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Value Chain

We take a holistic approach to corporate social responsibility (CSR) in our value chain, managing sustainability issues at every stage of the lifecycle of our products. Working closely with suppliers is a priority to help maintain our high standards for ethics, labor rights, health and safety, and the environment throughout the value chain.



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Our core business is designing innovative products and bringing them to market. Cisco's value chain is almost entirely outsourced, with a network of more than 1000 suppliers providing services that include the manufacture, testing, shipping, return, reuse, and recycling of our products. Clear communication and close collaboration with these suppliers are critical to our ability to deliver high-quality products to customers while meeting our CSR goals.

We communicate our expectations through our [Supplier Code of Conduct](#), with which all suppliers must comply, and we monitor compliance through supplier self-assessments and third-party audits. Cisco also plays a broader role in raising standards throughout the ICT value chain by working directly with suppliers and by supporting industry initiatives designed to build sustainability capabilities.

Our strategy focuses on three key areas:

- Embedding sustainability into routine business practices at every stage of the value chain product lifecycle
- Working with our direct suppliers to make improvements in our immediate supply chain
- Partnering with industry consortiums to develop common standards and tools to address broader sustainability challenges in the ICT value chain

Our value chain management operations encompass everything involved in the development, manufacture, distribution, and takeback of our products. This includes product design, demand management and planning, sourcing, order management, manufacturing, and delivery. The suppliers to our value chain operations are numerous, complex, and globally dispersed. Three main types of suppliers are involved in our value chain:

- **Contract manufacturers:** A select group of suppliers that produce finished Cisco products

Cisco Technology in Action: Cisco TelePresence

The product: Cisco TelePresence combines high-definition audio and video for live, life-size, face-to-face interaction over the network.

How we use telepresence to collaborate with suppliers: We encourage our preferred suppliers to install Cisco TelePresence facilities to enhance collaboration. Cisco TelePresence enables us to communicate better and address critical issues face-to-face without the need for travel. This supports our CSR program by allowing us to engage more effectively with suppliers' senior management to follow up on audit findings and any other issues. At the same time, it reduces travel costs and related carbon emissions.

- **Component suppliers:** A much wider group of suppliers, often contracted directly by Cisco to provide parts to our contract manufacturers according to our specifications
- **Logistics service providers:** A small number of suppliers that we use to distribute our products to customers

We also work with suppliers to collect and recycle our products at end of life, where environmental impacts are the main focus (see [Environment](#)).

Preferred Suppliers

Fewer than 100 "preferred suppliers" account for the majority of our expenditure with value chain suppliers. These include all of our contract manufacturers and logistics service providers as well as some component and materials suppliers.

Preferred suppliers have committed to work closely with Cisco and to invest in a long-term, strategic relationship that delivers innovation and value to our customers. They have a high level of engagement with Cisco across all aspects of the business, including sustainability. To qualify and maintain their status, preferred suppliers must consistently achieve a high level of performance in key areas such as cost, quality, technology, fulfilment, and responsiveness. We are also introducing new criteria on sustainability as part of our scorecard process for monitoring their performance.

Value Chain Profile

Map of Cisco value chain suppliers and facilities.

Mouse over any of the six regional labels below for an enlarged view.



We focus our efforts on preferred suppliers because the majority of our value chain expenditures and new business opportunities go to them. We began our audit program and capability building efforts with our contract manufacturing suppliers, but now we are expanding our efforts to include component suppliers in our audits and scorecard process.

How to Use This Report

We encourage you to use the complete report PDF, which includes all sections and allows full access to videos, search capabilities, and bookmarks. Alternatively, if you [visit us online](#), you can access each section of our report individually. We've also created an [Executive Summary](#), which provides an overview of our achievements in fiscal year 2011 (FY11).

