

Using Enterprise Risk Management to Manage Global Supply Chain Risks

ON Semiconductor's General Counsel Describes a Maturing Culture of Risk-Aware Decision-Making

Written by

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ON Semiconductor is a multi-year recipient of Ethisphere's World's Most Ethical Companies recognition. This has been accomplished in large part due to the strong work of the general counsel's office and legal team laying out comprehensive policies and processes for creating a strong ethics and compliance program. In the following article, ON Semiconductor's EVP and Chief Compliance & Ethics Officer, Chief Risk Officer and Board Secretary, Sonny Cave, identifies some of the key policies and practices of the company around addressing and mitigating one of the key risk areas all companies face, those stemming from third parties, and how this work is driven and reinforced by core values and a strong global culture.

OUR CORE VALUES DRIVE OUR CULTURE – IN EVERYTHING WE DO

At ON Semiconductor, our core values are Respect, Integrity and Initiative. They define and drive actions of our employees and third parties representing ON Semiconductor, and our corporate ethos requires of our employees and representatives to place every action in the context of our core values. These core values also form the basis for corporate social responsibility at ON Semiconductor. This allows us to promote collaborative and mutually rewarding partnerships with our vendors, suppliers and other third parties, including our customers.

SUPPLY CHAIN MANAGEMENT AT ON SEMICONDUCTOR

Our Global Supply Chain Organization (GSCO) engages a sizeable number of third-party partners, spread across 5 continents. Maintaining a flexible, reliable and responsive supply chain while shipping more than 1 billion units per week with greater than 94 percent average on-time delivery requires significant collaboration and coordination with our customers, distribution partners and vendors. With our core values forming a basis for everything we do, we attempt to partner with third-party suppliers and vendors who embrace our values and culture or have a similar corporate and compatible ethos. Third-party suppliers and vendors are managed through a centralized sourcing organization supported by on-site procurement teams with centralized reporting to the Chief Procurement Officer.

PROCESSES AND POLICIES

Our membership in the Responsible Business Alliance (RBA), formerly known as Electronic Industry Citizenship Coalition (EICC), is a central component of corporate social responsibility at ON Semiconductor. All suppliers are required to agree and comply with ON Semiconductor's Code of Business Conduct and the RBA Code

of Conduct. As a full member of the RBA, we abide by the RBA Code of Conduct and are committed to upholding RBA standards regarding labor, ethics, environment, health and safety, and management systems. In addition to complying with all the laws and regulations, we are also committed to ensuring that our suppliers and vendors maintain a supply chain that embodies our values.

We continuously work with our suppliers to certify that our products are free from any restricted materials and to ensure that all metals utilized in our products are sourced from conflict-free mines. We conduct due diligence within our supply chain to assure minerals are not being sourced from entities supporting armed conflict in certain areas. We expect our suppliers to engage in similar due diligence to analyze their sources and to complete the current CFSI Conflict Minerals Reporting Template (CMRT).

We also ensure that our workers are not required to surrender government issued identification or work permit originals to our company or any of our labor agents. Our human resources staff as well as our labor agents undergo anti-human trafficking training. On-site verifications are conducted to ensure compliance. We also investigate incidents of slavery and human trafficking in our supply chain through the use of risk assessments and site visits.

Our global minimum employment age policy is designed to ensure that sufficient measures and controls are in place to verify the minimum age of individuals working at our company. We apply the same minimum age requirement for employment at our supplier companies and labor agencies. We strive to ensure that our suppliers have the necessary policies, procedures, measures and controls in place through risk assessments and on-site verification to avoid incidents of child labor within our supply chain.

We expect our suppliers and vendors to share our values of corporate social responsibility including environmental protection, labor practices, human rights, fair business practices, supply chain responsibility and contribution to community and society. We clearly communicate our expectations to our suppliers, assess risks within our supply-chain and validate compliance of suppliers to the RBA Code of Conduct and local laws and regulations through site visits.

BEYOND POLICIES / BEYOND COMPLIANCE - Progress to Best-in-class supply-chain management

While conformance and compliance with policies, processes and codes of conduct is important, our goal is to develop, promote and fortify a highly ethical culture resulting in a best-in-class supply chain management program where our interests are aligned with those of our suppliers, vendors, communities and environment in which we operate. At ON Semiconductor, we utilize compliance as a yardstick, or a measuring tool, to quantify compliance rather than utilizing compliance as a fail-safe. Through our actions, example and guidance in areas ranging from Corporate Social Responsibility and Enterprise Risk Management to Environment, Health and Safety, we intend to replicate our culture of high ethical standards and risk-aware decision making across all areas of our supply chain to identify, prioritize, manage and mitigate risks inherent in our supply chain.

