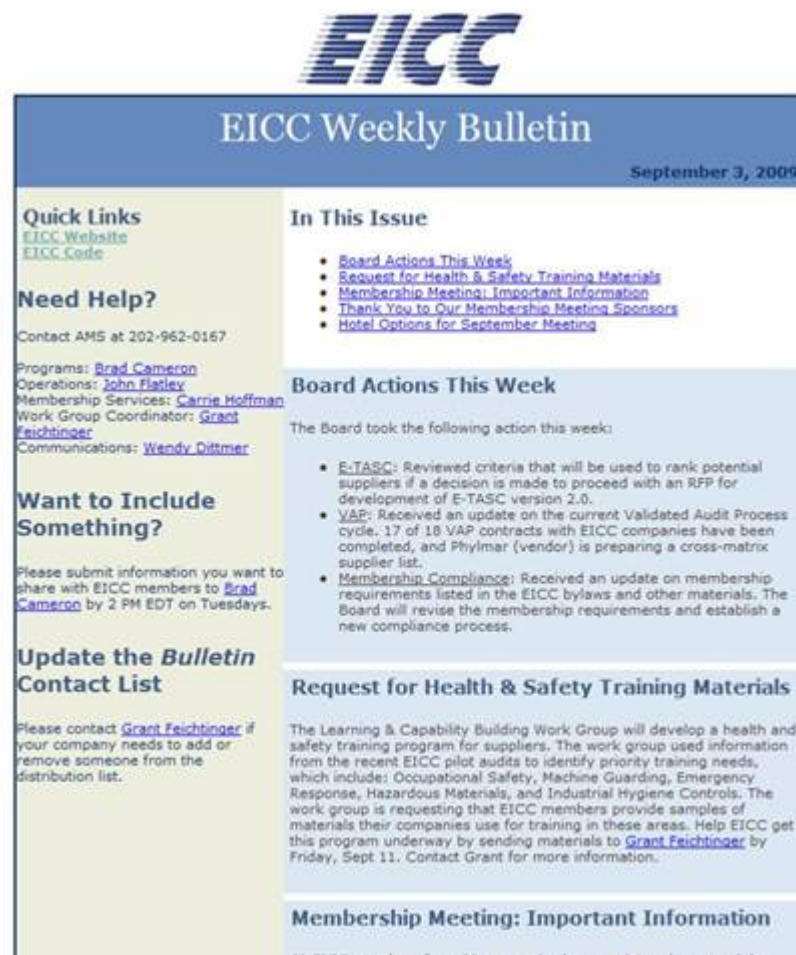
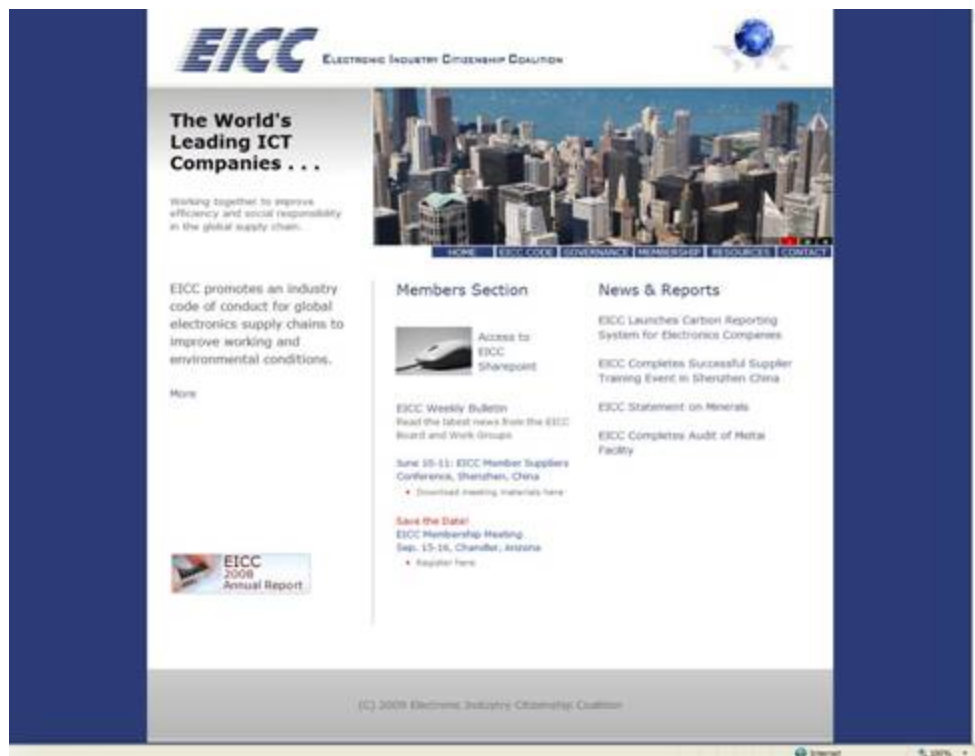
- A number of issues are seen in emerging market countries:
 - Health & Safety
 - Working Hours
 - Wages & Benefits
 - Management systems are weak relating to social responsibility and laws/regulatory compliance
 - Corporate Citizenship remains a new concept
- Some issues are pervasive and country-specific

