Recent developments on Corporate Social Responsibility (CSR) in Information and Communications Technology (ICT) Hardware Manufacturing

by

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Corporate social responsibility (CSR) has been around for a long time in sectors such as textiles and toys, but is relatively new to electronics. This paper examines corporate social responsibility in ICT manufacturing, in particular the extent to which brands work towards improving conditions of work in their supply chains, and how they go about doing this. The aim is to understand better some of the industry forces shaping choices brands and suppliers make concerning CSR, both at the company level and various industry initiatives.

CSR issues are specific to each industry structure. Key factors include: the degree to which production is concentrated in relatively few suppliers; the power relationship between the brands and the suppliers, which is a function of, inter alia, how easily production can be moved between suppliers; and the level of commitment brands are willing to make to support suppliers in their efforts to upgrade labour practices. Not least, national legal frameworks of countries in which production is concentrated strongly influence whether internationally recognized fundamental principles and rights at work are realized in practice at the factory level.

However, there is a common thread throughout all industries: companies need simple, effective, yet credible solutions to the challenge of reconciling competitive pressures and social concerns, whether as brands or as suppliers. This implies that solutions must benefit workers and make good business sense in order to be sustainable.

There are some important conclusions to draw from this study. The brands examined are industry leaders concerning improving conditions of work and respect for workers’ rights in their supply chains. They take seriously their commitment to work with suppliers to improve conditions of work. However, the case studies indicate that there is less analysis by brands of the constraints facing the suppliers, in particular what they could alter in their own operations to support their suppliers to improve conditions of work. Perhaps this is because such structural issues need to be addressed on an industry-wide basis, highlighting the importance of industry initiatives.

The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) is designed to guide private initiatives, both company policy such as codes of conduct for suppliers, and industry-wide initiatives. It is the only international CSR instrument which has the full backing of workers, employers and government. This tripartite origin makes it both highly credible and yet sensitive to the concerns of enterprises facing tough competition.

The MNE Declaration covers the fundamental principles and rights at work—concerning child labour, forced labour, freedom of association, collective bargaining, and non-discrimination—as well as wages, hours of work, and occupational health and safety. Initiatives such as the Global e-Sustainability Initiative and the Electronic Industry Code of Conduct on the industry side, and GoodElectronics on the advocacy side, are focused on these issues and may find these principles to be a useful starting point for dialogue on how best to protect workers’ rights while helping ITC manufacturing supply chains to retain, or even enhance, their competitiveness.

The MNE Declaration encourages consultation between multinational enterprises and governments and workers’ and employers’ organisations. In ICT manufacturing, progress could be made in improving dialogue between the brands and employers’ and workers’ organisations, as well as governments. The ILO could provide assistance to help bring
together these different actors order to find solutions to many of the industry structural challenges which are impossible for any one group of actors to resolve alone.

The ILO hopes that this important study by Mr. van Liemt, a self-employed international economist, will contribute to this dialogue. We thank Mr. van Liemt for his valuable contribution.

Dominique Michel
Programme Manager
Multinational Enterprises Programme (EMP/MULTI)
International Labour Office (ILO)
Geneva, April 2007
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Introduction

“After a bumpy original response, (…) we focused on making working conditions better and showing that to the world…. [But] creating change has proved more challenging than anyone imagined when corporate codes were first developed….we and others in this discussion are going to need to see common standards emerge and ways to better share knowledge and learnings created. We are disclosing our supply chain in an effort to jump-start disclosure and collaboration throughout the industry”.

Corporate Social Responsibility (CSR) has gone mainstream. Today, thousands of people are involved in discussing and drawing up codes of conduct, and monitoring and auditing them. More and more universities and business schools offer courses in business ethics. There is near continuous growth in the number of ethical investment funds, in the number of articles in the press that assess companies’ social and environmental performance, and in the number of companies that issue sustainability and corporate responsibility reports.

But what about CSR in practice? How do companies actually go about ensuring that workers further down in the supply chain are treated and paid fairly? How motivated are they? What methods do they use and how successful have they been? Which problems have they encountered? What has been the involvement of the trade unions and the NGO community? These are the questions that this paper is concerned with.

This paper is organized as follows: Chapter one gives an overview of some of the key characteristics of ICT manufacturing and their relevance for shaping CSR initiatives in the industry. Chapter two discusses labour issues most frequently mentioned in critical reports and companies’ responses. Chapter three contains brief case studies of some leading company initiatives: Hewlett Packard, Philips Electronics and Sony Ericsson. Chapter four discusses how the two main industry groupings (GeSI and EICC) have joined forces and now collaborate to develop a common methodology for implementing supply chain standards. Chapter five describes an alliance on the advocacy side between a number of NGOs (CAFOD, CEREAL, ICCR among others) and the International Metalworkers Federation (IMF). The paper ends with some conclusions. The text of the Electronics Industry Code of Conduct EICC is reproduced as an annex.

The author is grateful for the comments made by Paul Bailey, Gemma Crijns, Judy Glazer, Susan Hayter, Carin Håkansta, Jenny Holdcroft, Monique Lempers, Dominique Michel, Bonnie Nixon Gardiner, Jan Roodenburg, Mats Pellbäck Scharp, Lindsey Ridgeway, Emily Sims, Ronald Stein and Lucianne Verweij, as well as the participants of a seminar held at the ILO in Geneva on 14 February 2007. Needless to say, all opinions expressed and remaining errors are the exclusive responsibility of the author, who welcomes comments at gbvanliemt@compuserve.com.

A note on sources: This paper builds on earlier work by the author on Corporate Social Responsibility (see e.g. van Liemt, 2000) and other work on the ICT sector (van Liemt, 2007). A review of company CSR reports and other printed and web-based publications were other sources. The most important of these are listed among the references. The author benefited from discussions with the participants in the International

1 Phil Knight, CEO of Nike in the company’s 2004 Corporate Responsibility Report.
Metalworkers Federation’s conference “Organising in global electronics supply chains” (Singapore, 18-19 October 2006), where he was an invited speaker. The interviews conducted with key industry people were particularly useful. The list with people interviewed can be found at the end of the paper.
ICT manufacturing is characterized by rapid growth in volume and diversity, and rapid innovation (see, ILO, 2007). Trade and industry classifications have difficulty keeping pace with the many new products and product lines that are being launched each year. A further complicating factor is the trend to blend the functions of different established products into one. This happens within the ICT industry (Sony Ericsson sells walkman-phones; Apple’s new iPhone combines telephone, data transfer and multimedia functions) but also between ICT and other industries.

The industry is intensely competitive. Technologies change fast, allowing fast movers to quickly grab a sizeable part of the market. New successful players emerge with great regularity. Established brand names, even those with deep pockets, find it hard to compete, especially in the rapidly changing segments of the industry. IBM abandoned the production of Personal Computers (PCs) and sold this unit to Lenovo of China in 2005. Siemens sold its mobile handset unit to BenQ from Taiwan China.

The intense competition has been good for consumers: a near-continuous flow of new products hits the market. Existing products are becoming faster, easier to handle, more powerful and cheaper. In fact, the steady decline of the prices of ICT products has been one reason why inflation has been low in recent years.

The intense competition also goes a long way in explaining the current structure of the manufacturing industry. Product life cycles have become shorter. Innovation and getting new products to the market quickly are essential for success. Companies work with many partners in many different countries. Their supply chains have become both more complex and more international.

Roughly speaking there are now four main groups of players: a select group of large Original Equipment Manufacturers (OEMs); Original Design Manufacturers (ODMs) and Contract Manufacturers or providers of Electronic Manufacturing Services (CM/EMS providers), in addition to thousands of smaller suppliers of cables, switches etc. The OEMs are the brand-names (such as Apple, Hewlett Packard, Nokia, Philips, Sony). The origin of the OEMs is in North America, Western Europe, Japan and the Rep. of Korea. They focus on innovation, contacts with clients, distribution and after-sales service. The majority no longer consider manufacturing to be a “core activity”. However, they keep a close eye on the ODMs and CMs on whom they now rely for manufacturing—an exploding battery can do serious damage to a brand’s bottom line and market share. ODMs, such as Quanta, Asustek, Compal and BenQ design and manufacture products for the OEMs, laptop computers being a prime example. The ODMs are mainly based in Taiwan, China and have extensive production facilities in mainland China.

CMs/EMS providers supply sub-assemblies to, and assemble systems for, the OEMs according to the specifications of the OEMs. They work with small margins. OEMs compete in the end-consumer market; CMs compete for work from the OEMs. The largest CMs have their origin in North America (Celestica, Flextronics, Jabil Circuit, Sanmina, Solectron) and Taiwan, China (Hon Hai/Foxconn). In the last ten years there has been a mass relocation of production to “low cost geographies,” in particular to China (see also

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2 ILO 2007; and van Liemt, 2007 are important sources for this chapter.
van Liemt, 2007). As the OEMs have outsourced their most labour intensive activities, some of the bigger CMs are now comparable in size, or bigger than, the OEMs (see table 1).

Table 1: Number of employees at OEMs and contract manufacturers (2005; selected companies)

<table>
<thead>
<tr>
<th>Contract manufacturer or OEM</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hon Hai Foxconn</td>
<td>230,000*</td>
</tr>
<tr>
<td>Sony</td>
<td>150,000</td>
</tr>
<tr>
<td>Hewlett Packard</td>
<td>150,000</td>
</tr>
<tr>
<td>Philips</td>
<td>120,000**</td>
</tr>
<tr>
<td>Flextronics</td>
<td>115,000**</td>
</tr>
<tr>
<td>Nokia</td>
<td>58,000</td>
</tr>
<tr>
<td>Ericsson</td>
<td>56,000</td>
</tr>
<tr>
<td>Solectron</td>
<td>50,000</td>
</tr>
<tr>
<td>Sony Ericsson</td>
<td>7,500</td>
</tr>
</tbody>
</table>

Source: company information; *2006 estimate; ** 2006

The overview presented above must be qualified, however. The move out of manufacturing is certainly a trend but the degree to which this takes place differs by sub-sector. For instance, outsourcing is more common in the computer industry than it is in the mobile phone industry. The trend also varies by continent. North American OEMs have embraced this model with enthusiasm; in Europe the picture is mixed; in Japan and the Republic of Korea subcontracting to ODMs and CMs is comparatively rare. Moreover, within each industry and each continent there are important differences by company (related, inter alia, to their product mix).

The borderlines between OEMs, ODMs, and CMs are also far from static. CMs, working with very low margins, try to break into higher margin ODM territory by also offering design services. Certain ODMs, in turn, have started to sell laptop computers under their own brand name, thereby entering OEM territory. The OEMs in their turn are also trying to move into higher value added activities. *IBM* and *HP*, for example, want to expand their IT consultancy services.
OEMs subcontract large parts of manufacturing because they want to lower costs and spread risks. Subcontracting enables them to: reduce time-to-market and time-to-volume production; lower operating costs, capital requirements and other fixed costs; improve inventory management; access world leading manufacturing technology, engineering and logistics capabilities; produce the same product on a global scale by making use of parallel production facilities; and focus on their “core competencies” (see van Liemt, 2007).

