RESPONSIBLE SOURCING

Raising the bar for our suppliers

The sustainability of ABB’s supply base is integral to the long-term success of our enterprise

ABB works closely with its suppliers to ensure that its sustainability expectations, ambitions and targets are understood and met. Our suppliers are an extension of our enterprise; as such, they are integral to our sustainable growth. To clarify our expectations, we issued the “ABB Supplier Code of Conduct” (SCoC). This policy document, which is published in multiple languages, reflects the 10 principles of the UN Global Compact and the essence of the ABB Code of Conduct. In 2020, we reinforced the SCoC with the release of the updated ABB Code of Conduct, which further clarified our expectations for our employees when dealing with suppliers.

New suppliers are required to go through ABB’s supplier qualification process, during which we assess the sustainability performance of potential business partners at the initial selection stage, along with other business parameters. To become qualified to do business with ABB, new suppliers must commit to our SCoC. This aspect of our routine supplier evaluation process reinforces our commitment to responsible sourcing.

Over the past year, we continued to run our comprehensive Supplier Sustainability Development Program (SSDP). This program enables us to proactively identify, assess and address sustainability issues, including general management, labor rights, social benefits, health and safety and environment, at our high-risk suppliers. The SSDP involves supplier screening, training, on-site assessment, monitoring and follow up until the closure of all non-conformances. We prioritize suppliers to participate in the SSDP according to a risk matrix, which includes the criticality of the supplier, country risk, commodity risk based on operational characteristics, and spend volume. The program operates in 16 focus (high-risk) countries.

In 2020, the COVID-19 pandemic made it extremely difficult for us to conduct on-site visits as travel and physical meetings were prohibited, restricted or limited. In addition, some of our suppliers’ factories remain closed in line with local pandemic management guidelines. Even though many factories started opening up with limited manpower during the second half of the year, visitors were not allowed on-site. While we were able to perform some on-site assessments in certain countries during the second half of the year, we mainly conducted virtual trainings and assessments when doing so was technically feasible.

The SSDP operates in Argentina, Brazil, Bulgaria, China, Colombia, India, Indonesia, Malaysia, Mexico, Peru, Poland, Saudi Arabia, South Africa, Thailand, Turkey, Vietnam.
2020 target

Our 2020 target was to close 65 percent or more identified risks from supplier assessments. Despite the challenges presented by the pandemic, we achieved our target with a 79 percent closure rate for identified risks by the end of 2020.

In 2020, we assessed 112 suppliers, identifying 427 risks and mitigating 364 risks during this period. In other activities to support responsible sourcing, we trained 128 ABB employees and 285 suppliers during the year. Due to the COVID-19 pandemic, we were not able to conduct as many assessments and follow up audits as were originally scheduled for 2020.

In addition to our pre-assessment training for suppliers new to our program, we also developed customized training courses to address the root causes of common instances of non-compliance that we had observed in 2019. These courses, which we delivered to 117 suppliers in China, Indonesia, Malaysia, Thailand and Vietnam, covered topics such as recognizing forced labor and modern slavery, best practices for workplace safety and environment, and updates on safety and environmental regulations (see case study for more details).

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6 Risk is defined as the danger posed to ABB by the non-compliant operations of the supplier. Risk level is assigned as extremely high, high, medium, or low, depending upon the severity of instances of supplier non-compliance identified during audits. To reflect the degree of severity of the supplier’s non-compliance, we multiply the total number of instances of extremely high risk by a factor of 5, the total number of instances of high risk by a factor of 3, the total number of instances of medium risk by a factor of 1, and the total number of instances of low risk by a factor of 0. The total risk identified is the sum of the weighted risks assigned to each supplier who has completed an on-site assessment and has outstanding corrective actions. Satisfactory completion of corrective actions by a supplier results in an increase in risks mitigated.

7 ABB continue to train, coach and assess selected high-risk suppliers on sustainability topics. Every year new risks are identified and earlier ones are closed. Closure timeline of such risks varies from a month to a year depending on the severity of findings. Some complex issues may require a joint effort to resolve with longer timeline. Due to the ongoing identification of new risks and the time required to mitigate them, the closure rate of identified risks can never be 100 percent, despite our best efforts.
CASE STUDY

Developing a systematic approach to non-compliance

During our 2019 on-site supplier assessments, we realized that the same types of non-compliance issues kept occurring at many of the sites we visited. In response, our teams started working together to develop a systematic approach for addressing these common areas of non-compliance.