Supplier Audits – Best Practices Noted

- Senior Management directly involved in corporate responsibility
- Plans in place to reduce working hours to IBM / EICC limits
- Detailed pay stubs with full disclosure of calculations
- Open management – worker communication channels
- Written policies on HR, Health & Safety, Nondiscrimination, Ethics
- Frequent health and safety worker re-training



EICC Communications

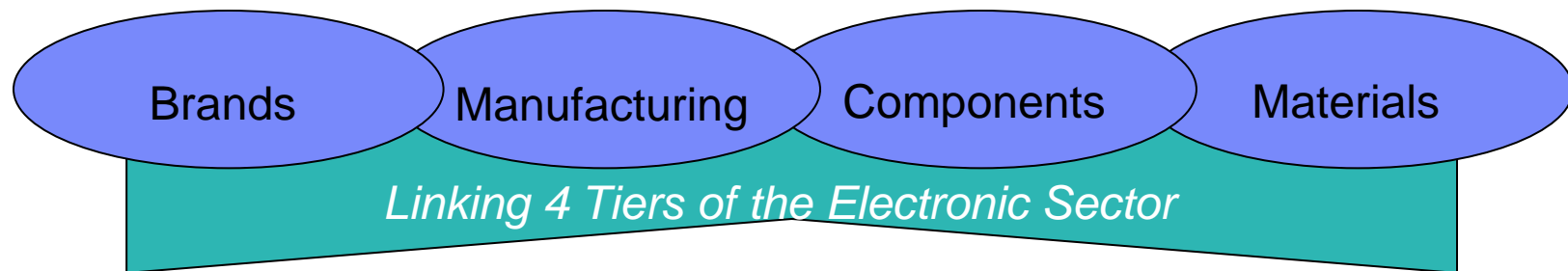


EICC Website: www.eicc.info

EICC Weekly Bulletin

EICC Objectives and Membership Scope

- Deploy credible process for evaluation and management of supply chains
- Establish a governance structure to support the organization
- Build external awareness, participation; stakeholder engagement
- Maintain Code of Conduct, implementation applications, change control, and continuous improvement
- Share training and education to improve social and environmental performance in the supply chain
- Report of progress against objectives consistent with anti-trust



- 40+ member companies: Asia - Americas – Europe
- Publicly recognized as one of the best sector Corporate Social Responsibility efforts
- IBM is current Chair of the organization (John Gabriel)

EICC Members



EICC Code of Conduct



- Freely Chosen Employment
- Child Labor Avoidance
- Working Hours
- Wages and Benefits
- Humane Treatment
- Non-Discrimination
- Freedom of Association

