

Supply Chain Report 2023

‘Working with Suppliers to Build Capacity’

While audits are essential to monitoring and assessing supplier compliance, we believe engaging with suppliers is more likely to result in sustained improvements in performance. In 2016 we took a more holistic approach to identifying improvement opportunities. This included enhancing internal and supplier systems and processes that will help address more systemic, root cause challenges.

Audit Process

We completed audits of 69 supplier facilities in FY22. We prioritize high-risk supplier facilities for site audits using the EICC self-assessment process. Our aim is to audit all high-risk manufacturing facilities and component suppliers every 2 years

Audits are conducted by a third-party auditor at the supplier’s facility. All audits in FY22 were announced; however, we do conduct unannounced audits as necessary. Auditors use the standard protocol and audit tools covering all aspects of the TCCC, Audit requirements, SMETA audit pillars 2 and/or 4, ISO 2859, ISO 9001, ANSI/ASQ Z1.4-2008 requirements including reviewing documentation, conducting site tours, and assessing how suppliers monitor their own suppliers.

Table 1. Number of Audits				
Manufacturing partner facilities	FY18	FY19	FY20	FY22
	58	55	62	74

Audit Findings and Responses in FY22

Table 2. Audit Findings and Responses in FY24		
Category	Findings	Response
Labor		
Working hours	Insufficient procedures to effectively control weekly/monthly working hours and legally required rest days, leading to non-compliance with legal requirements.	Supplier has enhanced the attendance system to alert management when employees exceed standard weekly hours. Automation introduced to increase efficiency and ensure resources are

		<p>allocated effectively during peak demand periods.</p> <p>Set specific improvement targets to reduce overtime, with regular progress updates provided to customers.</p> <p>Work hours are now tracked through a combination of online monitoring tools and on-site validation to reinforce compliance and transparency.</p>
Wages and benefits	<p>Social insurance coverage is not sufficient but is getting improved in many facilities in China. Some workers have not bought all required insurance types.</p>	<p>Social insurance enrollment is now mandatory for all new employees.</p> <p>For existing employees, the supplier will continue to educate workers on the importance of social insurance and actively work to improve coverage levels.</p>
Freely chosen employment	<p>Gaps were identified in ensuring that employment is freely chosen, with some policies needing reinforcement to fully prevent involuntary labor practices.</p>	<p>The supplier has reinforced policies and procedures to ensure employment is freely chosen, actively prohibiting forced, bonded, or involuntary labor. New training and monitoring mechanisms have been introduced to ensure strict adherence across all facilities</p>
Health and Safety		
Occupational safety	<p>Insufficient processes for identifying health and safety risks and limited monitoring of equipment. Additionally, first aid kits are inadequately stocked, and inspections are irregular.</p>	<p>The supplier has implemented a comprehensive health and safety risk assessment process and enhanced equipment monitoring protocols. First aid kits are now regularly inspected, restocked as needed, and monitored to ensure they meet safety standards.</p>
Emergency preparedness	<p>Several emergency exits on the production floor and in dormitories were found</p>	<p>The supplier has instituted regular inspections of emergency exits to ensure</p>

	locked or inaccessible. There is no established inspection process for emergency preparedness, and one facility has not conducted an evacuation drill in the past two years.	they are accessible at all times. An emergency preparedness plan has been established, including mandatory evacuation drills conducted annually at each facility. Staff are trained on evacuation procedures to enhance overall safety and readiness.
Physically demanding work	One facility did not identify and assess the hazards of physically demanding work.	Supplier established ergonomics program to identify, assess, and control physically demanding work positions and provided appropriate rest time/anti-fatigue equipment
Food, sanitation, and housing	Some emergency exits in the dormitory were locked in one facility. Lack of monitoring of the dormitory/canteen service provider	Verify all emergency exits are open with daily inspection by the dormitory management.
Environment		
Hazardous substances	Inadequate hazardous material and waste treatment vendor management.	Supplier has provided a sufficient secondary container for the hazardous material and provided training to workers, and has conducted regular visits/audits on the waste treatment vendors.
Ethics		
No improper advantage	Lack of gift policy and procedures; not sufficient training to all workers of gift policy and procedures.	Supplier has established gift policy and procedures and provided training to all employees.
Management System		
	Inadequate monitoring of management system	Supplier has defined next-tier major suppliers, and has made an audit plan to cover 80% of these suppliers in the required time period and follow up on the corrective action plans
	Inadequate risk management operations review	Supplier has established related document to cover

		responsibilities and accountability
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Categorization of Audit Findings

Total audits	2022	62					
Total audits	2023	74					
Increase		19%					
Target		15%					

Table 5. Categorization of Audit Findings in FY22 and comparison to FY21

	Findings Identified as Priority FY23	Findings Identified as Major FY23	Findings Identified as Minor FY23	Total Number of Audit Elements for FY22	Total Number of Audit Elements for FY23	Difference %	Target %
Labor	38	33	98	203	169	-17%	-8%
Freely chosen employment	3	3	15				
Child labor avoidance	8	5	15				
Working hours	3	5	17				
Wages and benefits	2	3	9				
Humane treatment	8	9	17				
Nondiscrimination	6	7	12				
Freedom of association	8	1	13				
Ethics	13	18	30	62	61	-2%	-5%
Business integrity	2	2	5				
No improper advantage	1	4	4				
Disclosure of information	1	3	1				
Intellectual property	1	2	7				
Fair business, advertising, and competition	1	2	2				
Protection of identity	3	1	7				
Privacy	3	2	3				

Nonretaliation	1	2	1				
Health and Safety	33	66	99	205	198	-3%	-8%
Occupational safety	3	1	6				
Emergency preparedness	3	12	15				
Occupational injury and illness	6	4	19				
Industrial hygiene	4	2	3				
Physically demanding work	3	12	16				
Machine safeguarding	6	9	12				
Food, sanitation, and housing	6	10	17				
Health and safety communication	2	16	11				
Environment	6	18	11	41	35	-15%	-8%
Environmental permits and reporting	2	6	3				
Pollution prevention and resource reduction	1	5	1				
Hazardous substances	2	1	3				
Wastewater and solid waste	1	6	4				
Management System	15	26	32	78	73	-6%	-8%
Company commitment	0	0	1				
Management accountability and responsibility	1	2	4				
Legal and customer requirements	2	4	2				
Risk assessment and risk management	1	1	3				
Improvement objectives	2	3	1				
Training	1	5	4				

Communication	2	3	3				
Worker feedback and participation	2	1	5				
Audits and assessments	1	2	3				
Corrective action process	1	2	1				
Documentation and records	1	2	2				
Supplier responsibility	1	1	3				

Internal indicators

Indicator	Description	FY22	FY23
1	Percentage of suppliers that signed a code of conduct together with contract clauses on CSR issues	82%	92%
2	percentage of suppliers audited on CSR issues	84%	87%
3	Percentage of buyers trained on sustainable procurement issues	100%	100%
4	Percentage of expenses assessed/audited on CSR issues (spend volume)	2.2%	2.9%
5	Percentage of total suppliers assessed/audited on CSR issues (of which are undertaking a corrective action plan)	99% (94%)	99% (98%)
6	% of raw materials purchased that are recycled materials	85%	76%
7	% of products purchased with an ecolabel	82%	78%