The trade union movement has suggested two other reasons why companies engage in international subcontracting: to avoid responsibility (and liability) for accidents or for poor health and safety practices; and to encourage competition among countries, leading, inter alia, to lax enforcement of health and safety standards (ICFTU, 1995).

Flexibility and innovation have become the keys to survival in modern industry. Producers who wish to remain competitive reduce cycle times for design, manufacture and delivery. They try to pass on to suppliers the uncertainty that they encounter in the market place. Rapid technological advance and steadily falling prices make it unprofitable to keep significant stocks as these become quickly obsolete. Orders are placed late, requiring a good deal of flexibility by all involved, including workers. This model creates slow periods of production, when there are few orders to fill, as well as very heavy periods. In sum, this

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3 In this chart Foxconn has been placed in its own box separate from the ODMs, CMs and other first tier suppliers. The reason is that Foxconn is by far the biggest and fastest growing of the first-tier suppliers. It aspires to become a ODM. All in all, its range of activities is unusually broad and includes elements of an ODM, CMs and other first-tier suppliers (see also van Liemt 2007).
encourages the hiring of workers on temporary contracts and the use of excessive overtime to complete an order on time.

The industry is concentrated in only a few countries. Nine economies (China; Taiwan, China; Germany; Japan; Republic of Korea; Russia; Malaysia; Mexico; and the United States) have more than 400,000 people working in the industry (see Table 4). Naturally, these figures say little about the importance of the industry for individual countries. The Philippines may have “only” 280,000 people active in the industry and Singapore “only” 100,000 people but office and telecom equipment are very important for these economies, making up some 50% of their exports.

When some twenty years ago developing countries were urged to move ‘up-market’ into such industries as ICT manufacturing, few would have expected that today the majority of jobs in these industries would indeed be found in these countries. While many jobs were created in developing countries, many others were lost at established locations in the US, Canada and Western Europe.

The move of the industry to “low cost geographies” has both a regional and a global dimension. In the Americas region, much of the industry has moved from the US and Canada to Mexico. Mexico has become a final assembly point towards the US. In Europe, many jobs have been created in Eastern Europe, making many people in Western Europe redundant in the process. In Asia, labour intensive activities have been relocated from Singapore to the nearby Indonesian island of Batam.

Globally, the world’s ICT manufacturing industry has seen a move to East and South East Asia (Philippines, Singapore, Indonesia), and to China in particular. This is not just because of cost advantages. The most dynamic markets today are often found outside the OECD countries, which, in mobile phones for example, have become a replacement market. The following two tables provide some data on how the distribution of sales by two major US contract manufacturers changed between 1995 and 2005.

### Table 2: Solectron: sales by main region (various years; %)

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>Other America</th>
<th>Europe</th>
<th>Malaysia</th>
<th>China</th>
<th>Other Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>62</td>
<td></td>
<td></td>
<td>38</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>46</td>
<td>13</td>
<td>24</td>
<td>10</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>39</td>
<td>12</td>
<td>17</td>
<td>12</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>30</td>
<td>16</td>
<td>14</td>
<td>19</td>
<td>12</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Solectron, Annual reports (various years).
Table 3: Celestica: sales by region (various years; %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Americas</th>
<th>Europe</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>100</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>62</td>
<td>29</td>
<td>9</td>
</tr>
<tr>
<td>2003</td>
<td>46</td>
<td>21</td>
<td>37</td>
</tr>
<tr>
<td>2005</td>
<td>36</td>
<td>18</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: Annual reports, various issues.

China is particularly important to the ICT manufacturing industry, just as the ICT manufacturing is particularly important to China. China has become the main player in terms of employment. According to ILO data (see chart 3), fully one-third of the total number of people employed in the global electrical and electronic industry is in China (making up 30% percent of the country’s merchandise exports in 2005; up from 17.5% in 2000). OEMs, ODMs and CMs all have considerable manufacturing capacity there. It is not sure whether China will be able to continue to increase its share of world manufacturing. Prudent managers will not want to rely on just one producing country and will want to spread risk. But the country’s share is unlikely to go down if current trends continue. The appreciation of the Chinese Yuan against the US dollar and rising labour costs and labour shortages in the traditional coastal production areas might lead to a slowdown of the industry’s growth there. But the country’s rapidly growing capacity in design and engineering, the growth in its supplier industries, the growing competitiveness of home grown brands and, most importantly, the rapidly growing purchasing power of the Chinese population will ensure that a large share of world production and employment will continue to be found in China.

Chart 2. World Employment in the Electrical and Electronic Products Manufacturing Industries 1997 to 2004, millions of workers

Source: Estimated by ILO base on SECTORSource data
In sum, in the ICT industry innovation is the key to staying ahead of the competition. The continuous development of new, more powerful and cheaper products make it costly to hold inventories, and thus requires rapid and flexible responses by suppliers. Many OEMs now leave manufacturing to others and concentrate on marketing, innovation, brand management, and after-sales service. Some of the CMs employ as many, if not more people than the OEMs do. The industry has seen a massive move of jobs from “high cost geographies” (US, Canada, Western Europe) to “low cost geographies” (Mexico, Eastern Europe, East and South East Asia). China has been the main beneficiary. Today fully one-third of all ICT jobs are found in China. It is a huge market, with a well-developed supply base and competitive labour costs.

Table 4. Employment in the Electrical and Electronic Products Manufacturing Industry
Thousands of Workers, 2002 except as noted

<table>
<thead>
<tr>
<th>Country</th>
<th>Employment</th>
<th>Country</th>
<th>Employment</th>
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<tbody>
<tr>
<td>Albania (2)</td>
<td>2.8</td>
<td>Lithuania (2)</td>
<td>13.3</td>
</tr>
<tr>
<td>Argentina (1)</td>
<td>17.0</td>
<td>Luxembourg (3)</td>
<td>0.5</td>
</tr>
<tr>
<td>Australia (1)</td>
<td>57.0</td>
<td>Macedonia (’01, 2)</td>
<td>6.1</td>
</tr>
<tr>
<td>Austria (1)</td>
<td>50.0</td>
<td>Malawi (’01, 2)</td>
<td>0.1</td>
</tr>
<tr>
<td>Azerbaijan (1)</td>
<td>4.3</td>
<td>Malaysia (2)</td>
<td>405.4</td>
</tr>
<tr>
<td>Bangladesh (’98, 2)</td>
<td>30.2</td>
<td>Malta (2)</td>
<td>4.5</td>
</tr>
<tr>
<td>Belgium (1)</td>
<td>50.9</td>
<td>Mauritius (1)</td>
<td>0.5</td>
</tr>
<tr>
<td>Bolivia (’01, 2)</td>
<td>0.3</td>
<td>Mexico (1)</td>
<td>455.4</td>
</tr>
<tr>
<td>Botswana (’99, 1)</td>
<td>0.7</td>
<td>Mongolia (’00, 2)</td>
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</tr>
<tr>
<td>Brazil (2)</td>
<td>235.8</td>
<td>Morocco (2)</td>
<td>21.7</td>
</tr>
<tr>
<td>Bulgaria (1)</td>
<td>26.0</td>
<td>Nepal (2)</td>
<td>2.2</td>
</tr>
<tr>
<td>Country</td>
<td>Value</td>
<td>Country</td>
<td>Value</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-------</td>
<td>----------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Canada (1)</td>
<td>162.1</td>
<td>Netherlands (3)</td>
<td>20.6</td>
</tr>
<tr>
<td>China (1)</td>
<td>2,952.1</td>
<td>New Zealand (2)</td>
<td>11.0</td>
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<td>China, Hong Kong (5)</td>
<td>13.5</td>
<td>Norway (4)</td>
<td>15.5</td>
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<td>0.7</td>
<td>Palestine ('99, 1)</td>
<td>0.4</td>
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<tr>
<td>China, Taiwan (1)</td>
<td>568.4</td>
<td>Oman (2)</td>
<td>0.9</td>
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<tr>
<td>Colombia (1)</td>
<td>2.0</td>
<td>Pakistan ('01, 2)</td>
<td>0.4</td>
</tr>
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<td>Costa Rica ('01, 1)</td>
<td>6.0</td>
<td>Peru (1)</td>
<td>4.0</td>
</tr>
<tr>
<td>Croatia (1)</td>
<td>16.0</td>
<td>Philippines ('03, 1)</td>
<td>280.1</td>
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<td>Cyprus (2)</td>
<td>0.5</td>
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<td>38.0</td>
<td>Puerto Rico (1)</td>
<td>6.0</td>
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<td>2.2</td>
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<td>Egypt (2)</td>
<td>24.5</td>
<td>Russian Fed (1)</td>
<td>849.6</td>
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<td>Estonia (2)</td>
<td>2.1</td>
<td>Senegal (2)</td>
<td>0.3</td>
</tr>
<tr>
<td>Fiji ('98, 1)</td>
<td>0.1</td>
<td>Serbia &amp; Montenegro ('01, 1)</td>
<td>34.0</td>
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<tr>
<td>Finland (1)</td>
<td>54.0</td>
<td>Singapore (2)</td>
<td>101.4</td>
</tr>
<tr>
<td>France (1)</td>
<td>328.2</td>
<td>Slovakia (1)</td>
<td>59.0</td>
</tr>
<tr>
<td>Georgia (2)</td>
<td>0.7</td>
<td>Slovenia ('04, 1)</td>
<td>20.9</td>
</tr>
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<td>Germany (1)</td>
<td>759.6</td>
<td>South Africa (2)</td>
<td>93.6</td>
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<td>Greece (1)</td>
<td>13.0</td>
<td>Spain (1)</td>
<td>134.1</td>
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<td>Hungary (1)</td>
<td>121.0</td>
<td>Sri Lanka (1)</td>
<td>5.8</td>
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<td>0.1</td>
<td>Sudan ('01, 2)</td>
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Source: Compiled by ILO Sectoral Activities
Source codes: 1. ILO Laborsta; 2. UNIDO INDSTAT4; 3. Eurostat; 4. OECD; 5. National statistical offices
Chapter Two: Labour issues in ICT manufacturing

“Only recently have we started to understand the negative impacts of digital electronic equipment worldwide. Most of us, overwhelmed by the technological wonders that these devices are capable of, forget to ask ourselves “How have they been made?” “By whom?” “Where?” “Under what conditions?”

The increasingly faster and more versatile computers, appealing mobile phones, high-definition TVs, Internet, tiny music players, ingenious photo cameras, entertaining games consoles and even electronic pets give us the idea of a developed, pioneering and modern world. It is indeed a new era for many; but the dark side of this prosperous world reveals a very different reality, that far from taking us to the future, takes us back to a darker past.