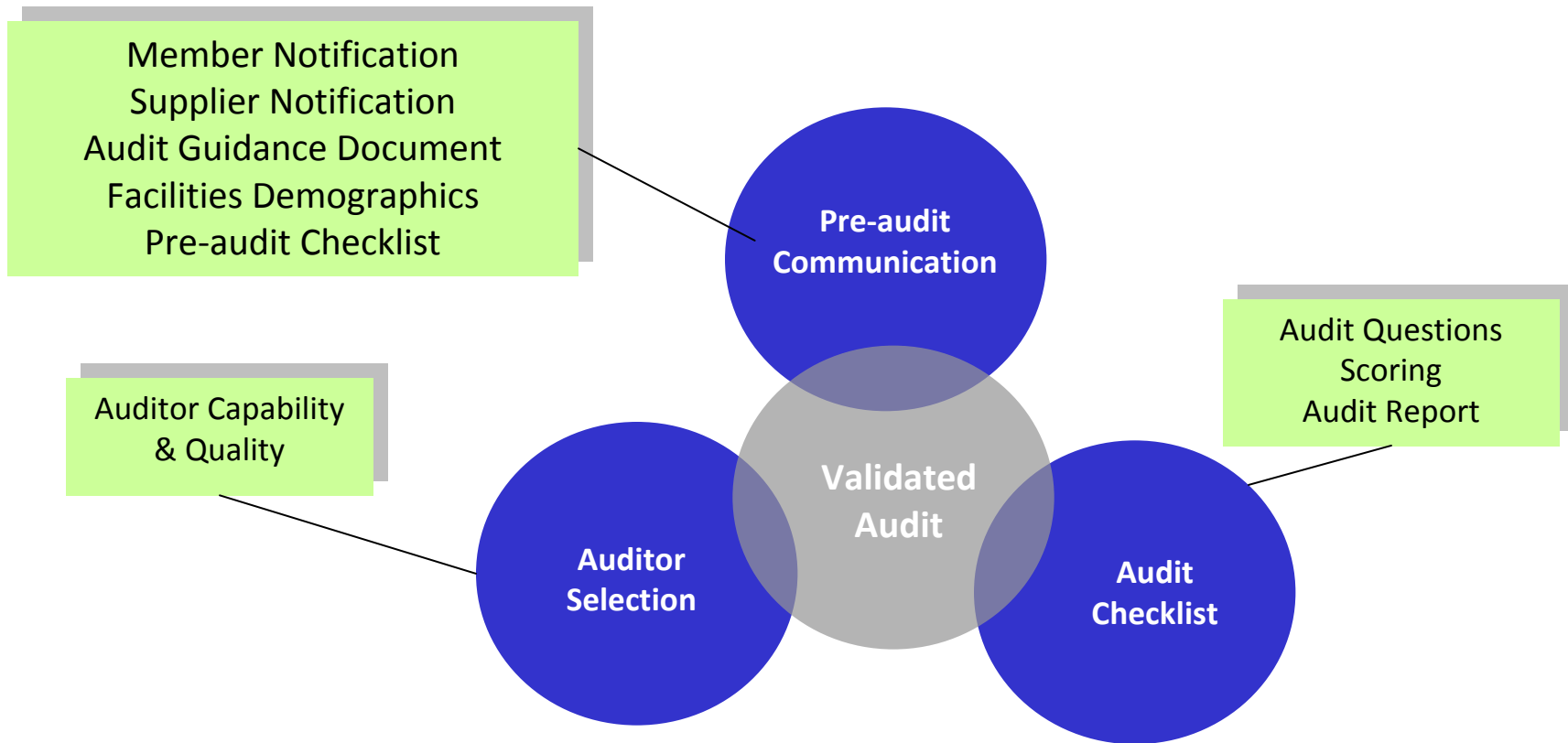
- Permits & Reporting
- Pollution Prevention
- Hazardous Substances
- Wastewater
- Solid Waste
- Air Emissions
- Product Content

- Occupational Safety
- Emergency Preparedness
- Occupational Injury & Illness
- Industrial Hygiene
- Physically Demanding Work
- Machine Safeguarding
- Dormitory & Canteen

- Business Integrity
- No Improper Advantage
- Disclosure of Information
- Intellectual Property
- Fair Competition
- Protection of Identity
- Community Engagement

EICC/GeSI Validated Audit Process

A facility is audited once (rather than multiple times),
using common criteria, the audit report shared among multiple customers –
driving efficiency – saving resources for improvements





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EICC Validated Audit Process



EICC®-GeSI Validated Audit Process (VAP):

Introduction

Version 2.0: 24 June 2010
EICC®-GeSI VAP Workgroup



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VAP Introduction - Contents

1. What is the Validated Audit Process (VAP)?
2. What are its benefits?
3. How does the VAP work?
4. Definitions

Information and Communication Technology companies (working through the Electronics Industry Citizenship Coalition (EICC®) www.eicc.info and Global e-Sustainability Initiative (GeSI) www.gesi.org), are working to improve sustainability and social responsibility within the global supply chain.

These companies recognize a mutual responsibility to ensure working conditions in the ICT industry are safe, that workers are treated with respect and dignity, and that manufacturing practices are environmentally responsible. The Validated Audit Process (VAP) is a collaborative approach to auditing, to reduce the burden on supply chain companies from multiple requests for social audits. The VAP meets the need for a high quality, consistent and cost-effective standard industry assessment for labor, ethics, health, safety and environmental practices based on the EICC® code of conduct, laws, and regulations. For more information about the VAP, please contact:

- Phylmar@eicc.info and/or audits@eicc.info
- EICC Address: 1155 15TH ST NW SUITE 500 WASHINGTON, DC 20005 USA
- EICC Website: <http://www.eicc.info>

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What is VAP and its benefits?