We quickly saw that many of the problem areas were related to knowledge gaps on certain topics among our small- and medium-scale suppliers. The solution was clear: targeted training programs would need to be developed. After analyzing all of our findings from previous assessments and then grouping them geographically, we cooperated with external experts to develop a new set of training modules.

Delivered online and/or on-site in collaboration with external experts, our new training modules are filled with case studies, discussions and quizzes, among other materials. Our suppliers are reporting that these modules are helping them to effectively address a range of common challenges. To date, we have delivered six of these trainings in Malaysia, Thailand, Vietnam, Indonesia and China. We invited participants in ABB’s Supplier Sustainability Development Program (SSDP) as well as new suppliers that were not yet a part of our program to attend these sessions, and trained 117 supplier teams.

As part of our overall supplier capacity building efforts, we opted to include new suppliers in these training sessions. This opportunity gave them the ability to identify a set of common issues, learn how to address them, and then implement the remedial actions on their own recognizance.

The sessions covered local regulatory requirements related to safety, environment and labor standards, and highlighted any recent updates. Best practices in fire protection, first aid, identifying work-place hazards and environmental management were included, according to identified needs. There was also a heightened emphasis on social standards and recognizing forced labor and modern slavery, particularly for the program in Malaysia, where we had previously identified, and addressed, instances of modern slavery.
While the focus of our supplier development process is on working with suppliers to improve their performance, there are also consequences for suppliers who are unwilling to align their performance standards with our requirements. During 2020, ABB terminated business with 18 suppliers due to unsatisfactory progress on their respective corrective action plans. Due to the unusual conditions during 2020, we did not update our analysis of top 10 non-conformances. Results of the 2019 analysis can be found here.

**Major initiatives**

The virtual management of ABB’s Supplier Sustainability Development Program was the most important initiative of 2020. We conducted most of our SSDP trainings via online platforms and worked to adjust course materials accordingly. As the year progressed, we learned to compensate for the lack of face-to-face contact and ensure that program participants were suitably engaged and had absorbed the key points of each course.

At the same time, we carried out virtual assessments via Microsoft Teams and other digital tools. We developed different methods to check documentation, undertake site tours and interview key personnel and workers. After piloting these new methods in a number of different locations, we reviewed our experiences and developed a new guideline for remote assessments. We also consulted with a range of peer organizations to share learnings and good practices. In particular, we learned that it was vital to perform a feasibility check at the supplier’s site ahead of time, with the actual assessment scheduled for a later date. Conducting confidential worker interviews also presented challenges. All of these considerations significantly extended the timeframe required for each supplier assessment.

Our other major initiative was the development of an expanded approach to supplier sustainability and an updated governance approach that conformed with the ABB Way, our company’s new, decentralized operating model. As a result, in 2021 the Supplier Sustainability Development Program (SSDP) will become the Sustainable Supply Base Management (SSBM) approach. With the SSBM, we are significantly expanding the scope of our supplier assessments to cover more supplier categories and, in time, more countries.

The SSDP was a centrally managed, program-based approach focused on working with existing suppliers. The new SSBM approach will more extensively integrate sustainability principles into ABB’s supplier selection and qualification processes; it will be backed up by risk-based monitoring plans for a wider range of suppliers. While there will be common standards and targets, the management and implementation of the SSBM approach will be handled by ABB’s four Business Areas, with options for business-specific programs and processes. The approach will be governed by a steering committee and a working group comprised of representatives from our Business Areas and corporate sustainability function.
Due diligence to prevent forced labor and discrimination against vulnerable groups in ABB’s supply chain has been a key aspect of our Supplier Sustainability Development Program (SSDP). In 2020, we further enhanced these due diligence processes.

As part of the enhancement, we upgraded the pre-assessment supplier training materials, pre-assessment questionnaire, on-site assessment checklist and the training materials for our SSDP lead assessors in China. Suppliers were also trained on our SSDP requirements related to forced labor and discrimination as well as other SSDP parameters. In addition, ABB SSDP lead assessors were calibrated to make sure they were properly equipped with the enhanced techniques required to identify forced labor and discrimination issues during assessments.