Overseas sourcing in ICT manufacturing is a relatively new phenomenon compared to other industries. The clothing, footwear and toy industries relocated earlier to “low cost geographies” and activist groups have long argued that companies in these sectors should play a role in ensuring minimum labour standards at their suppliers and subcontractors. Determined not to repeat the public relations mistakes that had occurred in these other industries, the ICT brands analysed how successful textile and clothing brands with overseas locations had monitored operations. The home furnishings company IKEA has been frequently mentioned as a model.

However, parallels with the experience of other sectors are limited, as some key issues differ. On the whole, workplaces in ICT manufacturing are clean, dust-free and temperature controlled. Many components, subassemblies and systems are expensive and need to be handled with care. Workers are, on the whole, better trained and better paid than those in clothing and textiles.

Today, ICT manufacturing is being followed carefully by a number of NGOs, as well as the International Metalworkers’ Federation (IMF), which argue that the OEMs (or brand-names) have a key role in ensuring good and safe working conditions at their suppliers. NGO reports have acted as a catalyst for industry-wide initiatives.

For many, the 2004 report (“Clean up your computer: Working conditions in the Electronics Sector”) by CAFOD, a catholic NGO based in the UK, served as a wake-up call (although many industry players are keen to point out that initiatives in their company predate 2004). The report examined working conditions in PC supply chains in Mexico and China and alleged that these needed much improvement. The report set in motion, or accelerated, company and industry initiatives to look more closely at conditions in the supply chain. The CAFOD report was also a source of inspiration for other NGOs to examine the industry (see e.g.; Liu et al. 2005; Schipper et al. 2005; CEREAL, 2006; CEREAL, 2006, p.4

Activist groups like the Silicon Valley Toxics Coalition (SVTC) have been drawing attention to the downside of rapid high-tech growth since the early 1980s. Their focus was on the toxic chemicals the industry uses and how these contaminate the environment. Workers were also being exposed to hazardous chemicals on the job. SVTC monitored pollution and its effects on citizens, mobilized communities to demand a clean up, and was instrumental in getting relevant legislation passed. As the industry moved to countries where legislation was weaker or non-existent, populations and workers were unaware of the risks, and activist oversight was weak or absent, their campaigns became increasingly international in character.
Wilde et al. 2006). The labour issues highlighted in these and other critical reports concern mainly wages, hours of work, safety and health, and freedom of association:

1. **Freedom of association.** Many reports refer to difficulties in organizing workers. Free trade unions have been organized in electronics companies (including North American companies) in, *inter alia*, Hungary, Brazil, Singapore and Indonesia. In other countries this is more difficult or impossible. Few US based electronic companies have union representation. But even companies from countries with a high rate of organization in their country of origin find it impossible to guarantee freedom of association at all the locations where they operate. Where trade unions are free to organize in principle, additional legislation may make the situation more complex. CEREAL gives the example of Mexico.

   “…90% of workers belong to a trade union; but 90% of those do not know it. This is because companies sign Collective Employment Agreements with unrepresentative trade unions... [These] contracts force all workers in the company to enrol in a trade union and are called “protection contracts” because, according to Mexican law, only a trade union can hold negotiations with the company on work issues; therefore, signing with a unrepresentative trade union prevents workers from organising themselves freely to ask the company to agree on a new contract” (Cereal pp.41-42). The official union is not known to play a role as ‘a voice in the workplace” and its representatives tend to be uninterested in workers’ grievances and unavailable when they are needed the most, leading CEREAL to conclude that “In Mexico compliance with local laws is effectively being used within the electronics industry to prevent genuine freedom of association”(Cereal, 2006, p.15).

   In China only the official trade union—the All-China Federation of Trade Unions (ACFTU)—is allowed to operate. As a rule, one party states do not tolerate strong independent, nationally operating trade unions and China is no exception. ACFTU’s primary role is to assist the government in ensuring social and political stability; but it is under pressure because of the growing number of labour conflicts and strikes.

2. **Discrimination and pregnancy testing.** Women workers claim that being asked whether they are pregnant constitutes an act of discrimination because this may be a reason for refusing them a job. Employers argue that they must know whether their workers are pregnant as pregnant workers are not supposed to do certain types of work, such as work with toxic fumes. In Mexico it is against the law to assign pregnant workers to the night shift.

3. **Excessive working time.** It is reported that workers routinely work longer than the legal maximum and often do not receive extra pay for overtime as stipulated by the law. Employers who systematically understate the number of hours people work *de facto* reduce their hourly pay. A more complex working time problem is the use of ‘annual hours’ agreements (“time for time”) whereby workers are given time off when work is slow but are expected to work extra hours (without extra pay) when there is much work to do.

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6 See Barrientos et al 2006; see also Chapter three which discusses Philips’ auditing results.

7 There are generally low levels of organization in the US-based ICT plants. Electronic companies associate trade unions with a deep division between workers and management which can paralyze production, a potentially fatal development in an industry that derives its competitiveness from its ability to innovate and react quickly to competitive threats. Also, technical workers tend not to see themselves as workers in need of unionization: they receive relatively high salaries and superior working conditions compared to other industries. Companies will often set up worker committees to air grievances or consult with management. Structural characteristics of the industry also make it hard to organize. “Temporary workers are considered employees of the temp personnel agency, not the company they report to in the morning”(Leighton, 2002, p.108).
Subcontractors do not necessarily deny the accusations of workers working long hours but argue that, since these migrants live far away from home and have little else to do, they actually ask to work long hours, or at least do not object, so as to maximize their income. Subcontracting firms also note that not paying the official overtime rate must be seen in connection with OEMs insisting on speedy delivery but rarely being prepared to pay more for rush jobs.

4. **Safety and health issues.** Most people assume that electronics factories are at least clean, because of the precision required in manufacturing computers. However, a clean factory is not necessarily a safe factory, and many electronics workers operate in a dangerous or unhealthy environment, exposed to dangerous chemicals without adequate protection or appropriate training. Accidents and illnesses are often the avoidable result of inadequate training. Workers complain about insufficient ventilation, inadequate protection gear and the lack of relevant information on the dangers of the chemicals they work with. It is hard to properly assess the magnitude of this problem as it takes time for the harmful effects of the chemicals to be noticed (and few workers are employed for a very long time). They can fall ill years after having been exposed to toxic materials thus making proof of cause and effect difficult, if not impossible, to establish.

5. **Sexual harassment against women.** Supervisors were found to make leave of absence and holidays conditional on dates or sexual favors from their lower level subordinates. “Too often women electronics workers do not feel safe in the work place” (CEREAL, 2006).

6. **Payment issues** (see also working time). Subcontractors are accused of keeping wages in arrears in an attempt to halt high staff turnover. When the labour market is tight temporarily, or permanently (as is currently the case in China’s coastal zones), late payment of wages is being used as a means to retain workers. Workers who leave a factory without management permission risk losing wages due to them, as well as the security deposit that most migrants are required to pay. Workers also complain that companies make excessive wage deductions for a day’s absence. Companies counter that employees misunderstand the reward programmes; deductions are not taken from wages, but from the punctuality bonus given to workers who have not missed work or have not been late in a month.

7. **Non-existence of a written labour contract.** Many reports note the absence of written contracts. The absence of a written contract, clearly specifying workers’ employment conditions, including terms of payment, overtime rates and, where applicable, deductions for employer-provided housing, food, and disciplinary fines, makes it hard for workers to know what their entitlements are. A contract is essential because not having one leaves them in a weak position in case of conflicts over e.g. the number of hours worked and the overtime rate which should apply.

8. **Physical and psychological pressure.** It is reported that certain factories have harsh penalty systems and exert strong psychological pressure over workers. The need to deliver quality products on time often means that workers are under great pressure not to make mistakes and to achieve production quotas, which are set by the day or by the hour. Refusing to work overtime may lead to financial penalties.

9. **The use of (serial) temporary contracts.** Production volumes in the industry vary considerably over time and all companies use temporary workers as a way of coping with these fluctuations. However, this cannot explain why some factories actually employ more temporary than regular workers. CEREAL found one contract manufacturer in Mexico that used 80% temporary labour and only 20% regular workers. Serial temporary contracts are
common: they allow firms to dismiss workers at the end of their contract without giving a reason, and without having to pay severance payments; but keep workers in a state of near permanent uncertainty (CEREAL, 2006, pp.18-19). Temporary workers may also lose out on sick pay or social security payments and paid annual leave or paid leave on public holidays. Workers employed by temporary placement agencies may find it difficult to know whom to turn to for which work-related issue as the roles and responsibilities between brand companies, major suppliers and employment agencies become blurred (ibid, p.21).

The issues identified above are often interrelated. Long working hours cannot be viewed in isolation from the wages being paid—working longer hours brings in more money to workers, when the extra hours are properly recorded; conversely, low pay pushes workers to accept more overtime. Long hours of work tire workers; they become less vigilant and run a greater risk of becoming involved in job-related accidents.

The widespread use of temporary placement agencies in the industry must be seen in conjunction with issues related to pay. The agencies charge a fee, which lowers workers’ take home pay. And workers put on a succession of temporary contracts usually are not entitled to secondary benefits, including severance pay, which continuously employed workers enjoy.

Some structural factors affect the whole range of issues. The industry employs mostly young women, making sexual harassment more of an issue. In China, the large majority of the young women are internal migrants from the countryside, who are housed either on factory grounds or nearby at company-supplied premises. When workers live on the factory premises or nearby, they are more easily coaxed into working extra hours for a rush order. Labour legislation is not necessarily a problem; major producing countries have fairly sophisticated labour laws and regulations. But workers’ knowledge of these laws, and the authorities’ willingness to enforce them may be a bigger problem. Similarly, workers may have the right to organize in trade unions, but few may actually do so for various reasons: the employer may be openly anti-union; workers who are migrants are less inclined to organize; workers on short-term contracts are more fearful of exercising their right to organize; and workers who are employed by temporary placement agencies may be uncertain about their rights vis-à-vis the third party supplier where they work.

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8 CEREAL found that Mexican electronics workers signed on average between 10 and 20 such contracts during their working life in a factory, which is 18 months on average.
Chapter Three: Brand initiatives—Hewlett Packard, Philips Electronics and Sony Ericsson

This chapter discusses the approach of Hewlett Packard, Philips and Sony Ericsson to CSR and their relations with suppliers. The three companies discussed in this chapter have been selected because they have generally shown a high level of awareness of sustainability and corporate social responsibility issues and are keen to improve their performance in this field. Having said that, the companies also seem more at ease dealing with environmental issues than with social concerns of their subcontractors. Hewlett Packard has been a pioneer in worldwide product recycling. Philips places much emphasis on innovation for delivering health care and energy efficiency. The greater attention to environmental issues and subcontracting cannot be seen in isolation from legal initiatives such as the EU’s Waste Electrical and Electronic Equipment (WEEE) Directive, or rules on the Restrictions on the use of certain Hazardous Substances in electrical and electronics equipment (RoHS) that have been adopted or are about to be adopted in inter alia the EU, China and California. Complying with these initiatives calls for close contact with suppliers and has been one reason why the number of suppliers is going down.