Recommended Software

- Adobe Acrobat* Version 7.0 and above
- QuickTime



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We manage every stage of our value chain throughout the lifecycle of our products against four CSR or sustainability pillars:

- Social responsibility and human rights
- Environment
- Ethics and governance
- Health and safety

We aim to embed these pillars into routine business practices so that they are an integral part of every aspect of our own operations and our relationships with suppliers. Achieving this will further improve the management of our value chain and ensure business continuity by reducing risk (see [Risk Management](#)).

Cisco has adopted the Electronics Industry Citizenship Coalition (EICC) [Code of Conduct](#) for all value chain suppliers. It sets out our expectations of suppliers in each of the four pillars outlined above and related management systems. In FY11, we amended our four pillars to better align them with key elements of the Code. The Code is reviewed and updated regularly so that it continues to reflect best practices and take account of emerging issues. The next formal update will be in early 2012.

Compliance with the Supplier Code of Conduct is part of our contractual agreements with suppliers. In FY11, we further embedded sustainability into our relationship with preferred suppliers by developing new sustainability criteria that are being integrated into the business scorecard we use to establish their status as preferred suppliers and to monitor their performance. We consulted with our suppliers in developing these criteria to better target the most relevant issues. Our goal is for sustainability to be an integral part of the scorecard for preferred suppliers in FY12 and beyond, alongside other criteria such as quality and technical requirements.

Suppliers' performance against these metrics will be reviewed as part of their business reviews at least twice a year.

To integrate sustainability into core business processes and effectively raise awareness of our requirements among suppliers, it is essential that our supplier management teams understand sustainability and communicate about it confidently. This is increasingly important as these teams become responsible for monitoring sustainability performance as part of the scorecard.

In FY11, we developed and began rolling out a web-based training module on sustainability and the Supplier Code of Conduct for employees who engage regularly with suppliers. The rollout will continue during FY12. The training is based on a course developed by the EICC that we have customized to address Cisco programs and procedures. Supplier management teams will take refresher training as necessary to update themselves on changes to the Code and other emerging issues.

Cisco Value Chain Sustainability Guiding Principles

These overarching principles apply to our own operations and those of our global suppliers:

- Operate ethically and in compliance with applicable laws
- Value employees, embrace diversity, and promote a fair and respectful workplace
- Provide a safe and healthy workplace and strive to reduce the environmental footprint of products and operations
- Be an asset to local communities by supporting educational, healthcare and critical community needs, and economic development
- Promote the growth and use of diverse suppliers
- Maintain and improve management systems that govern responsible operations

Promoting Supplier Diversity

Promoting the growth and use of diverse suppliers (in the form of woman- and minority-owned businesses) within the value chain is both one of Cisco's Value Chain Sustainability Guiding Principles and an important element of the "social responsibility and human rights" pillar of our value chain strategy. Working with diverse suppliers gives us access to a broader range of innovative supply chain partners, enhances value chain competitiveness, and increases customer satisfaction.

We promote support for diverse suppliers throughout the value chain by:

- Using our relationships with our contract manufacturers to encourage them to use diverse component and materials suppliers on our approved supplier list wherever possible, and report on their related expenditure
- Encouraging other preferred suppliers to buy products and services from diverse suppliers, and periodically reporting their diverse expenditure to us
- Providing a range of mentoring and networking opportunities to help diverse suppliers develop their global businesses capability and competitiveness

The supplier diversity program is underpinned by the extensive involvement of our executive management team. Several of our senior executives have volunteered to mentor diverse suppliers and provide coaching and guidance to help them grow their business with Cisco and others. In FY11, our diverse suppliers achieved impressive results in expanding their global footprint and building their business capability and scalability. The achievements of diverse suppliers are recognized with an award at our annual Supplier Appreciation Event.

We also link our support for diverse suppliers to programs such as our Cisco Networking Academy for ICT skills and other programs that build business skills and capabilities. For more information on supplier diversity, see page [E10](#).



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We generally follow a six-step process for communicating our Supplier Code of Conduct to suppliers, monitoring compliance, and helping them improve performance.