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VAP Definition

- A common model for auditing social and environmental responsibility in the Information Communication Technology (ICT) supply chain
- Utilizes common tools, templates and methodology
- Performed by external 3rd party auditors approved by the EICC
- Administered by the Electronics Industry Citizenship Coalition[®] (EICC[®]) www.eicc.info
- Independently managed by an Audit Program Manager (Phylmar) to ensure consistency and quality
- Collaborative effort of GeSI and the EICC[®]





VAP Objectives

“Quality, credibility, optimized value and efficiency”

- Measure auditee performance under EICC[®] Code, laws and regulations
 - Verify auditee conformance with the EICC[®]-GeSI audit criteria
 - Validate the auditee’s most recent self-assessment or internal audit
 - Identify improvement opportunities in auditee practices, performance and management systems
- Enable companies to focus resources on root cause and continuous improvement efforts
- Educate auditees about EICC[®] and GeSI corporate responsibility expectations





VAP Benefits

1. Reduced supplier “audit fatigue” and duplication of effort.
2. Reduced investment (staff and expenses) in individual customer audit programs
3. Consistent application of EICC[®]-GeSI audit criteria
4. Consistent quality
5. Utilization of best practices across industry sectors
6. Promotion of auditee ownership for corrective actions



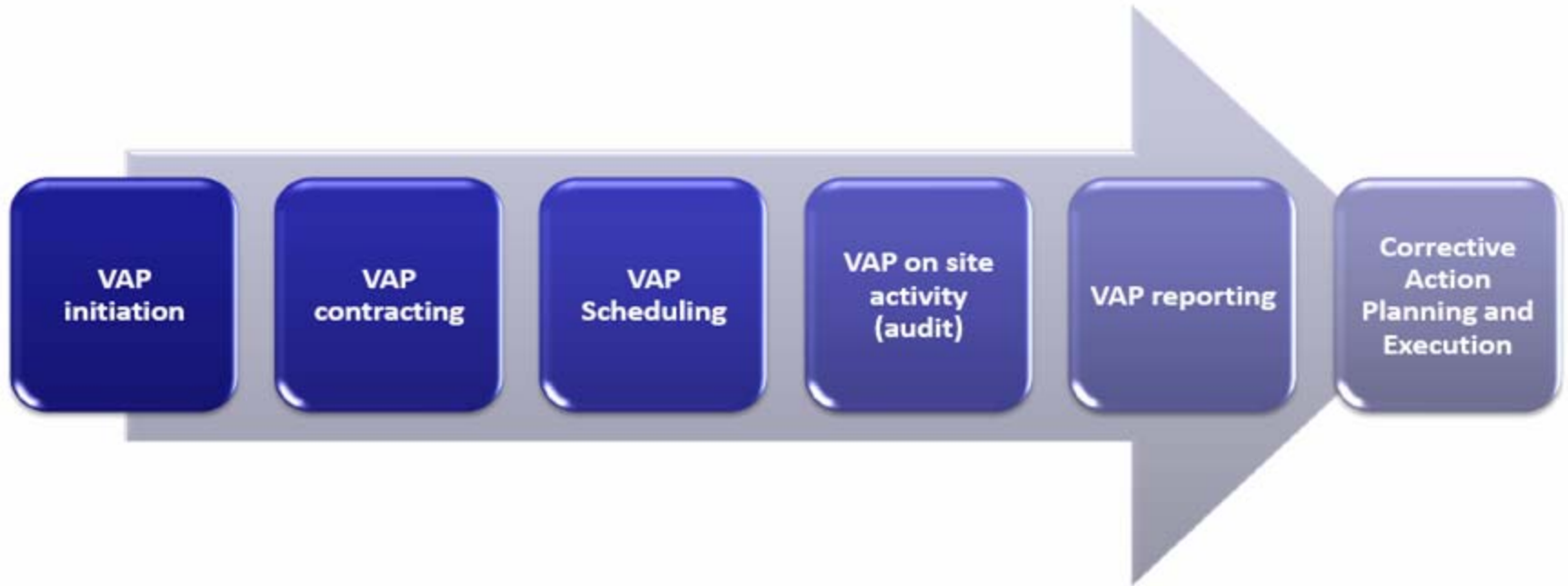


How does the VAP Work?