Approaches to outsourcing vary between the three brands. HP employs some 150,000 people and outsources up to 90% of its manufacturing. Philips has a rapidly shrinking workforce: between 2000 and 2006 the number of employees halved from 220,000 to 121,700. Outsourcing is important for Philips’ high-volume consumer electronics (where over 70% is outsourced) but much less so for its low-volume medical equipment (around 15%). Sony Ericsson is a much smaller operation. It employs no more than 7,500 people and is becoming less dependent on subcontracting. In-house manufacturing stood at 30% in 2006 and has gone up the last couple of years.

Involving suppliers and subcontractors in social responsibility—which is the subject of this paper—is a more recent phenomenon. It has come to the forefront partly because, in general, OEM reliance on overseas sourcing keeps going up and partly because activists have placed it higher on their agenda. The Philips 2006 Sustainability Report dedicates twice as much space to supplier relations as the 2005 Report. HP has been publishing Global Citizenship Reports since 2001-02 with the supplier section becoming more comprehensive and more transparent every year.

Both Philips and HP have thousands of suppliers (Sony Ericsson is a much smaller operation). Both are trying to reduce this number to more easily manageable proportions. Philips reduced the number of its suppliers from 50,000 in 2003 to 25,000 in 2005. HP has significantly reduced the number of suppliers it contracts with for product materials, components, and manufacturing and distribution services. The number of “key suppliers” dropped from 700 to 500 between 2004 and 2005.

The cases in this chapter show that the supplier concept can be more complex and less straightforward than would appear at first sight. HP notes that many of its suppliers are large multinationals with extensive supply chains of their own. Philips notes that while it may be using many suppliers, it is also a supplier and subcontractor in its own right. Sony Ericsson subcontracts some manufacturing work to Sony, one of its parent companies. On the whole, the companies focus on their first-tier, or the more broadly defined concept of “key” suppliers on whom they in turn rely for code compliance, through contractual monitoring, of second- and third-tier suppliers.

Other reasons include simplification of planning and IT interactions, establishing strategic relationships with suppliers, and consolidation in some portions of the supplier base.
The brands claim to “involve” or “engage with” stakeholders but it is often unclear whether these are ad-hoc or regular contacts, and what influence these stakeholders have. Supplier codes are usually derived from brands’ own in-house codes, which may explain why stakeholder inputs appear to be limited. Philips submitted its General Business Principles for comments to Amnesty International and the “European Institute for Business Ethics” and notes that their “reactions were positive”. Philips sees the publication of its Sustainability Report as a tool for maintaining dialogue with a variety of interested parties, including customers and non-governmental organizations, but it is unclear on the social side how this dialogue is being conducted, how often, where and on which occasions it takes place.

Sony Ericsson asks its suppliers to “endeavour to conduct their business giving due consideration to the interests of its stakeholders, including its employees, customers, suppliers, business partners, shareholders and local communities”. But SE’s code does not specify how this is to be done or how compliance will be measured.

Monitoring is also done mainly, if not exclusively, by company staff. Intellectual Property Rights (IPR) concerns are a factor. HP explains that it uses its own auditors because, as representatives of a major buyer, they have easy access to people in key management positions at their suppliers, and because they provide direct feedback on social and environmental performance to HP sourcing decision makers. Nonetheless, HP hires external auditors to cross check its own internal audit resources, documents and processes. HP reacted remarkably quickly, and insisted on improvements, when the Mexican catholic NGO CEREAL decided to undertake its own monitoring of working conditions at some of the industry’s main suppliers in Mexico (see Chapter Three).

All three brands see implementation of CSR policy in supply chains as an educational exercise: suppliers should be made aware of what they (the OEMs) consider important or unacceptable and be helped to reach the required levels of compliance.

The case studies are organized as follows: after briefly introducing each company and its views of CSR, the chapter looks at the relations with their suppliers and what they do to ensure compliance with the provisions in their codes.

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10 HP notes that it meets every year formally with a group of NGOs to discuss progress, challenges and opportunities once it has released its Global Citizen Report.
Case 1: Hewlett Packard (HP)

“Being a successful global business also means being a responsible global citizen—one that recognizes the responsibility we have to our customers, shareholders, partners, suppliers and employees” (Mark Hurd, CEO of Hewlett Packard).

Hewlett Packard, or HP as the company is commonly known, is the world’s best selling brand in personal computers and printers. It was founded in 1939 by two Stanford University graduates Dave Packard and Bill Hewlett, who remained active in the company for a long time, installing a strong corporate culture known as "The HP Way": people-oriented, egalitarian, informal. The Hewlett family is still influential in decisions regarding top management. Despite having outsourced or sold most of its manufacturing activities, the company still employs 150,000 people.

HP wants to play a lead role in CSR in ICT manufacturing, both at company and at industry level. HP started its print cartridge return and recycling program in 1991 and its first Social and Environmental Responsibility (SER) report was published in 2002. Concerning social issues, HP SER reports provide time series on workdays lost due to work-related injuries for employees as well as figures for work-related accidents for employees that do not require time away from work.

HP is a member of the Business Leaders Initiative on Human Rights (BLIHR), Business for Social Responsibility (BSR), CSR Europe, SustainAbility Engaging Stakeholders, UN Global Compact, the UN Information and Communication Technologies (UN ICT) Taskforce, and the World Business Council for Sustainable Development, among others.

Concerning relations with suppliers, HP states:

“A significant amount of our extended environmental and social impacts occur within the supply chain—outside of HP’s walls and direct control. We can use our influence as a customer to extend HP’s global citizenship standards, on the environment, human rights and labour conditions, throughout the supply chain (...) Extending our standards to our supply chain is a high priority for HP but a complex task”.

Rather than reinvent the wheel, and before it developed its own Supplier Code of Conduct, HP undertook to benchmark a number of existing codes in e.g. the footwear, apparel and other industries. The core aim of its Social and Environmental Responsibility (SER) program (which is based on its internal Human Rights and Labour Policy) is to achieve long-term sustainable change by encouraging suppliers to create their own management systems. It asks suppliers along with independent third party verification for documentary evidence on accurate pay slips showing wage and pay calculations, rules and regulations, ethics guidelines, procedures establishing “open communication between workers and management”, as well as processes for monitoring and controlling overtime “out of line with accepted standards”. It also asks suppliers to track injury and illness rates and to provide detailed corrective action plans to address non-conformances and shortfalls in their overall management systems.


12 HP 2003 GCR p.36
The supply chain SER program is integrated into HP’s main business processes and has the support of senior management. HP adopted a detailed supply chain code of conduct in 2003. HP describes its supply chain SER program as follows:

Phase 1. Introduction: a preliminary risk assessment of the supply base sets priorities. Suppliers identified as a potential SER risk are formally introduced to the program (by the end of 2006 this had occurred with 557 suppliers).

Phase 2. Assessment: The supplier completes a self-assessment. HP provides feedback and determines whether the supplier is a priority for an on-site audit (by the end of 2006, 445 suppliers (638 sites) had completed such a self-assessment).

Phase 3. HP conducts on site audits. The supplier submits an improvement plan and a schedule for completion (by the end of 2006, HP had audited 115 suppliers and 254 sites).

Phase 4. HP helps suppliers acquire the necessary skills, tools and expertise to continually improve (by the end of 2006, HP had held supplier forums in Mexico, China, India and Singapore). In addition, HP has committed significant resources to train up to 200 managers from more than 30 key suppliers in China for a year. The courses include worker communications and empowerment, productivity and overtime, wages and benefits, laws and regulations, health and safety, environmental protection, root cause analysis and management system evaluation. HP collects metrics from the factories on, inter alia, productivity, quality, worker turnover, accident and illness rates, and rework. The goal is to help suppliers understand the connection between improved respect for workers’ rights and business efficiency. A similar programme is ongoing in Central Europe in collaboration with the Copenhagen Center for Corporate Responsibility.

HP’s strategy is to focus its efforts where they yield the greatest return. Therefore it focuses on those suppliers that account for most procurement expenditures. HP operates a large and complex supply chain, having outsourced most manufacturing. In 2006, it purchased approximately USD 50 billion of product materials, components and other services from about 600 suppliers globally. Although large, HP’s supply base is heavily concentrated; about 75% comes from the Asia Pacific region.

Along with independent third party auditors, HP procurement and auditing professionals conduct supplier SER audits and site visits. HP has locally based auditing teams in the main countries where it sources its products. The members of these teams speak the local language so that they can interview local workers and are sensitive to cultural differences.

The auditing teams focus on management systems. Rather than just rely on the certification of external standards such as ISO 14000 or SA8000, HP considers that traditional checklist-based compliance often does not tackle the root cause of the problem. HP places a strong emphasis on the training of its own buyers because (1) they make the cost, delivery and business decisions and they have easy access to people in key management positions at supplier companies and factories, and (2) they help internalize SER information and connect it with sourcing decisions.

HP has also hired outside auditors to extend and cross check its own internal audit resources, documents and processes. These external auditors re-audit sites that HP’s internal team has audited to provide a review of HP’s SER process overall. HP says that it “seeks to be transparent in its dealings with this complex and challenging area and invites all stakeholders to come up with solutions”.

Although aware of the trend in the apparel sector to publish names and addresses of suppliers, HP has, for the time being, elected not to follow this practice. HP’s 2007 SER identifies some key suppliers involved in the training programmes and some specific case studies. In addition, HP is cited with many key suppliers in trade journals and other periodicals. In making this decision to not share the list in its entirety, it has balanced its commitment to transparency with protecting HP’s commercial interests. In the electronics sector, suppliers are of strategic importance and a closely guarded source of competitive advantage. Says HP, “This differs from the apparel sector where supplier relationships are frequently transient in nature.” In addition, HP signs contracts with suppliers agreeing not to divulge sensitive information. In some cases, with the mutual agreement of HP and the supplier, audit results and improvement plans will be shared: “HP seeks to improve transparency in the overall industry on these issues and welcomes other industry partners to do the same.”

When the audits reveal that suppliers are not in conformity with code provisions, HP works with them to establish and implement a corrective action plan. Once suppliers implement improvement plans, it verifies that the non-conformance and its cause have been addressed. HP believes that it has the greatest impact on conditions in its supply chain by remaining engaged with suppliers and providing support and tools to raise their capabilities to improve their performance. However, if this approach is rejected by a supplier, HP says it will not tolerate serious or repeated violations of its code and will terminate the relationship.

Case 2: Philips Electronics

“We are a company committed to enhancing economic prosperity, environmental quality and social equity wherever we operate.”

Royal Philips Electronics (“Philips”) was founded in 1891 by the Philips brothers Gerard and Anton in the town of Eindhoven, the Netherlands. The founding family’s beliefs have been a major factor in shaping the company’s attitude towards its staff and the communities where it operates. It was for a long time rare for an employee to leave Philips on his or her own initiative before retirement.