Supplier Audits

All audits, whether EICC-validated or Cisco-sponsored, are conducted by third-party auditors at suppliers' facilities. Cisco representatives participate in selected audits where potential high-risk issues have been identified in the supplier's self-assessment or by other means. Audit criteria include environment, ethics, health and safety, labor standards, and related management

systems. Auditors use the standard protocol and audit tools developed by the EICC. This includes:

- Reviewing documentation, including policies and procedures, personnel records, time sheets, and relevant permits
- Conducting a site tour to assess conditions in different areas, including production lines, cafeterias, resting areas, and dorms if applicable
- Gathering information from management
- Interviewing employees in their local language separately from management

The audit team produces a report based on the audit that is shared with Cisco and the supplier. For any issues identified the supplier must produce a corrective action plan and subsequently provide evidence that the corrective actions have been implemented. Action must be taken on priority issues within 30 days, and all findings are expected to be addressed within 180 days, except for certain issues that require long-term improvement plans.

Audit Findings

In FY11, we completed a series of audits of supplier facilities, the findings of which are shown in the chart on the next page. As was the case last year, the majority of the findings related to labor, health, and safety. All major issues identified in these audits have been resolved, or have corrective action plans in place that we are continuing to monitor. We are also continuing to analyze the findings of a number of other audits conducted in FY11, the results of which will be published in our FY12 report.

We have conducted initial audits, and in many cases repeat audits, of all of our contract manufacturing suppliers' facilities, and in FY11 we began to focus more of our audits on component suppliers, which supply parts to our contract manufacturers.

Audit findings and corrective action plans enable us to identify trends and opportunities to help suppliers enhance their sustainability capabilities.

Cisco Supplier Code of Conduct

<p>1</p> <p>Share our Supplier Code of Conduct with suppliers and communicate our expectations on how it should be applied</p> <hr/> <p>We include The Code in our agreements with suppliers and we communicate any changes to the Code as appropriate.</p>	<p>2</p> <p>Evaluate suppliers to identify higher risk facilities</p> <hr/> <p>Our risk assessment of each supplier facility is based on factors such as our budget with the supplier, the country where the facility is based (using external global risk indices), number of employees, and type of product or service provided.</p>	<p>3</p> <p>Evaluate those facilities through self-assessments</p> <hr/> <p>Suppliers identified as high risk are asked to complete a self-assessment for each facility that supplies Cisco.</p>
<p>4</p> <p>If warranted, commission an audit of facilities, either via the EICC-validated audit process, or using Cisco-sponsored third-party auditors</p> <hr/> <p>We prioritize facilities to audit based on the results of our risk assessment and the subsequent self-assessment, or if we identify any other significant factors that may warrant an audit. We participate in joint EICC audits where our needs align with those of other EICC member companies. Facilities are generally audited every two years. Some are audited more frequently, depending on audit results or relevant information that comes to light between scheduled audits.</p>	<p>5</p> <p>Work with suppliers on corrective action plans to resolve issues raised by audit findings</p> <hr/> <p>Priority issues must be resolved within 30 days. Other issues are expected to be closed within 180 days, with the exception of certain issues that require long-term improvement plans. In these cases, suppliers must regularly update us on progress.</p>	<p>6</p> <p>Validate that issues have been resolved and continue to monitor and talk with suppliers</p> <hr/> <p>Documentary evidence must be provided to demonstrate that issues have been resolved and, if needed, we will conduct a follow-up audit to confirm this. We engage with suppliers to understand the corrective actions they are taking and continue to work with them until their performance improves.</p>



