

# Dillard's, Inc. 2018

## Social Accountability Report

### **I. General Background and Social Accountability Policy**

Dillard's considers its vendors to be its partners. We build our sourcing guidelines based on a partnership strategy motivated by a common commitment to maintain the integrity of our standards, whether they are production, legal or ethical. While Dillard's recognizes that there are different legal and cultural environments in which vendors operate throughout the world, the Dillard's Social Accountability Policy (the "Policy") sets forth the minimum requirements that all private label vendors from whom Dillard's imports merchandise must meet in order to do business with Dillard's.

The Policy is published on Dillard's website and can be accessed at [Social Accountability Policy](#). In addition, Dillard's provides its Policy and other appropriate guidance on its expectations in writing to its employees, suppliers, vendors and factory managers.

The Policy is based on the International Labor Organization Declaration on Fundamental Principles and Rights at Work (adopted 1998). The Policy provides the foundation for Dillard's ongoing evaluation of vendor's practices and our continuing relationship with such vendors. The standards set forth in the Policy are intended to convey the minimum standard for doing business with Dillard's. Dillard's will apply more stringent standards in selecting and partnering with its vendors/suppliers in appropriate circumstances.

In addition to publication and communication of the Policy to its direct import supplier base, Dillard's conducts factory social compliance assessments ("Assessments") in order to ensure compliance therewith. The following information and statistics describe Dillard's FY2018 direct import supplier base for private label merchandise; the inspections conducted thereon, the findings of those Assessments and the follow up conducted on the factories. The statistics provided relate to suppliers of private label merchandise imported by Dillard's in FY2018.

Dillard's intends to update this report periodically; we may add or modify elements to the report. We will continue to work with shareholder and stakeholder groups to make the report more meaningful and relevant to our changing environment. Dillard's Compliance Department is responsible for ensuring that the Policy is communicated to Dillard's vendors, that appropriate employees are trained, and that the required audits are conducted for compliance. Dillard's Vice President of Operations and the Legal Department monitor compliance and continually address issues as they arise.

### **II. Dillard's Direct Import Supplier Base**

Dillard's uses two strategic import business models for purchasing private label merchandise from overseas vendors. The vast majority (96%) of Dillard's merchandise is purchased through various buying agents ("Agents") operating in the country or territory where the factories are located. In some instances, Dillard's purchases merchandise directly from the factory. Those instances are referred to herein as "Direct-Direct" purchases.

In FY2018 Dillard's received merchandise from two hundred and seventy-three (273) factories located in seventeen (17) different countries. Dillard's purchased Direct-Direct from eleven (11) factories. Dillard's purchased merchandise from the remaining factories using the services of its Agents. Dillard's strives to ensure that its active factories reflect only those factories from which Dillard's intends to place orders.

The factories reported on herein are those factories from which Dillard's imported merchandise in FY2018.

### **III. Dillard's Method of Assessing its Supplier Base**

Dillard's Policy is to conduct yearly Assessments of each direct import supplier from which it receives merchandise. Dillard's does not tolerate, and conducts factory inspections to ensure against:

- Any incidents of human trafficking and slavery in the supply chain;
- The use of forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise;
- The use of child labor and the performance by children of hazardous work in conflict with the laws of the country of manufacture;
- The subjection of workers to physical, verbal, sexual or psychological harassment or abuse in connection with their employment;
- Other issues as defined by our Policy as directed from time to time.

The Assessments minimally require a meeting, tour, private worker interviews and a Corrective Action Plan ("CAP") for any non-compliance findings. The frequency and manner in which the Assessments are conducted vary depending on the results of previous Assessments and CAPs, the country of manufacture and whether the merchandise is ordered through an Agent or Direct-Direct. Assessments are conducted all over the world by selected third party auditors ("Audit Firms"). All of the Audit Firms conduct Assessments that meet or exceed Dillard's social accountability requirements.

The Audit Firms are utilized for Assessments by many other companies in the industry. Audit Firms operate within a strict code of ethics, and some will periodically send out mystery auditors to perform services. Finally, many of them randomly follow up on their auditors by calling the factories to ensure that the auditors conducted themselves in accordance with the Audit Firms' code of conduct.