Best known for its light bulbs, in typical conglomerate style Philips came to produce a wide range of products. Despite low operating margins in its main product lines, Philips has been remarkably profitable thanks to some of the astute investments it made earlier. These are gradually being sold off. In the 1960s, Philips was the first European company to develop manufacturing operations in Taiwan, China. Currently, Philips, Europe’s largest electronics company, is headquartered in Amsterdam. Its main activities are in medical systems, domestic appliances and personal care, consumer electronics, and lighting.

Employment at Philips peaked in 1974 at 411,000. Management’s goal of better focusing the company’s activities accelerated in the 1990s. Through spin-offs, divestures and outsourcing, the number of people employed declined. It reached 220,000 in 2000 and 121,700 in 2006. Manufacturing jobs have been particularly hard hit and given the company’s intention to continue to de-emphasize manufacturing, a further decline in jobs cannot be excluded.


14 Second generation Frits Philips, who was CEO from 1961 to 1971, died only in 2005.
Business decisions at Philips are governed by its General Business Principles (GBPs), which set out general ethical standards, the practical implications of which are detailed in the General Business Principles Guidelines and Directives. The GBPs apply to corporate actions as well as to the behaviour of individual Philips employees when on company business. Responsibility for compliance with the GBPs rests first of all with the management. Every country of operation or major production site has a Compliance Officer. At headquarters, compliance with the GBPs is coordinated by the Chief Legal Officer.

Under influence from the media, Philips decided in the late 1990s to make its GBPs known to the public at large. An updated version of its GBPs was published in 2003. This new version was submitted to Amnesty International and the European Institute for Business Ethics (EIBE) for their expert comments; Philips states that “reactions were positive.”

The GBPs include “[t]he topics addressed in the Fundamental International Labour Organization (ILO) Conventions” and cover, inter alia, working hours, HIV/AIDS, remuneration, collective bargaining, non-discrimination, child and forced labour, training and education. The GBPs have been translated into all the languages of the countries where the company operates and copies have been distributed to all employees. In all but four countries the GBPs are now considered part of the employment contract for all employees, making dismissal a possible sanction in the event of a serious violation. To encourage reporting of GBP violations, a guaranteed-anonymity hotline (operated by a third-party) has been introduced in the Americas region and in selected European countries. Philips reports by geographical region on two components of the GBP: lost working time and lost workday injuries.

Philips has been a member of the World Business Council for Sustainable Development (WBCSD) since 1993. Its stocks are included in the Dow Jones Sustainability and the FTSE4Good Indices. In 2002, Philips published its first Sustainability Report “as a valuable tool for maintaining dialogue with a variety of interested parties, including shareholders, customers, business partners, governmental and non-governmental organizations and (...) Philips employees” (PSR, 2005, p.4). In compiling the report, Philips followed “relevant best practice standards and international guidelines”, including the Global Reporting Initiative’s (GRI) 2002 Sustainability Reporting Guidelines. Philips has also taken “valuable comments from inside and outside the company” into account (ibid).

The Philips Supplier Declaration on Sustainability outlines the company’s minimum expectations of behaviour in the areas of working conditions and the environment. (And thus makes explicit what Philips understands by sustainability). The Declaration is an integral part of the “One Philips General Purchasing Agreement (GPA)”. In 2006 the company created the position of Senior Vice President for Supplier Development and Sustainability.

“We believe in asking our suppliers to share our commitment to sustainability. This includes sound environmental and ethical standards as well as providing working conditions for their employees that reflect the Philips General Business Principles” (2006 PSR, p.63).

Philips’ Supplier Declaration on Sustainability requires that its suppliers:

- recognize and respect the freedom of its employees to choose whether or not to establish or to associate with any organization of their own choosing (“including labour unions”) without supplier’s prior authorization. The employment of a worker shall not be contingent upon the condition that he/
she not join a union or be forced to relinquish trade union membership. Furthermore, union membership shall not be the cause for dismissal of, or otherwise prejudice against, a worker. “Supplier will not interfere or finance labour organizations or take other actions with the intent of placing such organizations under the control of the Supplier.”

- respect, within the framework of law, regulations and prevailing labour relations and employment practices, the right of its employees to be represented by labour unions and other employee organizations. Supplier will engage in negotiations, either on its own behalf or through employers’ associations, with a view toward reaching agreement on employment conditions;

- do not make use of forced or bonded labour;

- do not employ children “in violation of convention 138 and 182 of the International Labour Organization”;

- treat its employees equally in employment and occupation; ensure that each have equal opportunities; and offer equal pay for equal work;

- do not tolerate any form of harassment;

- do “all that is reasonable and practicable” to protect the health and safety “of employees and contract labour” (emphasis added); minimize occupational exposure to potentially hazardous materials and unsafe work conditions “by maintaining appropriate safety systems and effective controls”; “Implement an emergency response program” that addresses the most likely anticipated emergencies; “Train managers and employees to assure their continued commitment” to their own health and safety and that of their co-workers; “Involve employees at all levels” in the health and safety program; and “assure their accountability” for injury and illness prevention.

Monitoring is done by Philips managers, over 500 of whom have received special training for conducting supplier audits. Audits are typically conducted by multidisciplinary teams and include worker interviews at the production facility, payroll reviews, confirmation of health and safety measures, compliance with national laws and checks for banned substances. As it is difficult to audit all suppliers, several indicators are used to identify the suppliers to be audited. These indicators include the country location of the production facility, turnover amount, business risk, the supplier’s classification and self-assessment results. Philips asked some 1,000 suppliers to fill out its Supplier self-assessment tool. This tool is meant to give suppliers some insight into their social performance. Philips uses it to support its audit activities. All potential suppliers that are identified as risk suppliers automatically undergo audits as part of the supplier selection and approval process.

In 2006, Philips increased its audit capabilities so as to achieve its transparency target. It now uses SGS group as an external auditor. This will also enable it to benchmark results between internal and external audit reports. All auditors use the Philips audit tool, which has been aligned with the EICC where possible (See Chapter Four).

During 2006, 365 sustainability audits were completed. These found inter alia that non-compliance with working hours is most common in China and Thailand. This is frequently related to overtime not conforming to legal limits or where employees routinely work seven-day workweeks. “One of the hurdles to ensuring that acceptable working hours
are upheld is that exceptions are sometimes given by local authorities to suppliers” (2006 PSR p.65).

Related to this, wages and benefits non-compliances showed cases where salaries and overtime premiums were not paid in line with legal requirements. In some instances workers were not aware of the wage system used to determine their pay calculations or the salary they were entitled to. “This can perpetuate a cycle of long working hours as employees…seek to supplement their incomes in a limited time” (ibid). One instance of child labour was found but no instances of suppliers blocking worker initiatives for freedom of association or instances of dismissal of union/employee representatives.

Philips reduced the number of its suppliers from 50,000 in 2003 to 25,000 in 2005. It wants to reduce this number further. Currently, 80% of expenditure on its Bill of Materials is sourced from 250 suppliers; 80% of non-product related expenditure is sourced from 1,450 suppliers. Raising awareness at suppliers has a high priority. It organises training sessions, supplier day events and specific briefings.

Philips takes non-compliance very seriously. If a supplier does not make progress in implementing corrective actions or continues to use unacceptable practices it will end the relationship as a measure of last resort. Since 2005 it has discontinued working with one supplier specifically for sustainability reasons.

Case 3: Sony Ericsson (SE)

“Sony Ericsson believes in respect for human rights and in the ethical treatment of all employees. It is Sony Ericsson’s policy to behave in a socially and ethnically exemplary way and to operate business in compliance with all applicable laws and regulations.”

Sony Ericsson (SE) is both smaller and newer than HP or Philips. The company directly employs 7,500 employees and is growing. Around one-third of staff is active in R&D. SE concentrates on manufacturing and selling mobile phones. Given the company’s comparatively modest size and the limited range of products that it sells, its supply chain is less complex than that of the other two. It should have a clearer view of conditions of work at its suppliers and subcontractors.

Ericsson, one of the oldest and best known of Swedish companies, was in deep financial trouble at the turn of the 20th century. Ericsson’s mobile phone unit was combined with Sony’s in 2001, forming Sony Ericsson as a 50-50 joint venture. In 2002 and 2003, the company lost a lot of money and considerable market share; the integration of the two company cultures in a highly competitive market environment proved more complex and time consuming than anticipated. But by 2004 sales, profits and market shares recovered.

Around 30% of the mobile phones sold by the company are manufactured by plants owned by SE, mainly in China. This percentage has gone up in recent years. The rest is outsourced, some of it to parent company Sony and the rest to contract manufacturers. Manufacturing takes place in Brazil, China, France, Japan, Mexico and Malaysia. Product development is done in Sweden, the US, China and Japan.

Ericsson’s mobile phone unit, SE’s predecessor, drew up a Code of Conduct in 1998 when the company started producing in Asia. It did not want to start production there without a code, given the discussions surrounding working conditions that other Swedish companies, such as H&M, had encountered with e.g. child labour. The original code was based on the IKEA and H&M codes.
SE’s Supplier Social Responsibility Code sets out the expectation that its suppliers will “comply with all applicable laws, regulations and directives of the countries and regions in which it operates including but not limited to local, national, regional, and international laws, regulations and directives”. Specifically, it includes the following provisions:

- “As far as any relevant laws allow, all workers shall be free to join or not join trade unions and similar external representative organizations for the promotion and defence of their occupational interests”;
- no forced labour (“Employees should be free to leave their employment after reasonable notice”);
- no child labour (reference is made to ILO Convention no. 138 and article one of the UN Convention on the Right of the Child);
- no discrimination (“there shall be equality in the workplace”);
- no physical abuse, threat or other forms of intimidation;
- wages and working hours “shall be fair and compliant with the legislated minimum level requirements”. All employees should be “entitled to a written employment contract”. “Workers shall not be forced to make payments to their employers to enable them to gain employment”;
- noise level and temperature “should be tolerable”, lighting “sufficient” and workplace ventilation “adequate’. Evacuation plans and information concerning chemical hazards must be available to all employees “in their language”. Employees should receive appropriate health and safety training. “Drugs and alcohol abuse, knives, firearms and weapons of any sort shall not be allowed in the workplace”; 
- where employee housing facilities are provided “each employee must be provided with one individual bed” and there “shall be no restriction on an employee’s rights to leave the dormitory during non-working hours”.

Every SE supplier is expected to conduct its business “giving due consideration to the interests of its stakeholders, including its employees, customers, suppliers, business partners, shareholders and local communities”.

Sony Ericsson seeks to promote understanding of the need for proper working conditions and rights for all workers involved in making its products, be they at first, second or third tier suppliers to the company. The supplier code applies to “all suppliers with whom [SE] (…) has direct contracts” but each first-tier supplier is then “responsible for ensuring that its contractors, suppliers and consultants comply with this code, as well as ensuring their performance against it”.