Risk Appetite

Below is an example of Risk Appetite statements ON Semi develops and shares in order to guide the company's approach to identifying and addressing key risks:

Risk Appetite for Ethical Behavior and Third-Party Association Risks

Risk Type: Ethical Behavior Risk
Risk Statement: The risk that employees at any level violate ethical standards as outlined in the company's Code of Conduct - including, but not limited to Insider Trading, Fraud, and Bribery & Corruption
Risk Appetite: RISK AVERSE – CRITICAL (Averse to taking any risk / No tolerance)

Risk Type: Third-party Association Risk
Risk Statement: The risk that questionable actions on the part of the company's suppliers, partners, customers, or others tied directly to the company violate our stated company values and ethical standards, driving negative publicity by association which may negatively impact brand value and reputation
Risk Appetite: RISK AVERSE – CRITICAL (Averse to taking any risk / No tolerance)

Enterprise Risk Management

Below is how the company defines its approach to Enterprise Risk Management across the board:

ERM at ON Semiconductor: Incorporated in 2014 with the full support of executive leadership and Board of Executives, the goal of our Enterprise Risk Management (ERM) program is to systemically, consistently and effectively identify, evaluate, prioritize and manage key risks affecting the company across all functional areas. Our ERM program strives to develop and promote a risk-aware culture across the organization and drive efforts to not only mitigate our top priority risks but to also capitalize on certain risks that are well within our defined risk appetite. Critical to the execution of the ERM program, we have appointed a Chief Risk Officer and a Corporate Risk Committee, in addition to creating a comprehensive network of ERM Risk Champions to support the program.

UTILIZING ENTERPRISE RISK MANAGEMENT TO DRIVE CROSS-FUNCTIONAL TRANSPARENCY

The Enterprise Risk Management (ERM) process at ON Semiconductor requires every functional area to identify, evaluate, prioritize and communicate top risks to our executive staff and the Board of Directors. Presentations to the Board include a risk heat map depicting top risks, risk rating score, target risk level and a summary of relevant mitigation actions, including status and completion timeframe. Risk reports and heat maps are shared across functional organizations.

As every functional area in the organization utilizes a common language for risk identification, risk scoring and prioritization, cross-functional teams can identify and aggregate similar risks. More importantly, any functional group can identify and report risks regardless of the reporting structure. For instance, recently, our Manufacturing, Facilities and Information Technology teams identified risks that could adversely impact our global supply chain. As a result of this enterprise-wide risk reporting and aggregation, we are able to prioritize resource allocation to effectuate risk mitigation plans.

Risk mitigation plans often require cross-functional coordination across various teams. Often, the risk identifier or the owner is not solely responsible for the risk mitigation plans. In the example above, the risk mitigation plan included a task force composed of individuals from Manufacturing, Procurement, Supply Chain, Information Technology, Facilities and Environmental, Health and Safety team members.

Like any other organization, we have to take some risks in order to meet our objectives. At ON Semiconductor, our Risk Appetite statements (see sidebar) clearly define the amount and type of risks we are willing to take in order to meet our strategic goals and objectives. Our commitment to high ethical standards is unambiguously evident in our corporate risk appetite statements. Our corporate risk appetite provides no tolerance for risks arising out of ethical behavior of our employees or an associated third party. As a result, if any functional area identifies a high likelihood of risks that fall within these categories, these risks are automatically assigned a higher priority for mitigation and risk response strategies. In addition to the traditional compliance efforts, we also utilize our ERM tools and processes for early identification of risks across all functional groups.

While we utilize our ERM program and processes to address specific risks, a more important component of the ERM program is to develop a risk-aware culture across every function of the organization, including our third party vendors.

About the Authors

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Responsible Business Alliance



Responsible Business Alliance

Formerly the Electronic Industry Citizenship Coalition

Advancing Sustainability Globally

Working within your own organization isn't the only way to address key risk areas. Many of the best programs are developed in cooperation with industry associations and initiatives, which create opportunities for companies to share best practices with one another. ON Semiconductor engages in the Responsible Business Alliance as one such example to facilitate ideas around addressing third party risks within the electronics industry (among others).

ABOUT RBA, FORMERLY EICC:

ON Semiconductor is a member of the Responsible Business Alliance (RBA), formerly known as the Electronic Industry Citizenship Coalition (EICC). RBA is comprised of more than 110 electronics, retail, auto and other manufacturing organizations with combined annual revenue greater than \$4.75 trillion, directly employing over 6 million people. RBA members are part of the world's largest coalition of electronics companies dedicated to the social, ethical and environmental responsibility of their supply chains.

As part of the requirement of membership, all Tier 1 suppliers to RBA members are required to implement the RBA Code of Conduct. This requirement impacts more than 3.5 million individuals from over 120 countries who contribute to the manufacturing of RBA members' products. At ON Semiconductor, we require all of our suppliers (regardless of the tier) to ensure compliance with the RBA Code of Conduct as well as our own Code of Business Conduct.

The RBA Code of Conduct

The RBA Code of Conduct is a set of standards on social, environmental and ethical issues in the electronics industry supply chain. The standards set out in the Code of Conduct reference international norms and standards including the Universal Declaration of Human Rights, ILO International Labor Standards, OECD Guidelines for Multinational Enterprises, ISO and SA standards, and many more.