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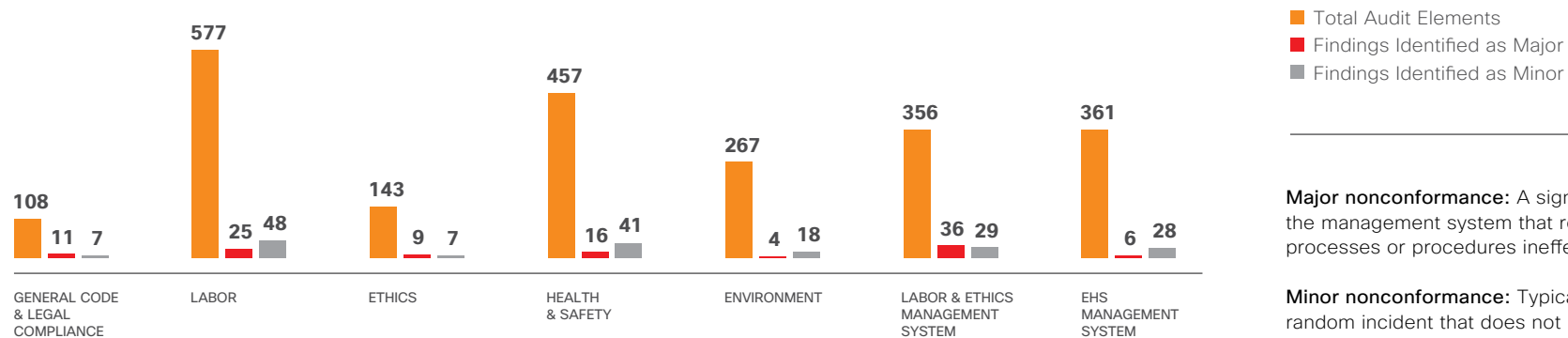
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FY11 Supplier Audit: Summary of Findings



Major nonconformance: A significant failure in the management system that renders established processes or procedures ineffective.

Minor nonconformance: Typically, an isolated or random incident that does not necessarily indicate a systemic problem with the management system.

Examples of Audit Findings and Responses in FY11

Category	Finding	Response
Labor	Excessive overtime and consecutive days worked. Supplier is meeting local labor regulations on working hours, but not those set out in the EICC standard.	Supplier has agreed to implement measures to achieve compliance with EICC standard.
	Improper deductions from pay.	Supplier has withdrawn its policy of deducting wages as a penalty. Withheld wages have been refunded to workers.
Health & Safety	Dormitory area being used to store semi-finished goods.	Production goods were immediately removed and new controls have been implemented to regulate proper use of the dormitory area.
	Lack of appropriate controls for workers to prevent exposure to chemical agents.	A process has been established to strengthen controls, and training is being conducted for relevant workers and managers.
Environment	Wastewater discharged from compressors exceeded local limits.	New filters have been installed in the sewage system, and a specialist has been hired to improve the wastewater control system.
	No process in place to check if air emissions are compliant within legal limits.	A system for measuring air emissions has been established and documented as part of the overall Environment, Health, and Safety program. External lab tests are to be conducted on an annual basis to monitor performance.
Labor & Safety Management	No appropriate management system in place for labor and safety management.	Supplier has committed to establish an appropriate management system to meet this requirement.



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Capability Building

To improve sustainability performance globally, we work closely with our preferred suppliers to help them improve their performance. In FY11, we engaged with many of our preferred suppliers to communicate our sustainability priorities, understand their priorities and challenges, and identify opportunities where we can partner to improve overall sustainability performance. These discussions helped to align priorities and better prepare suppliers to implement programs that support Cisco's sustainability goals. The integration of sustainability metrics into our scorecards and business reviews for preferred suppliers will help to continue this engagement.

We also identify areas for improvement, and opportunities to partner, through our audits of suppliers' performance, as well as focusing on any specific issues raised by stakeholders. Where suppliers are not meeting our requirements, we help them take appropriate corrective actions and work with them to raise standards. We believe this is the most effective way to embed sustainability awareness and promote ongoing improvements among suppliers.

Our tailored support includes talking about sustainability issues with our suppliers' senior managers, discussing audit findings and appropriate corrective actions, and conducting regular reviews of their sustainability performance. We also provide guidance documents on specific issues.