Monitoring is done by an internal team of 70 people who audit suppliers for quality, social and environmental issues. The company takes an educational approach. “Suppliers are expected to provide a corrective action plan with dates of closure for any issues identified during an environmental and business ethics audit that did not meet the requirements of this code”. Workers in supply chains are also urged to immediately report on a confidential basis “any serious breaches of the code, together with an agreed schedule for corrective action”. Where serious breaches of the Code persist or recur, SE “will consider actions or termination” of the supplier’s business relationship with SE. The
monitoring gives special attention to making sure that the suppliers understand the need for CSR at their facilities as well as at those of their suppliers.

**Participation of HP, Philips and Sony Ericsson in industry initiatives**

HP, Philips and Sony Ericsson (through its parent companies) all support efforts to join forces with other brands. Many electronics industry companies share suppliers, and so an industry-wide supplier code makes sense as it allows companies to work more effectively with suppliers to ensure compliance. Furthermore, experience from other sectors demonstrates that multiple codes, surveys and audits increase costs and result in fatigue and fraud in a common supply base, thus providing a clear case for an industry wide initiative. Likewise, in ITC manufacturing many issues are best addressed at the industry level, to foster greater change for all workers in the sector and avoid disadvantaging any particular supplier or brand.

However, industry-level initiatives have often failed in other sectors because participants could not agree on certain, often minor, aspects. Disagreement on a small number of issues was found to outweigh agreement on the vast majority of issues. The price for reaching industry-wide agreement is that an industry-wide code is less tightly formulated than some brand codes of conduct.

HP was a major force behind the creation of the Electronic Industry Code of Conduct (EICC) of which it is currently vice chair. HP’s aim is for all the companies that have adopted the EICC to use the common tools, assess and audit their supply bases and work actively on corrective action and training. It feels that companies must educate suppliers in emerging economies where laws may exist but are inadequate and infrequently enforced. “HP hopes that ongoing dialogue with government and civil society will help to achieve a system that respects worker’s rights and creates healthy and safe workplaces everywhere”.

In July 2006 Philips endorsed the EICC and joined its Implementation Steering Committee. It believes that collaborating with its industry peers will create better impetus for social and environmental change within its supply chain. It has updated its Supplier Sustainability Declaration to align it with the EICC standards. However, it has included an appendix with further requirements regarding freedom of association/collective bargaining as this requirement is weaker in the EICC standard than in Philips’ original Supplier Sustainability Declaration.

SE is not a member of any industry initiative, since its parent Sony participates in the EICC and the other parent, Ericsson, participates in the Global e-Sustainability Initiative GeSI.

GeSI and EICC are discussed further in the following chapter.
Chapter Four: Industry initiatives—GeSI and EICC

There are two industry initiatives in ICT manufacturing: the Global e-Sustainability Initiative (GeSI) and the Electronics Industry Code of Conduct (EICC). More recently, these two industry initiatives have formed an alliance. This chapter will briefly discuss GeSI, EICC and their alliance.

The GeSI supply chain working group

The Global e-Sustainability Initiative (GeSI) was established in 2001 by a number of major ICT companies (mainly European telephone companies) with the support of the UN Environment Programme (UNEP) and the International Telecommunications Union (ITU). Some US-based companies (HP, Microsoft, Cisco) joined later. GeSI set up a number of working groups on different subjects of common concern. One of these was the Supply Chain working group.

This working group explores ways in which ICT companies can work more closely together to more effectively “manage social and environmental risks” in their supply chains. It wants to align the various codes, policies, tools and processes used by member companies to “manage their supply chain issues”. In 2004 the group commissioned a study into best practice in supply chain management among GeSI members with the aim of developing a common supplier CSR Self Assessment Questionnaire, and avoid the duplication of near-identical questionnaires on the same subject. The purpose of the questionnaire is to raise suppliers’ awareness of CSR issues and help them assess to what extent they are meeting key standards. It should also assist GeSI members in determining whether action or investigation is needed.

The questionnaire (dated 12/06) is divided into a company level and facility level questionnaire, each with two subheadings: (1) labour management and ethical conduct; and (2) health, safety and environmental management. The questionnaire is based on existing questionnaires used by GeSI members, but also on other relevant standards and codes such as the Electronics Industry Code of Conduct (EICC- see annex), the Ethical Trading Initiative (ETI), and the SA8000 standard of Social Accountability International (SAI), among others.

The nature of the questions reflects the purpose of the questionnaire: its goal being to educate and raise awareness among respondents about what are seen as particularly relevant social and environmental responsibility issues; to induce respondents to install or refine their management systems; and to ensure that they pass on their awareness to those lower down in the supply chain. Some of the typical questions asked include: are regular audits being conducted; do you have a process to implement timely corrective actions? do you provide all employees with written employment contracts? do you have a programme to phase out restricted materials? do you adhere to a written labour and/or ethics policy? In April 2005 the Working Group presented the draft questionnaire at a stakeholder forum at which a select group of NGOs was invited to comment. Trade unions were not invited to the stakeholder forum.

15 The questionnaire can be viewed at www.eicc.info/EICC_ACTIVITIES.html
The Electronics Industry Code of Conduct (EICC)

“As a participant of EICC, Foxconn is proud to team with electronics leaders to promote and assure SER [Social and Environmental Responsibility] as a priority in a total supply chain initiative. In the past two years, Foxconn has not only improved her systems to manage this very important aspect of operations, but also, leveraging her position as the world’s leader in the manufacturing services industry, actively collaborating with all strategic partners to encourage even her own supply chain to acknowledge and to implement the Code. Under her strategic partners’ encouragement, guidance and tutelage, Foxconn seeks to raise the bar on the SER front and pushes for adoption of EICC Code of Conduct worldwide; in so doing, Foxconn has gone beyond mere compliance (...). With her commitment to high standards, Foxconn has been recognized by the Shenzen government as a role model.”

The EICC group was founded in June 2004 by five contract manufacturers together with Dell, HP and IBM; and many other OEMs and CMs have subsequently joined. The aim of EICC is to build common implementation processes aligned with a single industry code to minimize the redundant and inefficient costs on the common supply base. It paves the way for a harmonized approach to measure and monitor supplier performance in five areas: labor, health and safety, environment, management systems, and ethics. It assumes that participating companies fully comply with the laws, rules and regulations of the countries where they operate, and encourages participants to go beyond legal compliance.

The EICC was a response to the plethora of codes of conduct in the electronics sector which sometimes are in conflict with each other. Many companies use the same suppliers. Multiple codes risk confusion and create redundant self-assessment questionnaires and audits. All of these consume resources that could be better used towards performance improvement.

The EICC is reproduced as an annex to this paper. In the sections on Labour and on Safety and Health, which are the most relevant for this paper, the Code requires the following:

- On Freedom of association “participants are to respect the rights of workers to associate freely, join or not join labor unions, seek representation, join workers’ councils in accordance with local laws”.

- Prohibits medical tests that could be used in a discriminatory way against workers or potential workers.

- Prohibits the use of forced labor.


17 The current membership of the EICC may be found at www.eicc.info/EICC_SPONSOR.html

18 The Declaration of Fundamental Principles and Rights at Work, 1998, recognizes that all members of the ILO tripartite structure have an obligation to “respect, promote and help realize” the principles set out in eight fundamental conventions (see Article 2). The Conventions concerning non-discrimination are the Discrimination (Employment and Occupation) Convention, 1958, and the Equal Remuneration Convention, 1951 (No. 100). Article 1 of Convention No. 111 defines the bases of discrimination as: “(a) any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin; (b) such other distinction, exclusion or preference which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation as may be determined by the [country] concerned after consultation with representative employers’ and workers’ organizations. Any distinction, exclusion or preference in respect of a particular job based on the inherent requirements thereof shall not be deemed to be discrimination.”
• Prohibits the use of child labor.

• Prohibits harsh and inhumane treatment, sexual harassment, and mental or physical coercion.

• Limits the workweek to no more than 60 hours long, including overtime “except in emergency or unusual situations”.

• Prohibits deductions from wages as a disciplinary measure and demands that the basis on which workers are being paid is to be provided in a timely manner via pay stub or similar documentation.

• Requires that workers’ exposure to potential safety hazards are to be controlled and where this cannot be adequately done, they should be provided with appropriate personal protective equipment. Emergency situations and events are to be identified and assessed, and their impact minimized by implementing emergency plans and response procedures. Procedures and systems are to be in place to manage, track and report occupational injury and illness. Workers’ exposure to chemical, biological and physical agents is to be identified, evaluated and controlled. When this cannot be done through engineering and administrative means, workers should be provided with appropriate personal protective equipment.

A comparison between the EICC and the codes of the companies covered in the preceding chapter make clear what a different animal the EICC is. Company codes are on the whole short and concise. The EICC consists of five chapters and totals 38 paragraphs (see the annex). But whilst the EICC is more comprehensive on the whole, it is more restrictive on certain subjects, non-discrimination and freedom of association being the most important. Both HP and Philips have adopted language on freedom of association that is more detailed than that of the EICC. The text of the HP clause, which is closest to the provisions of the ILO fundamental principles and rights at work concerning freedom of association, reads as follows:

“Suppliers are to respect the rights of workers as established by local law to associate freely on a voluntary basis, seek representation, join or be represented by works councils, and join labour unions and bargain collectively as they choose. As provided by law, employees who become representatives shall not be the subject of discrimination and shall have access to management and co-workers in order to carry out their representative functions. Workers shall be able to communicate openly with management regarding working conditions without fear of reprisal, intimidation or harassment. (...) basic working rights to open communication, direct engagement and humane and equitable treatment must be respected even in countries where they are not given meaningful legal protection. Where worker representation and collective bargaining are restricted by law, suppliers are to facilitate open communication and direct engagement between workers and management as alternative ways of ensuring that worker rights, needs and views are considered and acted upon appropriately and in good faith”.

It is unclear how EICC efforts will deal with this disparity between its code and those of some key members.

19 The fundamental principles and rights at work concerning freedom of association are contained in the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87). This Convention provides in Article 1 that “Workers and employers, without distinction whatever, shall have the right to establish and, subject only to the rules of the organisation concerned, to join organisations of their own choosing without previous authorisation”.
Table 5: EICC and GeSI membership (March 2007)

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<tr>
<th>EICC</th>
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<td>Cisco Systems</td>
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<td>AMD</td>
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**EICC/GeSI Collaboration**

In 2005, the EICC Group created an alliance with the GeSI Supply Chain Working Group to collaborate on the developments of common applications and methods to implement supply chain standards. Although the two groups do not share a common supplier code of conduct, there is overlap in both membership and suppliers, and in the general areas of social and environmental expectations for suppliers across the member firms of both organizations.

Their common framework for implementation is called the Supplier Engagement Model. The key operating principles of this model are performance measurement, capacity building and continuous improvement. It is organized as follows:

- **In phase one**, member companies conduct an initial risk assessment of their supply chain to determine highest priority suppliers. Suppliers are identified

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20 Source: EICC and GeSI
as a potential risk based on several criteria including geography and the labor intensiveness of their operations.