VAP Process overview





Initiating a Validated Audit

1. A company requests a Validated Audit of a facility
 - The requesting company could be the auditee or a customer of the auditee
2. Contacting the VAP APM (Audit Program Manager)
 - Customer of Auditee - send VA notification to Auditee with copy to VAP APM
 - Auditee – send email to VAP APM
3. The Auditee completes the following contracts with the EICC[®] to pay for the Validated Audit
 - Customer initiated (specific contract)
 - Auditee initiated (specific contract)





Initiating a Validated Audit

The Auditee signs an **Auditee Agreement** which commits it to the following:

- Agrees to the on-site audit of the site (indicated in attachment A)
- Agrees to pay EICC[®] for the audit (invoiced upon signing of agreement)
- Agrees for the audit firm to take photos and copies of relevant evidence (to remain confidential and not shared with Customers)
- Confirmation that the Auditee owns the audit information, but agrees to share the report with their customers
- Agrees to allow a VAP observer from an authorized customer to join the audit (for process improvement feedback)
- Agrees to release the resulting Validated Audit Report
- Agrees that the Audit Report will be stored on the secure EICC[®] audit management website





Validated Audit Cost Estimator

1. The price of a Validated Audit includes the following:

Work Area	Cost Contributors
• EICC [®] Administration	General administrative expenses (financial , banking, legal, etc.)
• Audit Program Management (Phylmar)	Contracting: Contracts, invoices and business management Technical: Process management, coordination, quality assurance process
• Third Party Audit Firms	<ul style="list-style-type: none"> • Audit preparation (scheduling, document review, etc.) • On-site Audit • Report writing • Rates vary by firm and expertise

2. The VAP Cost Matrix below shows an estimated price based on site size and complexity using a historical average daily rate of VAP approved audit firms.

3. Actual costs are provided by the Audit Program Manager when an auditee submits the facility profile.

Complexity of operations within the scope of the audit. <i>Criteria: dormitory, significant chemical operations, intensive physical handling, complex manufacturing operations, canteen, special operations, etc.</i>	Size¹ - number of workers at a facility		
	< 1000	1000-5000	> 5000
Low – no listed complexity criteria	2 days ² (\$3,500)	4 days (\$5,000)	8 days (\$8,000)
Medium – 2 listed complexity criteria	4 days (\$5,000)	6 days (\$6,500)	10 days (\$9,600)
High – 3 or more listed complexity criteria		8 days (\$8,000)	12 days (\$11,100)

Note: 1. Size: Number of employees within scope of the audit, employees include both hourly paid workers and salaried employees
 2. 'days' are person days on site.



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Who manages the VAP?

The VAP is managed by contracted providers, Phylmar, as the Audit Program Manager (APM) and AMS, as the administrator, on behalf of the EICC[®] organization www.eicc.info.

Audit Program Manager (APM)

- Contracting and payment
 - ✓ Phylmar@eicc.info (backup: mkatchen@phylmar.com)
- Audit process, Code and technical assistance
 - ✓ patrick@vectra-intl.com and audits@eicc.info
- General questions and information
 - ✓ patrick@vectra-intl.com and audits@eicc.info