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Cisco's comprehensive Juvenile Labor Guidance document, for example, clarifies suppliers' obligations in relation to legally hiring and managing workers younger than 18 years of age. It sets out the requirements of key regulations and international conventions as well as specific examples of potential non-compliances. We began sharing the guidance document with suppliers in FY11 and will complete this process with existing suppliers in early FY12.

We aim to raise sustainability standards throughout the supply chain by working with our suppliers to help them improve their management systems and put in place similar processes to work with their own suppliers. Our Supplier Code of Conduct requires our Tier 1 suppliers (those with whom we have a direct relationship) to apply these same standards to their own suppliers. We also encourage them to join the EICC to participate in wider industry efforts to build capability and drive standardization.

The environment is another key focus of our capability-building activities. Helping suppliers improve their management of environmental issues and reduce their impacts can, in turn, help us reduce the overall impacts of our products throughout their lifecycle. In FY11, we worked closely with our logistics providers to improve environmental performance in the transportation of our products to customers. By shifting transport of one of our larger products from land to sea freight, and consolidating freight where possible, we achieved an estimated reduction of 33,000 tonnes in greenhouse gas emissions. Many of our logistics providers also replaced existing vehicles in their fleets with lower-carbon electric or hybrid vehicles. For more information on our approach to managing environmental issues throughout the lifecycle of our products, see the [Environment](#) section.

Working with Suppliers in China to Improve Wastewater Quality

In April 2010, the Institute of Public and Environmental Affairs (IPE), a Chinese NGO, found that a number of electronics manufacturing facilities supplying components to global ICT brands did not comply with regulations for emissions of heavy metals in wastewater.

One of our suppliers was implicated by the IPE's report, although it was not supplying products to us at the time of the investigation. After we saw the IPE report, we contacted the supplier and commissioned a third-party audit of its environmental procedures to understand how heavy metals had entered the wastewater and to determine if there was an ongoing problem. As a result of these studies, the supplier took appropriate corrective actions to improve its wastewater management system.

We used our experience from working with this facility to produce and share guidance with our other manufacturing suppliers to help them both understand our strict requirements and accurately assess their environmental performance. We continue to engage with IPE through the EICC to increase compliance with environmental regulations across the industry.



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The toughest sustainability challenges facing the ICT supply chain cannot be resolved by one company alone. Cisco promotes responsible practices in the wider ICT value chain through industry collaboration and participation in global industry consortiums such as the EICC and the International Electronics Manufacturing Initiative (INEMI). These forums enable Cisco to exchange ideas and pool resources with industry peers, share best practices, respond to stakeholder concerns, and influence the development of industry standards.

We have adopted the EICC Code of Conduct for our suppliers and currently are working with the EICC to develop the latest version of the Code, which is due for publication in FY12. The ethics and governance elements of the Code will be a key focus of this review to see that they adequately address the requirements of:

- The US Dodd-Frank Wall Street Reform and Consumer Protection Act (see Conflict Minerals).
- The 2010 California Transparency in Supply Chains Act
- The updated Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises
- The UK Bribery Act, which came into force in 2011

Due to come into effect in January 2012, the 2010 California Transparency in Supply Chains Act will require large retailers and manufacturers that do business in the state of California to provide information about their efforts to eradicate slavery and human trafficking from their supply chains. Cisco is a member of the EICC's new task force on Freely Chosen Employment that will recommend suitable tools to test compliance with the Act and revise the Supplier Code of Conduct, which already prohibits the use of forced, bonded, or child labor. We also support the EICC's goal to develop a business environment that enables substantial reduction of excessive overtime in manufacturing facilities based in China, an issue that was highlighted by NGO campaigns in FY11.

Through the EICC, we are developing common industry tools to support suppliers in improving sustainability performance. In FY11, Cisco helped create new training courses, including those on code of conduct awareness, occupational health and safety, and worker management communications, that focus on workers' rights and creating a positive working environment. Cisco invited some of its major suppliers to take part in pilots for these courses. We are also working through the EICC on the issue of conflict minerals (see below).