- During phase two, suppliers are asked to complete a self-assessment questionnaire. Filling out this questionnaire is meant to educate the supplier about the provisions of the EICC. The suppliers may then be asked for an improvement plan based on the self-assessment response. The self-assessment phase further allows EICC and GeSI companies to prioritise suppliers for onsite audits.

- The validation of suppliers’ understanding of the code and implementation practices occurs in Phase three with onsite audits. The supplier will be asked to establish a corrective action plan and timeline for making the required improvements in their operations where appropriate. Currently, the group is identifying criteria for selecting qualified auditors and making the determination of when a supplier is considered to be in acceptable alignment with the EICC or GeSI related codes.

- Lastly, and as part of the continual improvement process, in Phase four, the EICC/GeSI group aims to develop capability building and awareness programs for suppliers. It has begun the process of preparing trainings for company purchasing managers, supplier managers and undergoing an extensive effort to build a capability building strategy in China with the Government, electronics associations, academics and NGOs.

Recognizing the importance of facilitating periodic and transparent two-way communication with stakeholders, the EICC group held meetings in 2005 and 2006 with CAFOD and CEREAL in Guadalajara (Mexico) to discuss the progress of the EICC group and to listen to the perspectives of CEREAL and CAFOD. Since the first meeting in September 2005, member companies have been working to investigate and resolve workers issues brought forward by CEREAL. Another stakeholder meeting with a larger number of interested parties was held in New York in November of 2006. The EICC and GeSI also held stakeholder sessions in the UK in 2005 and Berlin in 2006. Another one is planned in Geneva for 2007.

Box 2: The CEREAL report

Whilst no company likes to be singled out for criticism, a critical report by Mexican NGO Centro de Reflexión y Acción Laboral (or CEREAL) entitled New Technology Workers: Report on Working Conditions in the Mexican Electronics Industry was on the whole well received by the Electronics Industry Code of Conduct (EICC) members. This report on working conditions in the Mexican ICT industry highlighted incidences of poor working conditions at several ICT suppliers and subcontractors. It also included the response of the companies concerned to specific cases mentioned. CEREAL commented: ‘Although it could seem atypical for a report on labour rights violations to include a description of the advances made by the very companies that allowed the abuses, we believe that the most important part of the problems are the solutions. Therefore, we see the companies’ comments as no more than a public commitment to improve their corporate social responsibility practices. We hope, of course, that such pledges will be delivered and will continue to monitor the day-to-day working conditions for electronics workers in Mexico. This remains the real test of the companies’ practices’. (CEREAL, 2006, p.4)

GeSi and EICC have shown a willingness to dialogue with NGOs and invited them to stakeholder consultations. No trade unions were invited to participate. However the Global Union Federation for ICT manufacturing, the International Metalworkers’ Federation, has been invited to participate in an upcoming consultation with stakeholders in mid-April 2007.
Chapter Five: Advocacy alliance
“GoodElectronics”

While welcoming the industry’s initiative to develop a sector code and working group for implementation, pressure groups also identified weaknesses in the code and its implementation. An important issue is the lack of consultation with workers’ organizations and local stakeholders in code development, implementation and independent verification.

These pressure groups decided to strengthen their impact by working closer together through a “coordination point” based in Amsterdam, called GoodElectronics,\(^2^1\) together with a steering committee and a network of participants consisting of human and labour rights organizations, environmental organizations, trade unions, universities and individuals who are working to improve respect for human and labour rights and compliance with environmental standards. The alliance works to consolidate the network; exchange information; facilitate and initiate lobby, research and campaigning activities; and enhance the capacities of grassroots organizations.

The steering committee consist of the following members: CAFOD, CEREAL, ICCR (a US based association of protestant, roman catholic and jewish institutional investors), IMF, SACOM (“Students and Scholars against Corporate Misbehaviour”), SVTC (Silicon Valley Toxics Coalition), SOMO (“Centre for Research on Multinational Corporations”) and TIE (Transnational Information Exchange Network) ASIA.

At the time of writing, the NGO network has existed only a few months; but the members of the steering committee together have much experience. They have been working towards the same goals, even though their strategies may have been different. If the NGO-Trade Union coalition holds and manages to work together closely, the ICT industry will have some strong partners for dialogue, and it will become more difficult for the industry to be selective in whom it will conduct dialogue with.

In sum, the ICT industry has seen a lot of activity recently. A number of pressure groups have been writing critical reports on working conditions in the industry and have followed up by forming a coalition. On the business side, the two main industry groups have also joined hands to work towards better working conditions in the supply chain and, where necessary, to assist and educate suppliers. Once a degree of trust has been established, the two alliances could mutually reinforce each other’s actions, which should have a marked influence on working conditions in the industry.

\(^{21}\) www.goodelectronics.org
Conclusions

The labour intensive stages of ICT manufacturing have been progressively outsourced to “low cost geographies” where they have created hundreds of thousands of jobs, mainly for young women between 18 and 25 years of age. But reports indicate that these people work long hours with, depending on the country, greater or lesser employment stability and that there working conditions can be unsafe. Non-payment or late payment of wages is frequently a problem, as is the absence of extra pay for overtime. Trade unions are frequently not allowed to operate freely.

A broad range of activist groups has taken up the cause of these workers. The groups make workers aware of their rights, help them plead their cause in labour disputes, and place pressure on local governments and local employers to respect the law. Efforts are simultaneously made to organise the workers so that they can collectively bargain for an improvement of their situation.

The activist groups have also taken the ICT workers’ cause to the main markets for ICT products, in an attempt to raise awareness among consumers. They argue that the ICT brand-names have the power to ensure that workers are paid and treated decently.

ICT companies have their manufacturing done by subcontractors in “low cost geographies” because it offers clear benefits in terms of lower costs, reduced risks and higher flexibility. However, this model makes companies vulnerable to accusations that the outsourcing model is based on workers being forced to work under sub-standard conditions.

Many ICT companies have declared publicly that, individually or collectively, they accept responsibility for ensuring decent working conditions at their suppliers. The examples in chapters four and five illustrate how some of them go about doing this. But many questions remain. What exactly can and should companies accept responsibility for (and who should define this)? When brand-names have thousands of suppliers, how deep in the supply chain can this responsibility reasonably be expected to go? Who should do the monitoring of compliance? Who should verify the monitoring process?

Compared to other industries that make intensive use of overseas sourcing (apparel, footwear, sporting goods) ICT manufacturing was remarkably quick in acknowledging the potential downside of the overseas sourcing model. Some accepted responsibility as a matter of course. Others were spurred by critical NGO reports and the memory of major PR disasters in other industries.

The two recently established alliances are a positive development. The main industry groupings (EICC and GeSI) joined forces in 2005 to collaborate in the development of common applications and methods to implement supply chain standards. Influential pressure groups such as, CAFOD, CEREAL and ICCR, along with the International Metalworkers’ Federation, created the GoodElectronics alliance in 2006 to draw attention to social issues in ICT manufacturing supply chains. The industry, despite the resources that it is making available, cannot hope to deal with the many outstanding issues alone. NGOs, particularly those active in countries where national trade unions cannot operate freely, can play an important role in raising awareness of the importance of respecting workers’ rights.

Industry awareness and acceptance of at least partial responsibility for ensuring respect for workers’ rights is a step in the right direction for protecting workers. Yet two things must be kept in mind. First, industry initiatives to ensure fair working conditions in the supply chain are a second best solution. Governments of producing countries are, and
must always remain, responsible for ensuring that the labour law is being respected and that workers are able to freely organize and defend their rights.

Second, the short product life cycles which characterize the industry require highly flexible production. This need for flexibility puts much pressure on suppliers, which in turn put pressure on workers to work long and/or irregular hours, leading to fatigue and increased risk of work-related accidents. Solving this structural problem requires changes in the behaviour of all actors, not just the suppliers.

Lastly, the Asian region is becoming increasingly important for the ICT industry. Most of the jobs are there. Asia is a sizeable and fast-growing market. The largest contract manufacturers are based in Asia. The largest ODMs are all based in Taiwan, China. Three of the top OEMs in personal computers (Lenovo, China; Acer, Taiwan, China; and Toshiba, Japan) are located in Asia, as is half of the top five mobile phone brands (Samsung; LG; Sony Ericsson). Yet very few Asian brands are members of industry-wide initiatives such as EICC or GeSI. The shift in decision-making power, in market power and in employment to Asia would seem to make it logical for both alliances to recruit more members in that region and to give more attention to mobilizing awareness among consumers there.
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## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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</thead>
<tbody>
<tr>
<td>ACFTU</td>
<td>All China Federation of Trade Unions</td>
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<tr>
<td>CAFOD</td>
<td>Catholic Agency for Overseas Development</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CM</td>
<td>Contract Manufacturer (see also EMS provider)</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<tr>
<td>CEREAL</td>
<td>Centro de Reflexión y Acción Laboral</td>
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<tr>
<td>EMS</td>
<td>(provider of) Electronic Manufacturing Services (see also CM)</td>
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<td>HP</td>
<td>Hewlett Packard</td>
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<tr>
<td>EICC</td>
<td>Electronic Industry Code of Conduct</td>
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<tr>
<td>ETI</td>
<td>Ethical Trade Initiative</td>
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<tr>
<td>GeSI</td>
<td>Global e-Sustainability Initiative</td>
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<td>ICCR</td>
<td>Interfaith Center on Corporate Responsibility</td>
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<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Metalworkers’ Federation</td>
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<td>IPR</td>
<td>Intellectual property Rights</td>
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<td>ISO</td>
<td>International Standards Organization</td>
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<td>MSI</td>
<td>Multi-Stakeholder Initiatives</td>
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<tr>
<td>NGO</td>
<td>Non-Gouvernemental Organization</td>
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<tr>
<td>ODM</td>
<td>Original (or outsourced) Design Manufacturer</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OEM</td>
<td>Original Equipment Manufacturer (the “brandnames”)</td>
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<tr>
<td>SACOM</td>
<td>Students and Scholars against Corporate Misbehaviour</td>
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<td>SAI</td>
<td>Social Accountability International</td>
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<tr>
<td>SOMO</td>
<td>Stichting Onderzoek Multinationale Ondernemingen (Centre for Research on Multinational Corporations)</td>
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<tr>
<td>SVTC</td>
<td>Silicon Valley Toxics Coalition</td>
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<td>TIE</td>
<td>Transnational Information Exchange Network</td>
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ELECTRONIC INDUSTRY CODE OF CONDUCT

The Electronic Industry Code of Conduct outlines standards to ensure that working conditions in the electronics industry supply chain are safe, that workers are treated with respect and dignity, and that manufacturing processes are environmentally responsible.

Considered as part of the electronics industry for purposes of this Code are Original Equipment Manufacturers (OEMs), Electronic Manufacturing Services (EMS) firms and Original Design Manufacturers (ODMs) including contracted labor that may design, market, manufacture and/or provide goods and services that are used to produce electronic goods. The Code may be voluntarily adopted by any business in the electronics sector and subsequently applied by that business to its supply chain and subcontractors.