In China, while reviewing the pre-assessment questionnaires (which are always filled out by our suppliers), we noticed that roughly 17 percent of one supplier’s employees were ethnic minorities; apparently, this was a relatively high percentage compared to peer companies in the same city. This raised some concerns about the potential for the exploitation of vulnerable groups on their worksites.

Consequently, a special assessor team comprised of an ABB lead assessor and a senior supply chain sustainability expert was formed for this assessment. During their comprehensive, two-day on-site assessment, the assessors followed all SSDP protocols with a special focus on forced labor and discrimination. All the required documents were reviewed, site tours were made to all areas where employees were present, including the shop floor, security room and canteen. The lead assessor team also interacted with randomly selected shop floor employees. These interactions were always made without the presence of supplier management or their representatives to ensure that participants could speak freely.

Our team observed that the supplier was treating ethnic minority employees on par with other employees. Working places were in acceptable conditions and employees were able to leave the campus freely when off duty and enjoy their personal life. Employees were fairly compensated and were able to resign at will with a reasonable notice period.
Conflict minerals

We also continue our work to understand and limit ABB’s exposure to conflict minerals, as defined by section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. ABB filed its annual Conflict Minerals Report with the U.S. Securities and Exchange Commission and, for the fifth consecutive year, ABB was recognized for the responsible sourcing of minerals by an independent benchmark study from the Responsible Sourcing Network.

ABB continues to work with the Responsible Minerals Initiative (RMI) to encourage smelters and refiners to undergo Organization for Economic Cooperation and Development (OECD) aligned audits. ABB continues to engage with suppliers to ensure our products do not contain conflict minerals that have been sourced from mines that support or fund conflict within the Democratic Republic of Congo or adjoining countries and Conflict Affected High-Risk Areas (CAHRAs).

We plan to perform due diligence on our cobalt supply chain in 2021. Similar to our approach for products and components likely to contain tin, tantalum, tungsten and gold (also known as “3TG”), ABB will work with our suppliers to responsibly source smelters and refiners of cobalt.

While we are establishing internal processes that comply with the OECD five-step framework requirements, ABB will also cooperate with various RMI working groups that directly engage smelters and refiners. Currently ABB leads the RMI Asia Smelter Engagement Team and also the gold outreach in India. We continue to work with gold refiners in India to educate and encourage them to undergo OECD-aligned responsible sourcing audits.

Together with our industry peers, ABB will participate in the RMI cobalt working group to encourage our cobalt smelters and refiners to undergo OECD-aligned responsible sourcing audits. We also plan to visit these smelters and refiners where necessary to educate, train and guide them to undertake the Responsible Minerals Assurance Program by RMI.

Moreover, ABB will work with its industry peers to raise awareness of the EU’s new conflict minerals regulation, which came into force in January 2021.
Lessons learned

During the implementation of our sustainability strategy 2020, one of our key lessons learned was that the commitment of senior management and strong linkages to business targets were essential to triggering action on responsible sourcing initiatives. Like all of our programs, the Supplier Sustainability Development Program succeeds best when our people fully understand the reasons for and benefits of their activity and can clearly see that what they do is linked to the success of our business.

At the same time, we also realized that changes to the external environment in which we operate significantly impact our ability to effectively run the SSDP. In particular, over the past seven years we noted that the heightened interest from customers and investors in the sustainability of our suppliers – in combination with increasing regulatory requirements regarding human rights in the supply chain – served to reinforce the value of our supply chain program and justify the allocation of resources we require to not only continue with but also to expand our program.

The value of making strong connection across functions also became apparent during the implementation of our sustainability strategy 2020. Not surprisingly, strong connections between ABB’s procurement teams and sustainability personnel were critical to success. More interestingly, we learned that it was extremely useful to build strong relationships with our customer-facing colleagues to ensure they could promote the due diligence that we perform on our suppliers as another benefit of doing business with ABB.

The last and perhaps the most important lesson we learned was that the SSDP’s top-down approach did not fully embed sustainability principles in ABB’s day-to-day supply chain processes. Rather, the SSDP was often viewed as a corporate exercise. Given the importance of this lesson for our operations, in 2020 we reviewed the SSDP. After the review, we elected to transition from a top-down program approach (the SSDP) to a business-led management approach (the SSBM), with our four Business Areas managing, implementing and being ultimately accountable for the sustainability of their respective supply chains.