Our participation in INEMI focuses on reducing the environmental impacts of the supply chain. For example, Cisco leads a work group to define standard methodologies and approaches to simplify lifecycle analyses for the ICT industry, as well as projects to identify alternatives to PVC and halogenated flame retardants in printed circuit boards. For more details on Cisco's activities in this area, see the [Environment](#) section.

Tackling Conflict Minerals

Increased scrutiny from campaign groups and growing interest from governments have put a spotlight on the use of certain metals in the electronics industry, specifically those derived from potential "conflict minerals," namely: Coltan or columbite-tantalite (refined to produce tantalum); Wolframite (refined to produce tungsten); Cassiterite (refined to produce tin); and Gold.

The Democratic Republic of the Congo (DRC) is among the world's primary sources of these minerals, and many of the mines and transportation routes are under the control of armed groups. The concern is that the mining and purchase of these minerals from the DRC and its adjoining countries may be directly or indirectly financing or benefiting armed groups in the region that are often accused of major human rights abuses.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act, passed in July 2010, puts the burden on companies to know and disclose the source of these

metals in their products. It requires any company that makes products containing these metals to conduct a reasonable country-of-origin inquiry and due-diligence process on their supply chain, and publish a report disclosing whether those minerals originated from the DRC or its adjoining countries.

This regulation, and the underlying issue, is not exclusive to the electronics industry. It affects many other industries that use these metals in their products, including aerospace, automotive, and jewelry. Resolving this issue demands extensive collaboration with many participants within and outside the ICT value chain.

Through our participation in the EICC Extractives Working Group, we are supporting industry initiatives to better understand the challenges of establishing a chain of custody for these minerals, and to develop tools to trace them back to their source. The working group brings together a wide range of stakeholders from miners, smelters, and brokers to capacitor makers and other manufacturers of electronic components and products.

Two key initiatives have come out of this engagement and are now underway:

- An in-region sourcing program to trace minerals from the mine to the smelter
- A conflict-free smelter assessment program to certify smelters and refiners that source only conflict-free minerals

Cisco is working with the EICC to develop a standard methodology for auditing the metals supply chain, which is intended to create a common way of collecting and reporting this information.

In addition to our participation in these industry efforts, we are engaging directly with our suppliers to understand their processes to track the source of metals and minerals used in their products. For more information on industry initiatives, see www.eicc.info.



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Stakeholders continue to ask companies for more information about the sustainability impacts of their supply chain, with NGO campaigns, customers, financial analysts, and new regulations requiring companies to demonstrate increased transparency.

A major focus in FY12 will be demonstrating that requirements and due diligence procedures are in place to meet new regulations such as the US Dodd-Frank Act and the California Transparency in Supply Chains Act. We will share our responses to these and other issues with stakeholders as they evolve.

Using our systematic approach (consistent with international standard ISO 26000), we will further integrate sustainability into existing value chain business processes by, for example, including sustainability criteria in our business scorecard for preferred suppliers.

We will continue to work closely with our suppliers to help build their sustainability capabilities, as well as contributing to industry efforts to promote standardization and implementation of best practices throughout the ICT supply chain. An important focus of this work in FY12 and beyond will be on improving labor practices in our supply chain, which remains a challenge.

Objectives for FY12

Embedding Sustainability in Core Business Processes	Integrate sustainability questions into our business scorecard for preferred suppliers to better understand their performance, identify where they need support, and promote ongoing improvements
	Launch a Supplier Appreciation Award for Sustainability to recognize suppliers that demonstrate an outstanding commitment to sustainability
	Provide additional training on sustainability issues for employees who engage regularly with suppliers
Partnering with Suppliers to Improve Performance and Build Capability	Communicate and require suppliers to acknowledge the revised Supplier Code of Conduct
	Enact processes that meet the requirements of the US Dodd-Frank Act and the California Transparency in Supply Chains Act of 2010
	Partner with suppliers to identify and realize sustainability improvements
Working with Industry Groups	Continue to work through industry groups such as EICC and iNEMI to develop tools and standards to address global sustainability challenges