To adopt the Code and become a participant ("Participant"), a business shall declare its support for the Code and seek to conform to the Code and its standards in accordance with a management system as set forth in the Code.

For the Code to be successful, it is acknowledged that Participants should regard the code as a total supply chain initiative. At a minimum, participants shall require its next tier suppliers to acknowledge and implement the Code.

Fundamental to adopting the Code is the understanding that a business, in all of its activities, must operate in full compliance with the laws, rules and regulations of the 1 countries in which it operates. The Code encourages Participants to go beyond legal compliance, drawing upon internationally recognized standards, in order to advance social and environmental responsibility.

The Electronic Industry Code Participants are committed to obtaining regular input from stakeholders in the continued development and implementation of the Electronic Industry Code of Conduct (EICC).

The Code is made up of five sections. Sections A, B, and C outline standards for Labor, Health and Safety, and the Environment, respectively. Section D outlines the elements of an acceptable system to manage conformity to this Code. Section E adds standards relating to business ethics.

1 The Code is not intended to create new and additional third party rights, including for employees

10/14/2005
A. LABOR

Participants are committed to uphold the human rights of workers, and to treat them with dignity and respect as understood by the international community.

Recognized standards such as the Universal Declaration of Human Rights (UDHR), Social Accountability International (SAI) and the Ethical Trading Initiative (ETI) were used as references in preparing the Code and may be a useful source of additional information.

The labor standards are:

1) **Freely Chosen Employment**
   Forced, bonded or indentured labor or involuntary prison labor is not to be used. All work will be voluntary, and workers should be free to leave upon reasonable notice. Workers shall not be required to hand over government-issued identification, passports or work permits as a condition of employment.

2) **Child Labor Avoidance**
   Child labor is not to be used in any stage of manufacturing. The term "child" refers to any person employed under the age of 15 (or 14 where the law of the country permits), or under the age for completing compulsory education, or under the minimum age for employment in the country, whichever is greatest. The use of legitimate workplace apprenticeship programs, which comply with all laws and regulations, is supported. Workers under the age of 18 should not perform hazardous work and may be restricted from night work with consideration given to educational needs.

3) **Working Hours**
   Studies of business practices clearly link worker strain to reduced productivity, increased turnover and increased injury and illness. Workweeks are not to exceed the maximum set by local law. Further, a workweek should not be more than 60 hours per week, including overtime, except in emergency or unusual situations. Workers shall be allowed at least one day off per seven-day week.

4) **Wages and Benefits**
   Compensation paid to workers shall comply with all applicable wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits. In compliance with local laws, workers shall be compensated for overtime at pay rates greater than regular hourly rates. Deductions from wages as a disciplinary measure shall not be permitted. The basis on which workers are being paid is to be provided in a timely manner via pay stub or similar documentation.
5) **Humane Treatment**
There is to be no harsh and inhumane treatment, including any sexual harassment, sexual abuse, corporal punishment, mental or physical coercion or verbal abuse of workers: nor is there to be the threat of any such treatment.

6) **Non-Discrimination**
Participants should be committed to a workforce free of harassment and unlawful discrimination. Companies shall not engage in discrimination based on race, color, age, gender, sexual orientation, ethnicity, disability, pregnancy, religion, political affiliation, union membership or marital status in hiring and employment practices such as promotions, rewards, and access to training. In addition, workers or potential workers should not be subjected to medical tests that could be used in a discriminatory way.

7) **Freedom of Association**
Open communication and direct engagement between workers and management are the most effective ways to resolve workplace and compensation issues. Participants are to respect the rights of workers to associate freely, join or not join labor unions, seek representation, join workers' councils in accordance with local laws. Workers shall be able to communicate openly with management regarding working conditions without fear of reprisal, intimidation or harassment.
B. HEALTH and SAFETY

Participants recognize that the quality of products and services, consistency of production, and workers’ morale, are enhanced by a safe and healthy work environment. Participants also recognize that ongoing worker input and education is key to identifying and solving health and safety issues in the workplace.

Recognized management systems such as OHSAS 18001 and ILO Guidelines on Occupational Safety and Health were used as references in preparing the Code and may be a useful source of additional information.

The health and safety standards are:

1) **Occupational Safety**
   Worker exposure to potential safety hazards (e.g., electrical and other energy sources, fire, vehicle, and fall hazards) are to be controlled through proper design, engineering and administrative controls, preventative maintenance and safe work procedures (including lockout/tagout). Where hazards cannot be adequately controlled by these means, workers are to be provided with appropriate personal protective equipment. Workers shall not be disciplined for raising safety concerns.

2) **Emergency Preparedness**
   Emergency situations and events are to be identified and assessed, and their impact minimized by implementing emergency plans and response procedures, including: emergency reporting, employee notification and evacuation procedures, worker training and drills, appropriate fire detection and suppression equipment, adequate exit facilities and recovery plans.

3) **Occupational Injury and Illness**
   Procedures and systems are to be in place to manage, track and report occupational injury and illness, including provisions to: a) encourage worker reporting; b) classify and record injury and illness cases; c) provide necessary medical treatment; d) investigate cases and implement corrective actions to eliminate their causes; and d) facilitate return of workers to work.

4) **Industrial Hygiene**
   Worker exposure to chemical, biological and physical agents is to be identified, evaluated, and controlled. When hazards cannot be adequately controlled by engineering and administrative means, workers are to be provided with appropriate personal protective equipment.
5) **Physically Demanding Work**  
Worker exposure to physically demanding tasks, including manual material handling and heavy lifting, prolonged standing and highly repetitive or forceful assembly tasks is to be identified, evaluated and controlled.

6) **Machine Safeguarding**  
Physical guards, interlocks and barriers are to be provided and properly maintained for machinery used by workers.

7) **Dormitory and Canteen**  
Workers are to be provided with clean toilet facilities, access to potable water and sanitary food preparation and storage facilities. Worker dormitories provided by the Participant or a labor agent are to be clean, safe, and provide emergency egress, adequate heat and ventilation and reasonable personal space.
C. ENVIRONMENTAL

Participants recognize that environmental responsibility is integral to producing world-class products. In manufacturing operations, adverse effects on the community, environment and natural resources are to be minimized while safeguarding the health and safety of the public.

Recognized management systems such as ISO 14001 and the Eco Management and Audit System (EMAS) were used as references in preparing the Code and may be a useful source of additional information.

The environmental standards are:

1) **Environmental Permits and Reporting**
   All required environmental permits (e.g. discharge monitoring) and registrations are to be obtained, maintained and kept current and their operational and reporting requirements are to be followed.

2) **Pollution Prevention and Resource Reduction**
   Waste of all types, including water and energy, are to be reduced or eliminated at the source or by practices such as modifying production, maintenance and facility processes, materials substitution, conservation, recycling and re-using materials.

3) **Hazardous Substances**
   Chemical and other materials posing a hazard if released to the environment are to be identified and managed to ensure their safe handling, movement, storage, recycling or reuse and disposal.

4) **Wastewater and Solid Waste**
   Wastewater and solid waste generated from operations, industrial processes and sanitation facilities are to be monitored, controlled and treated as required prior to discharge or disposal.

5) **Air Emissions**
   Air emissions of volatile organic chemicals, aerosols, corrosives, particulates, ozone depleting chemicals and combustion by-products generated from operations are to be characterized, monitored, controlled and treated as required prior to discharge.

6) **Product Content Restrictions**
   Participants are to adhere to all applicable laws and regulations regarding prohibition or restriction of specific substances including labeling laws and regulations for recycling and disposal. Participants are also to adhere to processes to comply with each agreed-upon customer-specific restricted and hazardous materials list.
D. MANAGEMENT SYSTEM

Participants shall adopt or establish a management system whose scope is related to the content of this Code. The management system shall be designed to ensure (a) compliance with applicable laws, regulations and customer requirements related to the Participant’s operations and products; (b) conformance with this Code; and (c) identification and mitigation of operational risks related to this Code. It should also facilitate continual improvement.

The management system should contain the following elements:

1) **Company Commitment**
   Corporate social and environmental responsibility statements affirming Participant’s commitment to compliance and continual improvement.

2) **Management Accountability and Responsibility**
   Clearly identified company representative[s] responsible for ensuring implementation and periodic review of the status of the management systems.

3) **Legal and Customer Requirements**
   Identification, monitoring and understanding of applicable laws, regulations and customer requirements.

4) **Risk Assessment and Risk Management**
   Process to identify the environmental, health and safety\(^2\) and labor practice risks associated with Participant’s operations. Determination of the relative significance for each risk and implementation of appropriate procedural and physical controls to ensure regulatory compliance to control the identified risks.

5) **Performance Objectives with Implementation Plan and Measures**
   Written standards, performance objectives, targets and implementation plans including a periodic assessment of Participant’s performance against those objectives.

6) **Training**
   Programs for training managers and workers to implement Participant’s policies, procedures and improvement objectives.

7) **Communication**
   Process for communicating clear and accurate information about Participant’s performance, practices and expectations to workers, suppliers and customers.

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\(^2\) Areas to be included in a risk assessment for health and safety are warehouse and storage facilities, plant/facilities support equipment, laboratories and test areas, sanitation facilities (bathrooms), kitchen/cafeteria and worker housing/dormitories.
8) **Worker Feedback and Participation**
Ongoing processes to assess employees' understanding of and obtain feedback on practices and conditions covered by this Code and to foster continuous improvement.

9) **Audits and Assessments**
Periodic self-evaluations to ensure conformity to legal and regulatory requirements, the content of the Code and customer contractual requirements related to social and environmental responsibility.

10) **Corrective Action Process**
Process for timely correction of deficiencies identified by internal or external assessments, inspections, investigations and reviews.

11) **Documentation and Records**
Creation of documents and records to ensure regulatory compliance and conformity to company requirements along with appropriate confidentiality to protect privacy.
E. ETHICS

To meet social responsibilities and to achieve success in the marketplace, Participants and their agents are to uphold the highest standards of ethics including:

1) Business Integrity
   The highest standards of integrity are to be expected in all business interactions. Any and all forms of corruption, extortion and embezzlement are strictly prohibited resulting in immediate termination and legal actions.

2) No Improper Advantage
   Bribes or other means of obtaining undue or improper advantage are not to be offered or accepted.

3) Disclosure of Information
   Information regarding business activities, structure, financial situation and performance is to be disclosed in accordance with applicable regulations and prevailing industry practices.

4) Intellectual Property
   Intellectual property rights are to be respected; transfer of technology and know-how is to be done in a manner that protects intellectual property rights.

5) Fair Business, Advertising and Competition
   Standards of fair business, advertising and competition are to be upheld. Means to safeguard customer information should be available.

6) Protection of Identity
   Programs that ensure the protection of supplier and employee whistleblower confidentiality are to be maintained.

7) Community Engagement
   Community engagement is encouraged to help foster social and economic development.