EICC[®] Administrator

- General comments and complaints
 - ✓ info@eicc.info





Audit scope





VAP preparation information

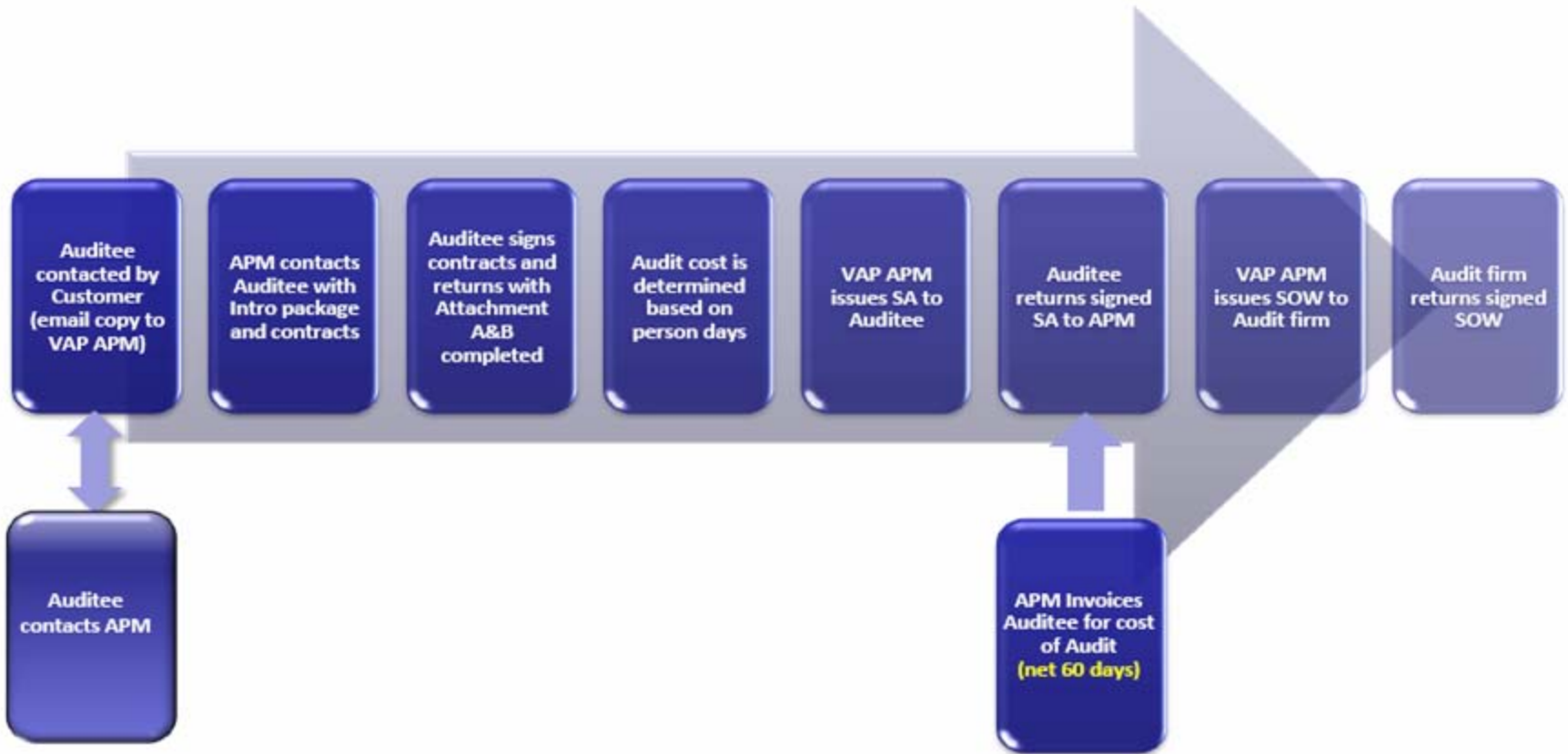
The following VAP documents will be provided by the Audit Program Manager to help an auditee prepare for an audit:

- Audit Preparation for Suppliers
- EICC® Code of Conduct
<http://www.eicc.info/EICC%20CODE.htm>
- EICC® Code Implementation Guidance Manual for Suppliers
- Corrective Action Guidance
- Working Hours Guidance