In most cases where Dillard's orders merchandise through an Agent, the Agent is responsible for retaining an Audit Firm to conduct the initial and follow up Assessments in accordance with Dillard's Policy and report the results to the Agent and Dillard's. Where Dillard's orders merchandise Direct-Direct, Dillard's retains the Audit Firm to conduct the initial and follow up Assessments and report the results directly to Dillard's.

### **IV. Number of Direct Import Suppliers Assessed**

Dillard's maintains a program that enables its factories to receive an Assessment that is valid for 1 or 2 years if certain criteria are met. Thirty-nine (39) factories qualified for two (2) year Assessments and were therefore exempt from the yearly Assessment audits. This program provides clear guidance on Dillard's risk of compliance determinations and ratings to establish the appropriate follow-up measures. Exempting low risk, compliant factories from annual Assessments allows Dillard's to deploy its social accountability resources efficiently. Dillard's conducted two hundred and twenty-eight (228) factory Assessments for imported merchandise in FY2018. Dillard's allows a factory to waive the Assessment if they submit an approved independent third party audit report that was conducted within the last twelve (12) months.

### **V. General Findings of Assessments**

Dillard's partners with its suppliers to create CAPs that are monitored by third party social compliance teams. Dillard's completed two hundred and seventy-three (273) Social Assessments in FY2018;

however, we did not place purchase orders in thirty-one (31) of the audited factories for that year. Therefore, these findings were focused on the remaining two hundred and forty-two (242) factories which Dillard's did place orders in FY2018.

Dillard's Audit Firms evaluated two hundred and twenty-eight (228) factories in FY2018. The remaining fourteen (14) factories were audited by other approved third party service providers:

- ✓ Factories achieved level 1 rating = Thirty-nine (39)
- ✓ Factories achieved level 2 or 3 rating = One hundred and fifty-five (155)
- ✓ Factories achieved level 4 rating = Thirty-four (34)
- ✓ Factory is at level 5 = Zero (0)

*Note: A level 1 rating is the best possible rating a factory can achieve and level 5 is the lowest rating for a factory.*

Factories with ratings of two or higher were required to follow up with a CAP that includes completion dates. Two hundred and twenty-eight (228) factories successfully completed their CAP as scheduled. The remaining Fifty-four (54) factories were assigned a second CAP, and all but eight (8) factories completed their second CAP as scheduled. Out of the eight (8) factories, five (5) factories completed their third CAP to an acceptable level as scheduled. Three (3) factories were canceled due to poor Assessment scores in Health and Safety, Working Hours, and Wages and Benefits.

Dillard's and its inspection firms work with vendors and factories to establish and monitor CAPs in an effort to bring each factory into compliance where non-conformance is found. It is Dillard's desire to establish continuous improvements in factory conditions. Dillard's only terminates business relations as a last resort. However, Dillard's reserves the right to terminate business relations for any violations of its Policy.

## **VI. General Descriptions of Issues Found in Factories**

Assessments revealed the following areas of concern with the appropriate follow up actions documented in CAPs. Overall in 2018, there were 835 non-compliance incidents cited in 2017.

The following are the top non-compliance categories:

- ✓ Health and Safety — Three hundred and thirty-nine (339) issues, 41% overall
- ✓ Wages and benefits — One hundred and forty-three (143) issues, 17% overall
- ✓ Working hours — Two hundred and thirty-three (233) issues, 28% overall
- ✓ Other — One hundred twenty (120) issues, 14% were spread over other areas

## **VII. Internal Training**

Dillard's trains its associates responsible for direct imports of merchandise on their obligation to comply with Dillard's Social Accountability Policy and other policies relevant to purchasing and importing merchandise.

## **VIII. Dillard's Goals for FY 2019**

In 2019 Dillard's will continue to focus on completion of CAPs, communication of expectations to its vendors and Audit Firms and refinement of its procedures to evaluate risk and allocate resources

accordingly. Dillard's is also continuing to evaluate factory safety protocols in conjunction with its agencies, Audit Firms, and industry groups.

#### **IX. Conclusion**

Dillard's will continue its efforts to ensure that its policies and assessment of its supplier base are in line with industry standards.