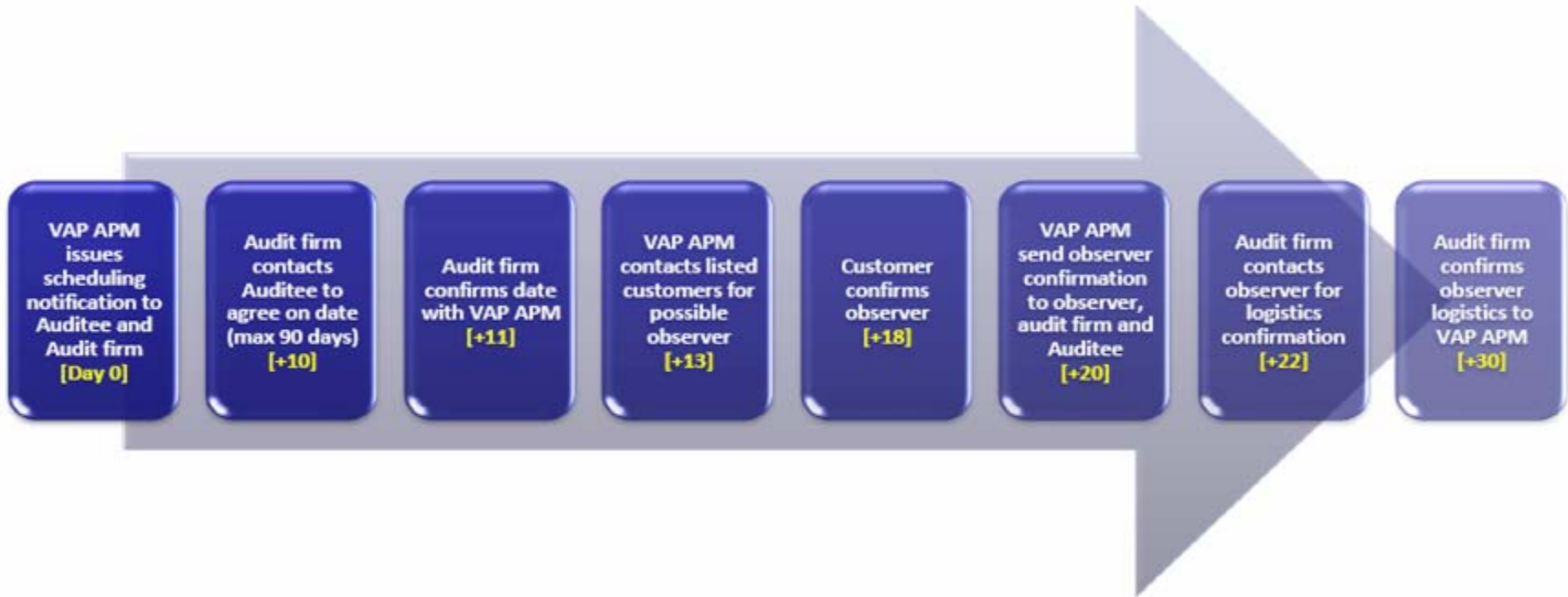


Contracting Process



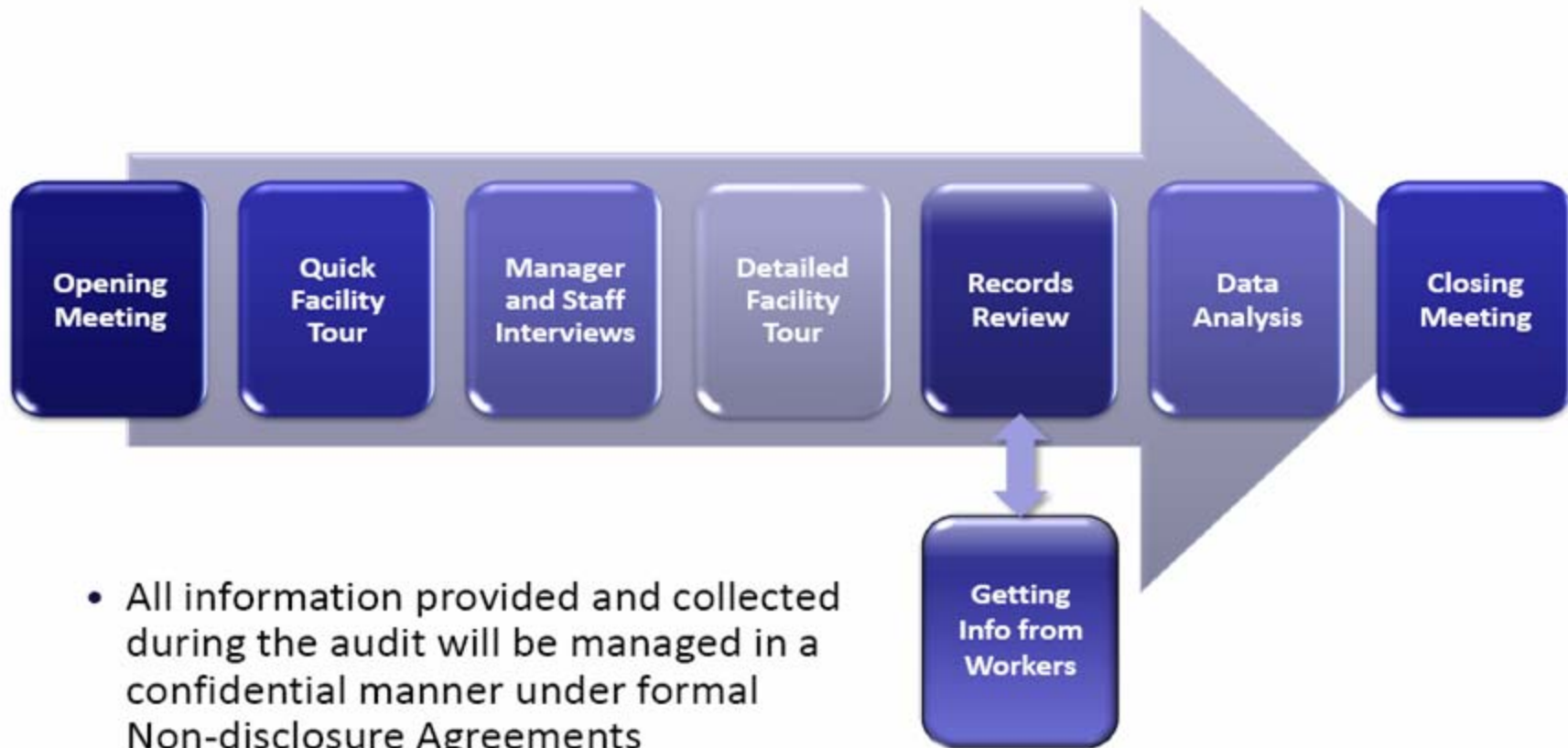


Audit Scheduling Process





On-site Audit Process



- All information provided and collected during the audit will be managed in a confidential manner under formal Non-disclosure Agreements





Validated Audit Report (VAR)

- The audit report will include both nonconformances and identified good practices
 - Priority issues
 - Major nonconformances
 - Risks of nonconformance
 - Minor nonconformances
- The report:
 - Locked Excel files with all the details (for the auditee)
 - Watermarked, locked PDF file (for distribution to customers)
 - Corrective Action Plan worksheet
 - For auditee to develop plan to address findings





Audit Report (VAR) timeline



- Process steps to create, review and release VAR to authorized customers
- Numbers in **yellow** are "days from Closing Meeting"





Corrective Action timeline



- CAP closure deadlines
 - Priority Issue – 30 days
 - Major – 90 days
 - Minor – 270 days
 - Risk of non conformance – 270 days





Definitions



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Definitions

- **Audit Program Manager (APM)** – support firm contracted by the EICC to run the Validated Audit Process
- **Auditee** - the company whose facility site is the subject of the Validated Audit.
- **Auditee Approved Customers** - Auditee customers or buyers approved by Auditee to receive the Validated Audit Report (listed on the “Auditee Approved Buyer Distribution List”)
- **Audit Buyer** - the company requesting and purchasing a Validated Audit; the Audit Buyer is most often the Auditee.
- **Audit Firm (3PA)** – an EICC-approved third party professional services company contracted to conduct Validated Audits.
- **EICC® Certified Auditors** – third party auditors certified to the EICC® auditor certification training





Definitions (continued)

- **Electronics Industry Citizenship Coalition® (EICC) Code of Conduct** – a common standard for safe working conditions, respectful and dignified treatment of workers, and environmentally responsible production, the EICC Code of Conduct provides a foundation for the improvement of social and environmental conditions in the global electronics supply chain.
- **Facility** – an Auditee’s manufacturing or services location that is the subject of a Validated Audit.
- **Validated Audit (or VA)** – an EICC-GeSI approved third party audit, resulting from the EICC-GeSI VAP. Uses the EICC-GeSI Audit Questionnaire (or checklist) validating conformance to the EICC code of conduct.
- **Validated Audit Process (or VAP)** – the EICC-GeSI audit process that results in an approved third party Validated Audit managed in accordance to approved quality processes, overseen by the APM.
- **Validated Audit Report (or VAR)** - the report of the findings of a Validated Audit (VA) available to Auditee designated customers through E-TASC or other means determined by the EICC.





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SCSR Resources

SCSR Team:

- John Gabriel (USA) - jmg548@us.ibm.com
 - Corp HQ rep for Corp Citizenship, Chair EICC, SCSR Program Mgr

- Michael McGrath (USA) - mjmcgrat@us.ibm.com
 - Audit and SCPLA manager, EICC rep

- Alex Fields (USA) - fieldsal@us.ibm.com
 - Procurement Environmental Affairs manager, GS S&EMS

- Juan Carlos Martinez Contreras (Mexico) - jcmartin@mx1.ibm.com
 - LA SCSR Regional rep

- Rituraj Mukhia (India) - rituraj.mukhia@in.ibm.com
 - India and Malaysia SCSR Regional rep

- Roland Dang (China) - rdang@cn.ibm.com
 - Asia SCSR Regional rep, S&GP

- Finny Tang (China) - finnyt@cn.ibm.com
 - Asia SCSR Regional rep, EICC VAP & SAQ

Resources

- Supplier Conduct Principles & Guidelines
(www.ibm.com/procurement)
- IBM Corporate Citizenship Report
(www.ibm.com/ibm/responsibility)
- IBM's Requirements for Suppliers Regarding a Corporate Responsibility and Environmental Management System
(www.ibm.com/procurement)
- Electronic Industry Citizenship Coalition
(www.eicc.info)